



**Priorities for Enhancing Financial Education  
Among Poor Households in Poland**

*Qualitative Study Findings*

*Michał Matul, Katarzyna Pawlak, Jan Falkowski  
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## EXECUTIVE SUMMARY

The poor<sup>1</sup> live in the same economic reality and share the same goals as other members of society – **economic security for themselves, their families, and future generations**. Poor households are forced to live on an income which in addition to being low is also unpredictable and unstable. In view of the limitation and unpredictability of available resources, it is hard to overestimate the importance of the ability of these households to effectively manage their finances.

**This paper** presents the most important findings of the study conducted by *Microfinance Centre* under “**Financial Education for the Poor**”, a global project funded by *Citigroup Foundation*, managed by *Microfinance Opportunities* and coordinated in Poland by *Microfinance Centre*. The project was designed to identify major gaps in knowledge and skills of poor household members and understand their attitudes to household budget management and financial planning for the future. Another goal was to identify tools and effective information and education channels with which to fill these gaps.

The overriding **goal of the study was to identify and understand key gaps in financial education of poor households**. The qualitative study was exploratory rather than descriptive and hence cannot be regarded as representative of the whole country. The primary intention was to highlight the main reasons for poor management of household budgets and come up with ideas for promoting financial education. **Qualitative methods** were mainly used to address the explorative nature of the study. The findings of the qualitative study were supported by a **quantitative** analysis of secondary data.

As regards the **general characteristics of existing money management and household budgeting methods**, the study has found that poor households:

- know the basics on how to keep household budgets;
- attempt to use techniques of earmarking and freezing funds;
- have a negative attitude to closer tracking of the budget, which is attributable to two factors: a lack of awareness of benefits stemming from expenditure control and habits learned at home;
- adopt a short time frame for household budgeting;
- have difficulties prioritising needs;
- do not budget for emergency spending;
- use ineffective consumption smoothing methods and emergency coping strategies;
- have difficulties coping with cash flow seasonality;
- have difficulties meeting extraordinary expenses related to predictable life-cycle events.

In consequence, the little money they have is spent on purchasing items of secondary importance. This situation would improve considerably if attempts were made to keep records of household income and expenses and needs were prioritised by order of importance and timeline.

Another important matter to consider when promoting financial education is **the attitude of poor households to planning**. There are two types of negative consequences stemming from the fact that household budgets are planned on an ongoing basis without taking future events into account. Firstly, when budgeting only for ongoing expenses, a household **is unprepared to cope on its own** with emergency expenses or those anticipated over a longer time horizon. Secondly, this short-sightedness prevents a household from seeing long-term benefits of using available resources to **build up its financial, physical, human and social capital**. The current situation could change if steps are taken to promote the awareness of benefits of budgeting for future expenses and projecting expenses against anticipated income while taking risks into account.

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<sup>1</sup> For the purposes of the project, the target group is defined as members of low-income households, living in or vulnerable to poverty, yet who actively seek to change their financial situation and are not affected by social pathologies.

**Savings**, which are directly correlated with planning, are another matter to be addressed when promoting financial education. It should be emphasised that **nearly 80% of Polish households do not save at all**. The quantitative analysis of household saving behaviour found that savings had the highest correlation with income: as few as 8% of lowest-income households and as many as 46% of those in the highest income bracket had any savings at all.

**A vast majority of poor households believe that they cannot build up savings** because they are capable of putting aside only small amounts of money and these are always spend on this or that. They are oblivious to the fact that earmarking money to pay a loan or hire-purchase instalments is nothing else but saving, except that in this case the purpose is to pay debt. This leads to the conclusion that a lack of savings should be blamed not on the shortage of resources but on the existence of a biased attitude and certain negative habits. The validity of this conclusion is supported by examples of poor households which have attempted and succeeded in making savings.

**Other factors contributing to a negative approach to saving** include:

- mistrust of financial institutions and low interest rates on bank deposits;
- inconsistency in adhering to goals;
- discouragement over lack of results;
- microentrepreneurs often believe that money must be immediately invested in merchandise rather than be kept idle.

The key to changing the existing money-saving behaviours is to **persuade people that it is not only advisable but also possible to put savings aside even if they do not earn much**.

Around 50% of Polish households **borrow money** from formal and informal sources. The quantitative study has found that the likelihood of being in debt is not related to the place of residence and, further, that it increases the poorer and more populated the household and the younger the head of the household. These observations are supported by findings of the qualitative study, which provide clear evidence that debt is, to varying degrees, prevalent among the respondents. Another worrying finding is that a **majority of the respondents practically never get out of debt**.

A lack of control over household finances results in the situation where poor households are often **forced to borrow from external sources in a manner both spontaneous and reactive**. This in turn leads to many long-term side effects. Financial education should, therefore, focus on developing the ability of households to assess their credit capacity and disseminating information on available borrowing options.

**A change in the attitude of reluctance and distrust exhibited by poor households towards financial institutions** would certainly help address the existing situation.

**In summary, the level of financial education is low among poor households. The legacy of communism** is certainly one of the factors contributing to the existing situation. In addition to suppressing the sense of initiative, and hence entrepreneurship, the previous regime further undermined – due to the excessive protectiveness of the state – the already weak culture of budgeting and saving in Poland. Now that the conditions have changed these deficiencies have been painfully exposed.

The **following financial education topics** appear to be the most important in addressing major gaps in knowledge and skills and negative attitudes **among poor households in Poland**:

- long-term economic planning;
- regular saving and household budgeting;

- crisis management and rational borrowing;
- how financial institutions and banks operate and what they offer.

**Financial education services for the poor in Poland should play a key role in promoting optimal resource management among poor households**, thus helping build their financial security and stimulate the process of coming out of poverty. It is roughly estimated that there are about **13.5 million people** among the poorer members of society who are the **target clients** of financial education services in Poland. In other words, these are nearly **5 million households**.

## 1) INTRODUCTION

According to the lowest estimates, there were as many as 25% of Polish households living below the poverty line in 2003.<sup>2</sup> The rate of persistently poor households was also high at 53%.<sup>3</sup> Over 80% of households admit having no savings while around 40% say they are in debt.<sup>4</sup> According to estimates of the Stowarzyszenie Krzewienia Edukacji Finansowej (Association for the Promotion of Financial Literacy, or SKEF), there are over one million households that are unable to cope with the burden of regular loan repayment, resulting in a situation where each fifth loan is defaulted on. These figures forcibly demonstrate that, firstly, **poverty** continues to be a widespread issue and, secondly, that **the way household resources are managed** does not usually allow for securing the future or self-financing of day-to-day needs.

It should be emphasised that **the legacy of communism** is one of the factors contributing to the existing situation. In addition to suppressing the sense of initiative, and hence entrepreneurship, the previous regime further undermined – due to the excessive protectiveness of the state – the already weak culture of budgeting and saving in Poland. Now that the conditions have changed these deficiencies have been painfully exposed.

To address these problems, steps must be taken that will be designed to make household finance management a more effective process. Undoubtedly, there is a role for financial education to play in this process. Broadly speaking, the purpose of financial education is to disseminate knowledge, build skills and develop positive habits that will enable people to manage money wisely while keeping the future economic goals in mind. The table below lists basic goals and topics of financial education.

**Figure 1: Goals and topics of financial education**

<b>1</b>	<b>Managing cash flow</b>	
1.1	Improved income management	Sources, regularity, level and use of income
1.2	More effective expenditure behaviour	Expenditure flows per week/month, year: <ul style="list-style-type: none"> <li>- fixed expenses</li> <li>- variable expenses</li> <li>- discretionary expenses</li> <li>- emergencies</li> </ul>
1.3	Effective household budgeting	Ways people budget
<b>2</b>	<b>Interfacing with the financial system</b>	
2.1	Optimising financial options	Identify financial services used and available in terms of: <ul style="list-style-type: none"> <li>- accessibility</li> <li>- costs, terms and conditions</li> </ul>
2.2	Improving debt management	Use of credit "Fit" of credit service to use Document existing strategies for managing debt
<b>3</b>	<b>Building assets</b>	
3.1	Increasing savings	Identify savings sources Explore existing savings strategies
3.2	Investing in fixed assets (property)	Prioritise needs Explore existing investment strategies
3.3	Investing in human resources (children's education)	Estimate number of school-aged children per household Review current education costs by level Document current systems and strategies of paying fees

<sup>2</sup> Poverty is defined using an income criterion. See J. Czapinski and T. Panek (2004).

<sup>3</sup> A percentage of households living under the poverty line in 2000 and 2003, *ibidem*.

<sup>4</sup> *Ibidem*.

3.4	Investing in business	Business turnover Decision making related to business investments Business skills
<b>4</b>	<b>Planning for the future</b>	
4.1	Setting economic goals	Identify short, medium and long term objectives for different poverty levels
4.2	Planning for retirement	Identify retirement and financial needs Explore existing strategies Assess possible income generating or investment strategies
4.3	Insuring against loss	Document experience, if any, with formal insurance Explore understanding of insurance concepts

Source: Based on Cohen and Sebstad (2003).

**Poor people** live in the same economic reality and share the same goals as other people – **economic security for themselves, their families, and future generations**. The main difference is that they have fewer resources and opportunities.<sup>5</sup>

**Access to financial education is low among poor households**. In consequence, while seeking to manage their household resources rationally, the poor have to evolve their own financial practices and strategies through trial and error rather than by design. Poor households very often pay a high price for these experiments, a factor that obstructs the process of coming out of poverty. What's more, good money management is all the more critical considering the little money poor people have. While gaps in financial education exist across all social groups regardless of their affluence, consequences of poor money management are incomparably more serious for those less-well-off. **Financial education plays a key role in promoting optimal resource management among poor households through the use of modern financial services**, thus helping build financial security. While financial education plays an important role and should have a permanent place on the agenda of social and economic development programmes, it is not, needless to say, the only tool supporting poverty reduction.<sup>6</sup>

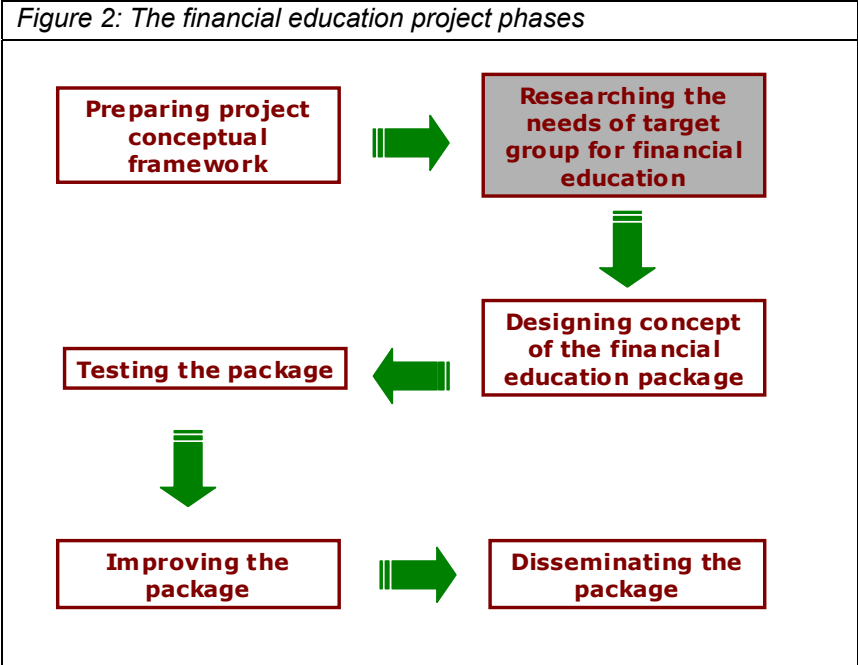
**This paper** presents the most important findings of the study conducted by *The Microfinance Centre for Central and Eastern Europe and the Independent States (Microfinance Centre)* in summer 2004 under "**Financial Education for the Poor**", a global project funded by *Citigroup Foundation*, managed by *Microfinance Opportunities* and coordinated in Poland by *Microfinance Centre*. The project was designed to identify major gaps in knowledge and skills of poor household members and understand their attitudes to household budget management and financial planning for the future. Another goal was to identify tools and effective information and education channels with which to fill these gaps. Additionally, the project aimed to promote the financial education agenda and skill building among institutions capable of substantially contributing to the furthering of financial education, i.e. banks and other financial institutions, microfinance institutions, non-governmental organisations for local development, and government agencies.

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<sup>5</sup> Nevertheless, the demand for financial services is as high among the poor as it is throughout society in general. The only thing that distinguishes these services from those designed for well-off clients is that they must be adapted to behaviour patterns, preferences and transaction sizes typical for the poor (more on this subject can be found in S. Rutherford (1999) or M. Cohen et al. (2003)).

<sup>6</sup> In Poland, financial education is delivered under programmes operated by the National Bank of Poland (NBP), [www.nbportal.pl](http://www.nbportal.pl), or initiatives proposed by the Association for the Promotion of Financial Literacy (SKEF) – [www.skef.pl](http://www.skef.pl). These include child, youth and adult education programmes, publicity initiatives to raise awareness of existing financial services, guidance on debt cancellation and legal representation services for consumers. Another of the SKEF's initiatives was the drafting of a bill on consumer bankruptcy. While it is hard to overestimate the role of these initiatives in promoting financial literacy, they tend to focus on helping people who have already run into financial difficulties.

**The research is an integral part of the project.** The figure below shows its place in the entire project. In brief, they were conducted to inspire the project team to come up with the most useful solutions to financial education. While the project authors were naturally interested in looking into the most typical cases, it should be emphasised that the group selected to participate in the study was not intended to correspond to a statistically representative sample<sup>7</sup>. **This research is basic material for further activities within the project.**



**This paper** is structured as follows. Next chapter introduces the target group. The third part concerns a description of the study conducted and methodology applied under the project. Next to follow is the part concerned with presenting how households manage their resources and what coping strategies they employ to deal with unexpected emergencies and life cycle needs. The following part discusses household behaviour patterns and approaches to borrowing, saving and insurance. Conclusions and comments are included in the sixth and final part.

<sup>7</sup> Further research enables us to even better understand financial education gaps among the poor and will be supplement of this report.

## **2) THE POOR – DEFINITION AND SHORT DESCRIPTION OF THE TARGET GROUP**

For customised solutions to be designed in the area of financial education, it is necessary to properly define the target group and analyse its needs, behaviour patterns and habits. As the Financial Education for the Poor project was targeted at less well-off people, the adoption of a **working definition of poverty** was the point of departure for defining the target group. Keeping in mind the diversity of definitions of poverty,<sup>8</sup> the target group of the project was generally defined as *members of low-income households, living in or vulnerable to poverty, yet who actively seek to change their financial situation and are possibly the least affected by social pathologies*.

It should be emphasised that the target group comprises members of households which, while not currently living in poverty, are **vulnerable to poverty** due to the scarcity of their financial, physical, human and social capital. This means a considerable expansion of the target group in relation to the estimate given in the introduction chapter, according to which one-fourth of the population live in poverty. A. Sowińska (2003) estimates that over 50% of people are vulnerable to poverty in Poland.

The emphasis on the **economic activity of the group studied** is an important element of the working definition of poverty given above. As the intention was to avoid extremities, the group had to be built of people least affected by social pathologies. The underlying assumption was to target people who, while poor, were active in their efforts to reverse the situation in which they found themselves. This assumption came from a belief that households run by such people could in the first place benefit from financial education. Financial education is not a priority for pathological families and hence its value added would be rather low. Czapiński and Panek (2003) estimate the pathology ratio at 29/100 persons.<sup>9</sup>

Simplified estimates demonstrate that **the number of households meeting the criteria for inclusion in the target group of the financial education project is not trivial**. Of 38.23 million Poles, **ca. 13.5 million persons, or nearly 5 million households, belong to the target group of the project**.<sup>10</sup>

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<sup>8</sup> More on different definitions of poverty and related measurement challenges can be found in L. Frąckiewicz (2002); Panek T. i in. (1999); A. Sen (1983).

<sup>9</sup> Social pathologies index includes: abuse of alcohol, drug addiction, breaking the law.

<sup>10</sup> Population size and average number of household members are based on 2002 National Census. It was assumed that 50% of population is vulnerable to poverty; 71% of all vulnerable to poverty is not affected by social pathologies.

### 3) RESEARCH OBJECTIVE AND METHODOLOGY

#### 3.1) Research objective

The general aims of research were the identification and understanding of key gaps in financial education of poor household. It should be emphasised that the group selected to participate in the study was not intended to correspond to a statistically representative sample. The qualitative study was designed to collect information on coping strategies and good practices of poor households. The basic goal was to highlight main reasons why household budgets were managed ineffectively and to come up with as many concepts as possible for promoting financial literacy.

Measures to address problems poor households have in managing their finances must involve changes to certain behaviour patterns and habits that either underlies biased perceptions of financial institutions and the services they offer or lead to the adoption of less-than-effective self-devised practices. Hence the key assumption underlying the project is that challenges lying ahead of financial education should be viewed through the following three aspects: **the knowledge** it should deliver to poor household members, **the skills** built and **the attitude** developed to make a change of negative behaviour patterns something more than a theoretical possibility.

The study was intended to address the following questions:

1. The efficacy of poor household's day-by-day financial management basing on their resources:
  - How do poor households manage the resources they have? How are household resources budgeted? In which households can the most positive (negative) behaviour patterns be observed?
  - What coping strategies do poor households in crisis situations and how do they address short and long term needs use? What are negative consequences of reactive strategies application?
  - In which ways poor households manage short-term debt, fit resources of debt to their situation and pay off their debt.
  - What is the social perception of people who are indebted?
2. The efficacy of long term planning strategy and strenghtening of household's resources:
  - What are the most important life cycle events in poor household point of view?
  - What are the most frequent planning strategies using by poor and their effectiveness?
  - To what extent does day-to-day spending take future planning into account?
  - What is a general attitude to planning, regular saving and borrowing?
3. Knowlegde, using and attitudes to financial services (savings, credits and insurances):
  - What is the level of knowledge about available financial services in the polish market and how far the choice of the service is rational?
  - What is the attitude of households to financial institutions and the services they offer and how do they make use of these services in managing their finances?
4. What is the main reason for ineffective management of household finances and how could this inefficiency be eliminated through influencing the knowledge, skills and attitude of household members?

### 3.2) Research Methodology

Addressing the exploratory nature of these research mainly **qualitative tools** were used in the study. Additionally, data collected under the project "Social Diagnosis 2003. Objective and Subjective Quality of Life in Poland"<sup>11</sup> were used in a **quantitative study**. The study was intended to identify basic correlations between household characteristics and savings or borrowings from formal and informal sources.<sup>12</sup> A group of respondents was selected for a qualitative study (see 3.3) using the findings of the quantitative study and numerous reference materials on poverty in Poland, including J. Czapiński and T. Panek (2004), E. Tarkowska (2000), and L. Beskid (1999).

**The qualitative study** was conducted from 14 to 21 July 2004 in the following districts: Nowe Miasto Lubawskie, Iława and Rypin (Cf. Annex 1 at the end of the report). A field study comprised 11 **focus group interviews**<sup>13</sup> and 23 **in-depth individual interviews**. The focus interviews were dedicated, *inter alia*, to the following topics: seasonality of income and expenditure, household budgets vis-à-vis life cycle events, and strategies to cope with unexpected emergencies.<sup>14</sup> The role of in-depth individual interviews was to complement focus group interview.<sup>15</sup> The discussion concerned, *inter alia*, sources of household finance, main expenses, savings practices, crisis management strategies, and confidence in financial institutions.<sup>16</sup>

Material collected during the study consisted of both notes kept during the interviews and the investigator's comments concerning the group (or case) studied, venue, etc. Experienced MFC researchers conducted group meetings and some individual interviews. Students of the Institute of Sociology and the Faculty of Economic Sciences of the Warsaw University handled other individual interviews.

### 3.3) Description of the qualitative study group

The sample for the qualitative study was conducted analysis among **selected people who belonged to the target group** as mentioned in chapter 2, because only thorough comprehension needs, behaviours, and attitudes that are common in poor household's life experiences enable to design adequate financial education solution.

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<sup>11</sup> The data include detailed information on households, including their material condition. The report can be downloaded from [www.diagonoza.com](http://www.diagonoza.com).

<sup>12</sup> Results and detailed description of estimates are available from the authors.

<sup>13</sup> A focus group study is conducted by a moderator who uses tools to moderate a casual discussion within a small, carefully selected group of individuals. Typically consisting of 5 to 10 individuals, a focus group allows for an extensive and in-depth exploration of a given issue while providing an opportunity to elicit both verbal and non-verbal (emotional) response from the participants to the issue discussed. The interviews thus conducted provide also information on how consumers respond to various promotional activities, providing a basis on which to explore and understand their behaviour patterns and preferences. The way the interviews were conducted was designed to make respondents feel they represented their respective communities by speaking on their behalf. This was intended to furnish the investigator with information on not only how individuals, but also local communities responded to the issues raised during the interview.

<sup>14</sup> Annex 2 contains examples of tools used in focus group interviews.

<sup>15</sup> As mentioned before, in-depth individual interviews were conducted as well to complement focus group interviews. These interviews were designed, on the one hand, to offer a more in-depth coverage of topics raised during the focus group interviews, with an emphasis placed on individual households, while on the other to provide an opportunity to ask questions that could not be discussed at a public forum due to their personal nature. It should be added that, like in focus group interviews, individual interviews were conducted in a casual discussion format rather than using scripted questions.

<sup>16</sup> Annex 3 presents the pattern used for individual interviews.

**The definition of the poor that helped to identify right respondents** had been discussed with all local partners. For less complicated identification of respondents intentionally the notion of 'low-income' was not precisely specified. The research's organizers took care in order to all local partners have the definition of the poor in common.<sup>17</sup>

It is necessary to remark that on one hand **target group for qualitative study was not thought as statistical representative** of the polish society but it was considered to analyse the most typical cases on the other.

In order to make the logistics of the research easier the organizers have chose **one region** including districts (powiat) as follows: Nowomiejski, ławski oraz Rypiński. At the same time it was important to select typical region not affected by extreme poverty and pathologies.<sup>18</sup>

The research was conducted mainly in **small-town and rural grounds**. In such area live about 50-70 percent of the polish society in relation to the definition of place of residence, which we comply with (Czapiński, Panel (2003)). It is essential to emphasise that authors are aware that conclusions in bigger cities and their surroundings might be different in comparison with study findings included in this report. Due to budget and temporal constraints did not repeat the similar research in such places being counscious that most of the target group live beyond big city as well in their neighbourhood what is sufficient for pilot test needs.

In order to compare the different financial education needs in relation to different groups the organisers decided to diverse the sample with regards to following criterions:

- Poverty defined as mentioned in chapter 2<sup>19</sup>
- Gender
- Age
- Place of living

**Figure 3: Basic characteristics of focus group participants**

Group number	Place of residence*	Gender**	Age	Poverty***
1	M2	F/M	<40	Better-off
2	M2	F/M	<40	Better-off
3	W	M	No limits	Worse-off
4	W	M	No limits	Worse-off
5	M1	F/M	40-60	Better-off
6	M1	F	40-60	Better-off
7	M2	M	40-60	Worse-off
8	W	F	40-60	Worse-off
9	W	F	<40	Worse-off
10	M1	F	<40	Worse-off

<sup>17</sup> The individuals who were worse-off yet active were reached through the Communal Welfare Centre (GOPS) in Kurzętnik, the Communal Information Centres (GCI) in Susz and Biskupiec and the District Labour Office (PUP) in Rypin. Better-off respondents were recruited from among the clients of the Rural Development Foundation (FWW) participating in its microfinance programme. These were typically self-employed individuals.

<sup>18</sup> The selected region is part of Kujawsko-Pomorskie and Warmińsko-Mazurskie Provinces. According to Czapiński and Panek (2003), these provinces have the highest ratio of poor households in Poland but their pathology ratio (as referred to above) remains average.

<sup>19</sup> It should be noted that the respondents included persons who would not be classified as poor if their financial situation was taken into account (see the table description below). The reason for their inclusion in the study was that the analysis of their financial knowledge and behaviours provided an opportunity to better understand gaps in the financial education of the poor.

11	M1	F	40-60	Worse-off
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\* M2 – a district (*powiat*) town; M1 – a commune (*gmina*) town; W – a large village

\*\* F/M – mixed group; F – female; M – male

\*\*\* better-off – start-up microentrepreneurs (clients of the Rural Development Foundation (FWW) who contracted a loan in the recent six or twelve months<sup>20</sup>); worse-off – low-income individuals (poor in the opinion of local experts) who actively seek to change their financial situation and are the least affected by pathologies

**Figure 4: Basic characteristics of individual interview participants**

Interview number	Place of residence	Gender	Age	Poverty
1	M2	F	<40	Better-off
2	M2	F	<40	Better-off
3	W	F	40-60	Better-off
4	W	F	<40	Better-off
5	W	F	40-60	Better-off
6	W	F	<40	Worse-off
7	M1	F	<40	Worse-off
8	M1	F	<40	Better-off
9	M1	M	<40	Better-off
10	M1	M	<40	Better-off
11	M2	F	<40	Worse-off
12	M2	F	40-60	Worse-off
13	M2	F	40-60	Worse-off
14	M2	M	40-60	Worse-off
15	M2	F	<40	Better-off
16	M2	M	40-60	Worse-off
17	W	F	<40	Worse-off
18	W	F	<40	Better-off
19	W	F	<40	Worse-off
20	W	M	<40	Worse-off
21	M1	F	<40	Worse-off
22	M1	F	40-60	Better-off
23	M1	M	<40	Worse-off

<sup>20</sup> A micro-loan granted under the FWW's microfinance programme

## **4) RESEARCH FINDINGS: MONEY MANAGEMENT AND PLANNING**

In a study of gaps in household financial literacy, the vital question is whether and how money resources are managed by individual households. In other words, do they manage their own or borrowed money in an organised, informed and controlled way? Further questions arise in this context, namely: how do they plan their financial activities to strengthen their household's financial resources taking into consideration a long-time perspective? To what extent are emergency expenses taken into consideration? The following chapter will attempt to address these questions.

### **4.1) Household budget structure, expenditure and income patterns**

#### **➤ *The poor households possess the basics of budgeting***

The study has found that there are relatively few households that manage their finances in a totally haphazard way. Certain more or less accurate attempts are made to keep expenses under control and manage income accordingly.

The following quotations provide illustration of how household expenses are typically handled:

- *"One puts wages on the table [...] and it can be seen what's within the budget and how much more must be earned or borrowed";*
- *"I sit down with my wife and have a look how much cash we have and then we divide – that much for this, that much for that";*
- *"First all bills are paid [and then it can be seen how much is left for the rest]"*.

Barbara and her husband are without a job and live on their son's health benefit and on what the husband earns doing odd jobs. They support three children. Barbara is responsible for looking after their household budget. At the beginning of the month she decides looking at the bills what is needed most, pays the bills and allocates what is left for day-to-day expenses. It is typically around PLN 20 a day. She spends the entire daily allowance twice a week when she buys meat. On other days, she attempts to put aside what is left. In this way, she can save up to PLN 20 – 25 a week. There is not a specific purpose for these savings. Barbara spends them on whatever is currently needed: medicines, clothes, parties, cosmetics, sweets for children, etc.

#### **➤ *The most often budget is created by both spouses***

Typically, both spouses were responsible for the budget and there were only few cases where just one person, typically a woman, had control of household finances. The female-male role division among families was traditional and clear. Women are responsible for everyday expenses and those with reference to children's needs however men pay for such things as redecoration.

Only one case was reported where several people, including growing up daughters, were involved in planning the budget. The reason given was the following: "*Children are also present at meetings and everybody can speak their mind; it's easy to make a mistake so it's a good idea to listen to everyone*". This underpins the core benefit of mutual planning, namely that by letting everyone speak their mind it is possible to develop a better set of household priorities

### ➡ ***The division of total financial resources in separate funds and reserves freezing - helpful techniques***

Techniques whereby certain amounts were **earmarked out of the total funds available** were helpful in better managing household finances. Some of the individuals surveyed divided their money into envelopes marked "for living", "for fuel", "for instalments", etc., while others kept their earmarked funds in a wardrobe or in a book.

An impression formed during the interviews was that the payment of wages by bank transfer was a factor that, in addition to helping manage money in a more orderly way, automatically provided an incentive for household budget planning. A substantial number of the respondents who had their wages paid by bank transfer preferred not to withdraw money from the account, choosing to operate – as far as possible – within the limits of whatever cash they had on hand. And so, by limiting its allocations for day-to-day spending, the household can rationalise expenditure and set aside whatever money is left.

### ➡ ***Negative attitude to closer budget tracking***

Despite the positive attempts at budgeting, it is very rare for households to **keep records of income and expenses**. Hence there are few households that keep their finances fully under control. It should also be noted that better-off respondents were more likely to keep paper records of budget inflows and outflows.

Some explanation is that respondents would at times give an impression of not **seeing the point of closer tracking of income and expenses** because they did not really understand how this could translate into more effective management of their resources.

Not only worse-off respondents but also those better-off exhibited a tendency to approach budgeting in a superficial manner. One of the better-off respondents, who had sufficient income from her business to meet bill payments and day-to-day expenses, said: "*we have never done any planning*". As illustrated above, the **lack of awareness of benefits from taking a closer look at household bills** provides evidence that not only households living below the poverty line but also those that do better can potentially benefit from financial education.

It is worth noting that the respondents typically emphasised the critical importance of **behaviours learned at home** for budgeting and other financial management practices.<sup>21</sup>

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<sup>21</sup> A detailed analysis of life-cycle event planning is provided in section 4.3.

### ➤ **Short-time perspective of household's financial calculations**

Even if the poor households plan and estimate **their calculations concern mainly short-time perspective**. One of the statements is a very good illustrations of such behaviour: „we live day-by-day”.

Basic expenses, including telephone, gas bills, etc., are budgeted for a month in advance, if at all. Often involving larger sums, extraordinary expenses related to life cycle events are budgeted for up to six months ahead. It should be mentioned that such planning was typically made by better-off respondents. Those worse-off often doubted the success of far-reaching plans and so did not budget much in advance. According to some of them: “*people do not usually plan ahead because they have no money with which to budget*”.

### ➤ **Difficulties in prioritising needs**

Another key problem that the households studied had to cope with in managing their finances was the **lack of a clear hierarchy of family needs**. The situation illustrated by the following quotation was rather untypical: “*We consider what is the most important. If my husband needs a saw and I need new furniture, we buy the saw because it can be used to earn money with which we can buy the furniture after we have repaid the saw*”. Unless current and future needs are spelled out and prioritised by importance and urgency, resources are spent in an ineffective way, that is either on purchases that could wait or to buy things that are thoroughly useless. Day-to-day expenses thus spiral out of control and are not measured against current or future capacities. Needs prioritisation can result naturally from savings made – with expenditure cuts leading to the rationalisation of household needs – or it can itself provide a springboard for more effective management of household finances.

### ➤ **Difficulties in budgeting for emergency spending**

According to the respondents, the most frequent emergency situation concerns an illness of a family member, particularly a child. An illness means also a serious financial pressure on the household. This is well illustrated by what one of the respondents said: “*When you're ill, you don't economise; you spend your own money, you spend what you have borrowed without thinking how to repay it*”. Other unanticipated events included house repairs (roof patching, replacing doors and windows), death of a family member, natural disasters, or theft. The better-off respondents mentioned also expenditure on repairs of equipment used for business (a fridge, a car, etc.)

The emergency spending is so much important that they involve relatively a strong financial pressure. In an emergency situation, households are often faced with two concerns: how to procure a relatively big amount of money and how to do it fast.<sup>22</sup>

Difficulties in budgeting for emergency spending result from the fact that a majority of poor households do not even take such expenses into account. This is well illustrated by what one of the respondents said: “*People don't worry that something unfortunate will happen. They say that when it happens they will manage somehow. And when it happens, they learn it's not that easy at all*”. As a result, many households do not, according to the respondents, earmark any funds that could be used to at least partly pay for emergency expenses. This, in turn, often leads to a situation where emergency spending gets poor households into a debt trap from which it is difficult to come out.

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<sup>22</sup> Two key issues emerge when analysing an impact of emergency expenses on households (Cohen M. et al., 2003): 1) what are the short-term implications of unanticipated events? and 2) what are their medium and long term implications in terms of costs and effectiveness of coping strategies

Maria raises her daughter by herself. She makes a living cleaning apartments. She keeps PLN 500 on a bank account as provision for hard times. She says that that money "cannot be touched no matter what".

### ➤ ***Ineffective methods of smothering out of consumption and coping strategies with emergencies***

When faced with an emergency or seasonal cash flow problems, poor households have a limited choice of coping strategies. Undoubtedly, this is the **legacy of the previous regime**, which – at least in theory – provided a safety net to everyone, depriving people of the incentive to be entrepreneurial. When they fall ill, **the poor are left with a choice of not-very-effective strategies** such as overtime work, welfare services, delaying a visit to see the doctor or selling (pledging) items of property. The better-off respondents were better placed to benefit from insurance and, thanks to their income and generally larger assets, had an easier, even if not always easy, access to formal sources of finance.<sup>23</sup>

**Help from kin** was used by practically all respondents.<sup>24</sup> As noted also by other researchers (Korzeniewska K., 2000), the help was flowing practically one-way: from older family members to younger ones. Help from parents, particularly if they were eligible for retirement pay or disability pension, proved invaluable in times of crisis. This is confirmed by the following quotations: "*[When there is trouble] everyone sticks to their parents*"; "*A grandma with a retirement pay is a real treasury*", "*Those having a retiree or a pensioner in the family are doing well, long live the mother-in-law*".

Perhaps because **public subsidies** were limited and eligibility criteria were relatively strict, people were highly motivated - or sometimes even desperate - to search for additional earning opportunities. It should be emphasised that they were aware of the consequences that working "*on Saturdays and Sundays, 200 hours a month*" had on their health and family life: "*You feel burnt out*"; "*[when you work overtime] the dog will bark at you at home*". Rather than being put aside as provision for hard times, income from additional jobs was typically used to fill the gaps in the household budget and to finance ongoing expenses. These jobs tended to be seasonal and were usually related to farming or construction work.

When discussing coping mechanisms, one should take note of a very popular strategy of shopping on credit. How widely this practice is used is illustrated by the following quotations: "*so many people buy on credit from shopkeepers*"; "*half of the village buys on credit*". While this strategy is indeed used in crisis situations, the respondents also provided examples of people who were using credit from shopkeepers to buy goods they could not really afford, and were doing so because "*one takes what is given*".<sup>25</sup> This latter motivation is particularly worrying. Another matter worth noting is that the household must build up a sufficient social capital to be able to buy on credit in emergency situations. This is because, as one of the respondents put it, "*if you are a new one, nobody will let you buy on credit – first you must establish a reputation*".

### ➤ ***Difficulties in coping with serious annual fluctuations of both income and expenditure***

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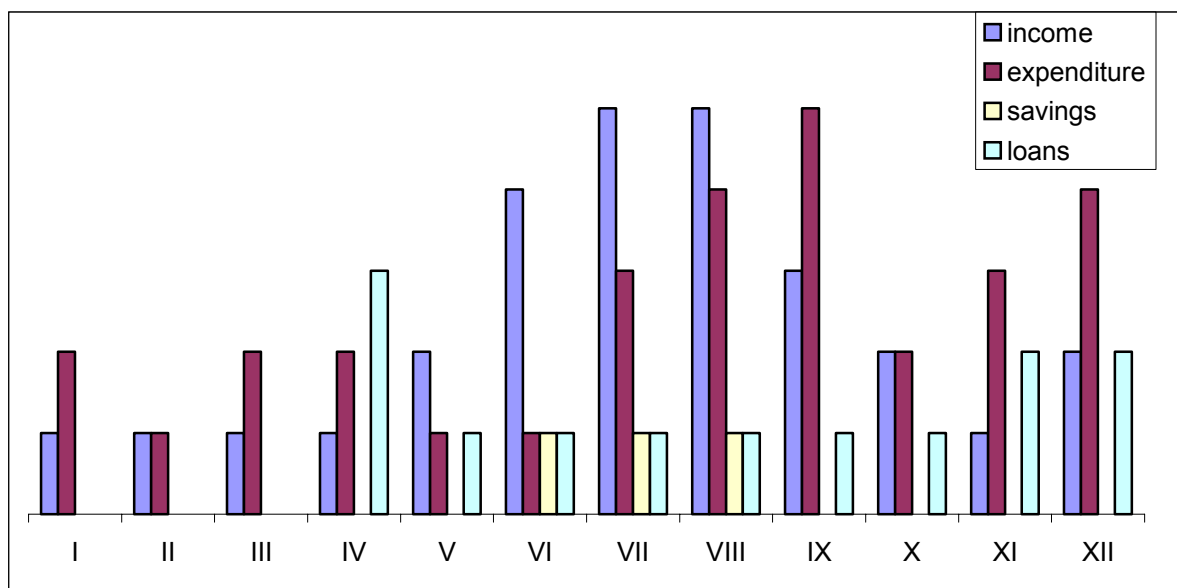
<sup>23</sup> The choice of a strategy for coping with emergency expenses depends on the capital accumulated by the household in not only financial and physical terms but also on a social and human level. The financial pressure on the household in an emergency situation is the basic criterion for classification of coping strategies. On the one hand, there are strategies that put a relatively small claim on resources while on the other there are those that seriously deplete the broadly defined capital (see an example in annex 4).

<sup>24</sup> Loans from family (friends) and finance from formal sources will be discussed in detail in Chapter 5.1.

<sup>25</sup> Similarities with purchases made with credit card are very telling. People lose count of how much money they actually have when they pay with virtual money. It is, therefore, not infrequent to fall in debt because of buying more than one can afford.

The poor households not only were low but also uncertain and unstable. In the households studied, both income and expenditure were subject to serious annual fluctuations. While a household can record a financial surplus in certain months (May – August), in others (January – March) it does not earn enough to meet its living expenses. When asked about the seasonality of their income, the respondents unanimously responded: *“The period from the beginning of the year until March is the hardest [...], in the dead months, you earn less than you spend”; “[In that period] you live on what you are given because there is no work to do”; “May through August is the best time and everybody makes the most out of it”; “The best period is from May to August when there is extra work to do that earns you money”*. Household expenses are as varied as income. The highest expenses are incurred in August and September when the beginning of the school year coincides with fuel purchases for the winter, and there is another spending peak around Christmas and Eastern holidays (figure 6).

**Figure 6: Summary of the discussion on cash-flow seasonality**



Source: Calculated on the basis of focus group interviews using the seasonality calendar tool.

Difficulties in self-financing of anticipated expenses should probably be attributed to an **inability generally displayed by the respondents to distribute resources evenly over time**. It should be emphasised that accumulated income does not coincide with the time when spending is the highest. While a household can record a financial surplus in certain months (May – August), in others (January – March) it does not earn enough to meet its living expenses. Households are, therefore, forced to build up money resources in the time of prosperity and deplete them when earning opportunities are low while expenses are high. Inept budget management leads to a situation where financial surpluses are consumed by day-to-day expenses and commitments rather than being allocated to provide for anticipated deficits in the future. In consequence, households must at least partially fall back on formal or informal sources of finance to meet expenses they could have prepared for and could have financed on their own. When asked why the money earned in summer, when earnings are the highest, is not saved on a regular basis for future expenses, the respondents would say: *“All money is spent to buy food and repay loans”; “Money goes quickly, everything has to be paid for”*. What one of the respondents said provides a poignant illustration of how people are tired of constant belt-tightening: *“Money is tight all year long so when it comes your way you have to buy the kid a little something”*.<sup>26</sup>

<sup>26</sup> This comment clearly demonstrates that people are guided not only by reason but also by emotions when making financial decisions. In the case of poor households, which are constantly subjected to humiliation, the reason is often overruled by the desire to preserve their dignity. In consequence, these households make purchases which, to an outside observer, may appear thoroughly irrational. This is particularly true with respect to spending on clothes and accessories for children to make sure that

#### Summary 4.1:

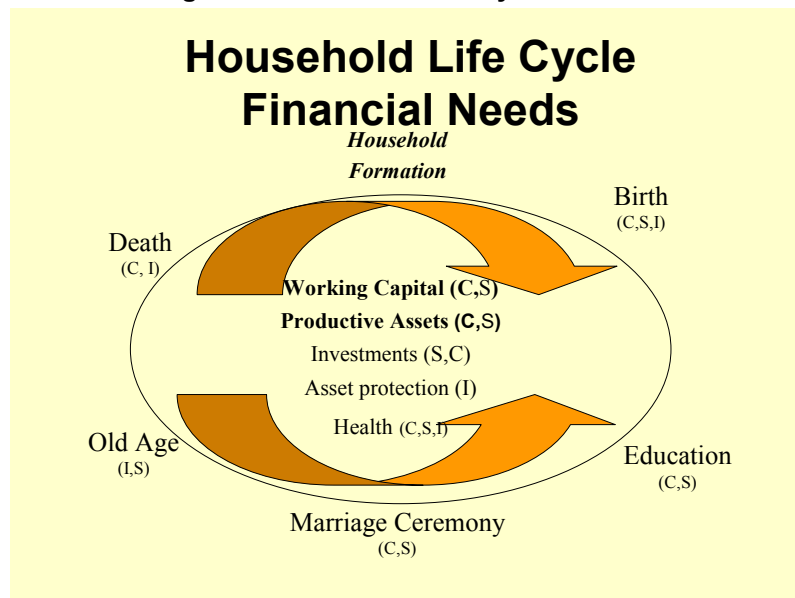
*It appears that the main condition for changing this state of affairs is to persuade members of poor households that it is not only advisable but also possible to save when income is high and, further, that it is necessary to plan for emergency expenses. The key is to make them aware of all the advantages of keeping financial resources under full control and of budgeting for expenses in advance. The study found that a majority of respondents lacked certain skills that would be helpful in rational distribution of their household resources. These skills include first of all:*

- *household budget planning and expenditure tracking*
- *predicting and covering life cycle expenses with available resources – earmarked savings*
- *budgeting for emergency spending – saving for hard times*
- *prioritising household needs by importance and urgency*
- *early response when there is a mismatch between future income and expenses*
- *self-discipline and sticking with pre-defined household budget assumptions*

#### 4.2) Long-term planning strategies: planning life cycle events and enhancing household resources

As in the case of emergency expenses, the household must also be prepared to meet extraordinary expenses that are typically associated with predictable life cycle events. As mentioned before, these are relatively high amounts and hence must be planned sufficiently in advance. The lower the household resources are, the higher the need for these plans to be made more in advance. It should be emphasised that, while planning was found to be more popular among better-off respondents, **those worse-off were also aware of the need to plan and prepare in advance for certain expenses** even though they typically demonstrated worse management of their finances.

Figure 8: Household Life Cycle Financial Needs



Source: Cohen and al. (2003); C = credit; S = savings; I = insurance

Against the backdrop of extraordinary expenses, what merits special attention is how household members approach **the education of their children**. A majority of respondents made it a point to emphasise that children's education was an absolute priority. This is in line with the finding of other studies (Szafranec K., 2001) that older people have the growing aspirations towards education of the

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they do not differ from their peers. Another example are purchases of household appliances. In Poland, excessive purchases may also be driven by the nostalgia for the old system and the desire for living standards to be as they were before 1989.

younger generation. However, despite of their professed commitment to education, very few respondents (not excluding those better off) took steps to secure education opportunities for their children.

On the one hand, this can be interpreted as further evidence of the previously discussed short-sightedness and of the naïve belief that, since money will be needed only when the child is of age to start higher education, there is still time to procure it. On the other hand, this is **clear evidence that people do not see putting aside small amounts of money as a way to serious savings**. A majority of respondents believed that they could only afford small savings and these did not allow them to finance their plans. The amount that was unanimously agreed to be sufficient for putting plans into practice was PLN 2,000. The example in the box below is rarely but it exemplifies that basing on small amounts the saving for education among poor families is possible.

Elżbieta, a resident of the housing estate in the area previously owned by the state agricultural holding, had been saving for education of her daughters ever since they were born. The savings were, however, spent after her husband had sustained serious injuries in an accident. When his health improved and did not require as much investment, Elżbieta again started to put money aside for her daughters' education. She even went abroad, where she spent three months picking up strawberries. Now, owing to her persistence and methodical approach, she has amassed enough money to send one of her daughters for studies to Olsztyn.

As in the case of emergency expenses, the impact of life cycle events on the household budget can be assessed in terms of short and medium or long-term effects (anex 4). Considering that these events typically involve larger amounts of money, their medium or long-term impact is particularly important. If no budgeting is done in advance, the household must sell its assets or take out a substantial loan (usually from formal sources) in order to meet life cycle expenses. In either case, this entails a long period of hardship as well as increased vulnerability to persistent poverty.

The most frequently mentioned **strategies for coping with extraordinary events** were the following:

- spreading anticipated expenses over a several-week horizon and successively buying what is needed (school books, clothes, fuel for the winter, etc.);
- making one-off purchases in advance at the time of surplus earnings;
- moving surplus earnings over to the time when purchases have to be made, freezing assets at home or in the bank.

The first of the strategies listed above was particularly popular among worse-off respondents. One of the respondents remembered the following pattern of school book purchases at her family home: *"Mom bought me books at the end of summer vacations and my brother got his at the beginning so that the expense was spread over time"*. There is a twofold explanation for the popularity of this strategy among worse-off households. Firstly, when faced with larger expenses, they rarely had enough money to pay for all purchases at one go. Secondly, as they preferred to keep whatever surplus they earned at home rather than in the bank, they had difficulties keeping it intact.<sup>27</sup>

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<sup>27</sup> Despite their manifest advantages, the strategies to buy goods in stages or in advance have one serious drawback. It manifests itself when an unanticipated event occurs while the plan is underway, causing the need to incur substantial expenditure. Having invested in the goods, the household is often left with insufficient funds to meet the expenses it has not anticipated. Selling the goods is an option, but that would be done at a loss. In consequence, the household would lose twofold: by depleting its assets to meet unanticipated expenses and by bearing the cost of the difference between the buying and selling price.

Other of the strategies mentioned above were much less popular among this group of respondents.

**Summary 4.2.**

*The study has found that budgeting for extraordinary expenses is not an established practice (the examples quoted above being an exception). This leads to a situation where the funding of occasional yet predictable events is often done spontaneously, much to the households' harm. Even if some plans are made to address future expenses, they are often incomplete and do not take into account the possibility of emergency spending.*

*For this situation to change, the following is necessary:*

- *understanding all the advantages of planning on the one hand and, on the other, the consequences of failing to plan;*
- *developed ability to anticipate emergency situations and be prepared to cope with them*

## 5) RESEARCH FINDINGS: FINANCIAL BEHAVIOUR PATTERNS AND STRATEGIES

### 5.1) Borrowing

#### ➤ General characteristics of borrowers

Around 50% of Polish households assume debt from formal and informal sources.<sup>28</sup> The quantitative study has found that the likelihood of being in debt is not related to the place of residence and that it increases the poorer and more populated the household (Figure 10) and the younger the head of the household (Figure 11). Loans were more frequently taken by households that considered their material situation to be bad and their vulnerability to poverty to be high. Debt was more often reported by working households and those with a larger circle of friends. This should probably be seen as evidence that in-house provident schemes and friends provide a popular source of lending. It has also been found that a positive correlation exists between the likelihood of taking out a loan and the years of schooling completed by the head of the household. This correlation probably reflects the fact that better education (better job) means higher opportunities to use formal sources of finance as well as higher demand for credit to address higher aspirations (an apartment, a car).

**Figure 10: Correlation coefficients between lending and basic household characteristics**

Variable	Correlation coefficient
Average household income	-0.0820*
Age of the household head - under 40	0.1089*
Age of the household head – between 40 and 60	0.1175*
Age of the household head – above 60	-0.2436*
Working households	0.1439*
Number of friends	0.0375*
Number of household members	0.0512*
Years of schooling of the household head	0.1372*
Satisfaction with financial situation	-0.0861*
Subjective assessment of the vulnerability to poverty	-0.0316*

Source: Own analysis based on data included in "Diagnoza Społeczna" (Czapiński i Panek 2003).

\* significant correlation at the level of  $p < 0.05$

**Figure 11: Household debt by the household head's age and education and per capital income**

	% of households in debt
Age of the household head - under 40	55
Age of the household head – between 40 and 60	52
Age of the household head – above 60	25
Higher education	52
Medium education	46
Vocational education	50
Basic or no education	34

<sup>28</sup> In 50% of cases, debt did not exceed the household's three-month income. See J. Czapiński and T. Panek (2003).

Per capita income below 50% of the poverty line <sup>29</sup>	53
Per capita income between 50% and 100% of the poverty line	49
Per capita income between 100% and 150% of the poverty line	45
Per capita income above 150% of the poverty line	42

Source: Own analysis based on data included in "Diagnoza Społeczna" (Czapiński i Panek 2003).

These **observations are supported by findings of the qualitative study**, which provided clear evidence that debt was, to various degrees, prevalent among the households studied. This is best illustrated by the above-cited quotations about shopping on credit and by what one of the respondents, a resident of a small town, said: *"there is nobody here who is not in debt"*. While those better-off were repaying a loan from the Rural Development Foundation, those worse-off grappled with the problem of paying off debt from mostly informal sources. It can be assumed that, in absolute terms, the value of these commitments was not very high. In relative terms, however, these were serious amounts when seen vis-à-vis the income and credit capacity of indebted households. Another worrying finding was that **a majority of respondents were in debt practically all the time**. Even worse, some of them very well mastered living in permanent debt, paying off one loan with another, and saw no reason to change that. This demonstrates that they are not fully aware of the risks of such situation in the event that the expenses they have not anticipated start piling up.

### ➤ **Attitude to borrowing**

This propensity for debt is an interesting phenomenon if it is considered that a great majority of respondents, particularly those of older age, are **wary of the idea of credit**.<sup>30</sup> *"It's not a problem to take out a loan but repaying it is not so easy"; "It's easy to get in debt, but getting out of it is a big problem"*. The social perception of loan taking is downward negative: *"Everyone knows everything about everyone and people are talking when you take out a loan"; "It's better to keep quiet [that one has taken out a loan] because people are jealous"*.

### ➤ **Objective of borrowing**

Among the people surveyed there were both those taking loans as a last resort in **crisis situations** and those using **"consumer credit"**. For one reason or another, the latter preferred to pay for purchases using external finance rather than their own resources. Of the reasons given for taking out loans, the most frequent were the following:

- illness: *"[a child's] illness got us down and we were landed in debt"; "when people need medicine, they just buy it and will get money no matter from where"*;
- to complement the budget for food: *"generally speaking, people spend loans on food so that they can go on with their lives somehow"*;
- children's needs: *"you will not make a kid understand"*;
- fuel purchases for the winter;
- festivals: *"pawn yourself to show yourself off"* (general propensity to show off);
- to raise money for repayment of earlier commitments (including loans);

<sup>29</sup> For the purposes of this study, poor households are those with the per capita income of less than PLN 563 (the minimum subsistence amount for a single-person working household, cf. Social Diagnosis 2003).

<sup>30</sup> Some explanation is that loan/credit is popularly associated with a bank or a private loan provider while borrowing from a family member or a friend is perceived in different terms. Hence it is probable that the mistrust of loans reflects a fear of steps that the bank or the private provider will take to recover their debts in the event of delinquency in loan repayment.

- to purchase household appliances (mainly on hire purchase);
- to start a business (the reason given by practically all of better-off respondents);
- to raise money for a bribe (for a doctor or a prospective employer);
- the first holy communion: *“the school is every year so you just save money while the holy communion is not more than few times during the lifetime so you can borrow for the occasion”*;
- marriage: *“a loan is usually taken through a pensioner or a retiree, if there is one in the family”*.

An analysis of these reasons for taking on debt provides further evidence that **the households studied experienced problems in:**

- accumulating and/or maintaining **resources for rainy days**; and
- preparing for **funding life cycle events** using their own resources.

There was, furthermore, a tendency to **contract consumer credit that was often used to pay for a lifestyle not justified by income**. The interviews conducted give grounds to believe that this tendency stems from:

- what may be called a "neighbour factor" – *“if a neighbour has a new washing machine, one wants one, too”*;
- an understandable human weakness: people are sometimes simply tired of constant belt tightening and decide to take out loans for expenses which, to an objective observer, seem unreasonable and unjustified.

### ➡ Sources of loans and credits

Figure 7 presents formal and informal sources of finance identified by the respondents and provides a short overview of their advantages and disadvantages.

**Figure 7: Advantages and disadvantages of formal and informal sources of finance according to respondents**

<b>Source of finance:</b>	<b>Advantages</b>	<b>Disadvantages</b>
<b>Informal sources</b>		
Kin	<ul style="list-style-type: none"> <li>▪ easily available</li> <li>▪ interest-free</li> <li>▪ often flexible repayment date</li> </ul>	<ul style="list-style-type: none"> <li>▪ low amount</li> <li>▪ they keep being mentioned for a long time afterwards</li> </ul>
Friends	<ul style="list-style-type: none"> <li>▪ relatively easily available</li> <li>▪ usually interest-free</li> </ul>	<ul style="list-style-type: none"> <li>▪ low amount</li> <li>▪ short-term</li> <li>▪ not easy to get if one has no income</li> </ul>
<b>Formal sources</b>		
In-house provident schemes	<ul style="list-style-type: none"> <li>▪ easily available</li> <li>▪ very favourable interest rates and repayment dates</li> </ul>	<ul style="list-style-type: none"> <li>▪ one must be employed in a state-owned enterprise</li> </ul>
Banks	<ul style="list-style-type: none"> <li>▪ larger amounts are available</li> <li>▪ longer repayment dated</li> <li>▪ monthly instalments</li> <li>▪ one is mobilised to repay the loan</li> </ul>	<ul style="list-style-type: none"> <li>▪ expensive</li> <li>▪ loan agreements are incomprehensible and contain many loop-holes</li> <li>▪ too much paperwork</li> <li>▪ collateral is required - a loan is impossible to obtain without proof of income and guarantors</li> <li>▪ nobody wants to be a guarantor</li> </ul>

Private loan providers – Provident	<ul style="list-style-type: none"> <li>▪ practically no requirements and easily available</li> <li>▪ the loan's purpose is not important</li> <li>▪ privacy – all formalities (signing the agreement and repaying the loan) are handled at the client's house</li> <li>▪ an individual person rather than an impersonal clerk takes care of the client</li> <li>▪ larger amounts are available</li> <li>▪ longer repayment dates</li> <li>▪ one is mobilised to repay the loan</li> </ul>	<ul style="list-style-type: none"> <li>▪ very expensive</li> <li>▪ weekly instalments</li> </ul>
Hire purchase	<ul style="list-style-type: none"> <li>▪ the client can have and use the commodity acquired under a hire purchase agreement</li> <li>▪ relatively low monthly instalments</li> <li>▪ one is mobilised to repay the loan</li> </ul>	<ul style="list-style-type: none"> <li>▪ impossible to obtain without proof of income</li> </ul>

Of the finance sources listed above, special note should be taken of **hire purchase**, which is a very popular form of external financing. While being particularly widespread among worse-off respondents, hire purchase was fairly popular among those better-off, too. Its basic advantage – and the one that clients appreciate most – is that the commodity acquired under hire purchase arrangement can be used immediately despite the lack of cash. The problem is, however, that this seems to have an effect of relieving people of the burden of worrying how to repay the loan. Moreover, very few people take any precautions to secure themselves against emergency situations. For this reason, while being perceived by respondents to be relatively low, hire purchase instalments prove a substantial burden for households and often have a negative impact on their financial standing.

### ➡ **Preparation for borrowing**

An analysis of how households prepare themselves to take out a loan provides an interesting insight into the borrowing behaviour of the households studied. What is particularly interesting is how they:

- procure sources of finance;
- plan to repay their commitments.

The social capital accumulated by the household seems to be a key factor in **procuring sources of finance**. As well as helping define a group of potential lenders, it provides information on available opportunities and best practices. The respondents demonstrated awareness of the need to maintain relationships once they have been established. This is visible in the following statements: *“One can always sell something so that one can still borrow in the future”*; *“...one repays loans to be able to get new ones”*; *“if you don't give back, you'll never again be able to borrow, so everyone repays what they have borrowed”*. An interesting opinion was expressed by one of the better-off respondents, who said: *“if I want someone to leave me alone, I just give him 50 zloty and he doesn't pay it back so he'll not come [again]”*.

**Repayment arrangements**, if made at all, concern loans contracted from formal sources or those to pay for anticipated expenses. According to the respondents, when people take out loans in emergency they *“do not calculate and [just] act”*; *“one takes money but one doesn't think how to repay it”*. When a planned approach is adopted towards borrowing, the basic factor considered is a permanent source of income. *“[We look] if husband has an [employment] contract lasting until the end of repayment period. If one's on the dole, repayment is possible for a maximum of one or two months”*. It should be emphasised that, even if some calculation of repayment risk is made, it is often far from accurate: *“I*

thought I would be done with it after three months and today I'm in trouble". People typically misjudge their ability to repay the loan in the future. And **they rarely take emergency expenses into account** in their calculations. This leads to:

- too little weight is attached to consequences the loan will have in the future; and
- inadequate protection against crisis situations.

**Summary 5.1.:**

So, while practically no dependence on welfare was found among the households studied, their dependence on borrowing was manifestly visible. It seems that this problem may at least partially be addressed by:

- persuading people that it is both viable and advisable to save for rainy days and for specific purposes;
- making people aware of the risks of frequently relying on external sources of finance and of the benefits of self-financing.

Other necessary steps are guidance and education targeted at:

- detailed planning of loan repayment and comparing available loan opportunities before taking out the loan;
- devising emergency plans to address unanticipated events.

## 5.2) Savings

### ➤ *The characteristic of households that save*

It is necessary to take note on Czapiński and Panek study (2003) who claim that almost 80% of Polish households do not save any reserves.

The quantitative study of household saving behaviour (Figures 8 and 9) found that:

- Saving was the most correlated with income.
- other factors underlying savings decisions included the possession of a job (households with no unemployed members tended to save more often)
- the age of the head of the household (the older the head, the more likely the household is to have savings)
- the number of household members (the fewer members, particularly children, the higher chances of savings)
- Savings were also correlated with the education of the head of the household.
- Savings were the least popular among rural residents (particularly those without their own farm), the least qualified individuals and those considering their material situation to be bad and their vulnerability to poverty to be high.<sup>31</sup>

**Figure 7: Correlation coefficients between savings and basic household characteristics**

Variable	Correlation coefficient
Average household income	0.2881*
Age of the household head – below 40	
Age of the household head – between 40 and 60	
Age of the household head – above 60	0.0342*
Years of schooling of the household head	0.2279*

<sup>31</sup> Factors affecting the level of savings are described by, *inter alia*, B. Liberda (2000).

Place of residence – village	-0.0923*
Place of residence – small town	
Place of residence – big town	0.0942*
Household of six members and more	-0.1030*
Child members of the household	-0.1159*
Satisfaction with financial situation	0.2552*
Subjective assessment of the vulnerability to poverty	-0.1298*

Source: Own analysis based on data included in "Diagnoza Społeczna" (Czapiński i Panek 2003).

\* significant correlation at the level of  $p < 0,05$

**Figure 8: Savings by age and education of the household head, place of residence and per capita income**

	% of households with savings
Age of the household head – below 40	23
Age of the household head – between 40 and 60	22
Age of the household head – above 60	26
Higher education	43
Medium education	28
Vocational education	17
Basic or no education	13
Village	18
Small town	23
Big town	29
Per capita income below 50% of the poverty line	8
Per capita income between 50% and 100% of the poverty line	16
Per capita income between 100% and 150% of the poverty line	23
Per capita income above 150% of the poverty line	46

Source: Own analysis based on data included in "Diagnoza Społeczna" (Czapiński i Panek 2003).

### ➤ Saving strategies

Figure 9 presents an overview of ways to save, which were identified by the respondents.

**Figure 9: Savings strategies**

Methods and ways to save	Advantages	Disadvantages
Keeping savings at home	<ul style="list-style-type: none"> <li>▪ savings lead to the rationalisation of expenditure</li> </ul>	<ul style="list-style-type: none"> <li>▪ no safeguarding against everyday temptations to spend</li> <li>▪ no safeguarding against inflation</li> <li>▪ no safeguarding against theft</li> </ul>
Bank deposits	<ul style="list-style-type: none"> <li>▪ safeguards against temptations to spend</li> </ul>	<ul style="list-style-type: none"> <li>▪ freezing of assets – could be a problem if money is</li> </ul>

	<ul style="list-style-type: none"> <li>▪ safeguards against inflation</li> <li>▪ interest profit</li> <li>▪ safeguards against theft</li> </ul>	needed in emergency
Investments in gold, foreign currency or fixed assets (successive purchase of goods)	<ul style="list-style-type: none"> <li>▪ safeguards against temptations to spend</li> </ul>	<ul style="list-style-type: none"> <li>▪ in emergency situations, goods are sold out at a loss</li> </ul>
Cultivating a vegetable garden	<ul style="list-style-type: none"> <li>▪ reduces redundant purchases</li> </ul>	<ul style="list-style-type: none"> <li>▪ one needs time and a plot of land</li> </ul>
Children take care of their own expenses (instead of regular studies, they combine work with extramural studies)	<ul style="list-style-type: none"> <li>▪ reduces stress on the household budget</li> <li>▪ <i>“when a kid must earn to pay for his own needs, he will learn to respect money”</i></li> </ul>	<ul style="list-style-type: none"> <li>▪ negative impact on the child’s health and mental development</li> </ul>
Giving up pleasures, family reunions and social events	<ul style="list-style-type: none"> <li>▪ rationalisation of expenditure</li> </ul>	<ul style="list-style-type: none"> <li>▪ breakdown of family and social ties</li> </ul>
Going abroad (to a big town)	<ul style="list-style-type: none"> <li>▪ savings must be made to pay for travel – rationalisation of expenditure</li> </ul>	<ul style="list-style-type: none"> <li>▪ breakdown of family and social ties</li> </ul>

It should be added that, while there are quite a few ways to save, in practice they are almost exclusively used to address ongoing expenses and pay for past commitments. **Very rarely are they used to put through savings plans.** It seems that the financial education agenda should seek a mindset change in this regard.

### ➤ **Attitude to saving**

A key to understanding savings behaviour of poor households is an analysis of how they approach the very idea of saving. A general opinion expressed by the respondents – and the one which is supported by findings of the quantitative study – is that an attitude to saving is underpinned by the following three factors:

- a. how rich you are – only the rich can save;
- b. how old you are – only those more advanced in age can afford to save;
- c. what your character is like - only the strong-willed are capable of saving.

The basic task of financial education is to challenge these stereotypes and **persuade people that it is not only advisable but also viable to save even if they do not earn much.** In fact, earmarking money to repay a loan or pay hire-purchase instalments amounts to nothing else than saving, except that in this case the purpose of the whole exercise is to pay off debt. In other words, anyone paying off the loan is forced to put aside some of their earnings. The problem is that it is often done unconsciously and is not perceived as saving. An obligation to repay a loan certainly helps by forcing the debtor to adopt a systematic and disciplined approach. The respondents often emphasised that it would be much more difficult to maintain the necessary discipline and regularity if there was no pressure to pay off debt. This leads to the conclusion that **a lack of savings should be blamed not on a lack of resources, but on wrong attitude and certain negative habits.** This is pointedly illustrated by what one of the respondents said: *“You save for what is necessary and you borrow for what is not necessary”*. In effect, savings are very low in most cases.

**Other factors that contribute to a negative attitude to saving** include:

- no confidence in financial institutions;
- low interest rates on bank deposits;
- failure to keep to the adopted goals;
- discouragement over lack of effects;

- microentrepreneurs often believe that money must be immediately invested in goods rather than be kept idle.

A closer look at each of these factors allows a better understanding of how people approach saving and may be conducive to finding a solution to the problem of low savings.

### ➡ **Attitude/trust towards financial institutions**

As mentioned before, it is hard to keep intact money saved at home because of a variety of temptations to spend. It is hence necessary to enable people to keep their savings in the bank. The problem is, however, that quite many households are reluctant to entrust their savings with a financial institution. This is because, firstly, some of them have **an experience of losing the funds** they deposited with banks or insurance companies. Secondly, a low interest rate on bank deposits, coupled with the typically low amount of deposit, **yields meagre returns**. Thirdly, to open a bank account, it is necessary – or at least the respondents so believe – to undergo **complex and burdensome procedures** and to fill out countless forms which are written in an incomprehensible language. *“They make you sit down with all that paperwork and you sit like a donkey. One needs a lawyer to help him”.*

This situation could at least partly be addressed through:

- reliable and comprehensible information for clients on the offer available;
- a simplified procedure and guidance on how to open an account;
- explaining clients that, despite low interest, it pays to keep money in the bank rather than at home as a safeguard against theft, inflation or everyday temptations to spend.

It should be clearly emphasised that **a decision to freeze the household’s assets on deposit** should be preceded by careful examination of all current and future needs and assessment of current and future expenses, and hence of short and medium-term need for money, so that the household is not left without the necessary funds careful examination and comparison of the offers available. Financial education is designed to prepare people to make such calculations.

### ➡ **Failure to keep to the adopted goals**

The respondents emphasised **the huge role of setting a specific goal** for saving. As in the case of loan repayment (hire purchase instalments), it makes one **feel obliged to put money aside in a systematic manner**. The most frequently mentioned saving goals were children’s education and house renovation. It also transpired from what the respondents said that they would be motivated to save if they were certain that their savings would not lose their value while being deposited. The interviews revealed, however, that people either **did not adopt any goals** (*“I wouldn’t be saving even if I could because there is nothing to save for, except maybe for my daughter”*; *“what’s the use of setting goals if every now and then something goes wrong”*) or, if they did, they **were unable to keep to them** (*“[you can’t keep money] there is always something that comes up”*). There is a need, then, to persuade people that it is advisable to make plans and viable to deliver on goals, no matter how adverse the conditions.

### ➡ **Discouragement over lack of effects**

*“You dole out to children and still cannot afford to get what you want”*. *“It takes too long to save on one’s own”*. These quotations demonstrate that the discouragement of seeing no effects of putting money aside represents a serious obstacle to saving. It is vital to make people understand that even low savings may prove invaluable in times of need. As mentioned in connection with budgeting for children’s education, it is also important to understand that even small amounts put aside can in time yield quite big returns.

### Summary 5.2.:

The low level of household savings is worrying for two reasons: firstly, because households have practically no resources to fall back on in emergency and, secondly, because external sources of finance must often be used to pay for extraordinary expenses which may be an easy route into persistent poverty. Failure to put aside money for specific purposes or for hard times stems from bad habits and a negative attitude rather than from the inability to save. It should, therefore, be one of the priorities of financial education to address this problem.

### 5.3) Insurance<sup>32</sup>

The study provided interesting information on how the respondents perceived various types of insurance. While accepting that insurance was very important, a majority of the respondents believed that it **could be afforded only by the well-off**. High insurance prices, coupled with the uncertainty of whether claims can be easily recovered, are the reason why people prefer to spend money on more immediate needs. A LPG station owner put it as follows: “... *everyone knows that insurance depends on whether you have the money – those who don't can't afford it [...] My station was uninsured for half a year and only recently I have taken out insurance*”. Others added: “*few people take out insurance because there is concern that it's hard to get any money under insurance and they will always manage to find ways not to pay you.*” Another reason for the unpopularity of insurance were negative experiences from the past.

The following statistics on the reasons for taking out insurance coverage provide a good illustration of how households approach insurance. The fact that a great majority of households (ca. 80%) took out insurance only because it was compulsory may, on the one hand, be interpreted that there are many other items in the household budget that take precedence over insurance in terms of priority. On the other hand, the fact that the second most important reason given by some 45% of households for investing in insurance was concern about the family's future illustrates how significant insurance coverage is regardless of its price and the size of the household budget.

Other findings of the quantitative study support the correlation between insurance and income. It is particularly visible if the demand of households for voluntary insurance is considered. The study found, *inter alia*, that as many as 38% of households had no interest in voluntary health insurance while a further 46% did not buy it because they could not afford it. Other types of voluntary insurance policies, such as whole life and children's insurance, are maintained by, respectively, less than 10% and slightly more than 3% of households. Some interesting observations can in particular be made about children's insurance. Namely, the field study found that the respondents demonstrated interest in insurance coverage that would provide their children with funds with which to meet education costs or start their adult life. This interest can be seen as a natural spin-off of parents' increased aspirations for education of their children. The results of both qualitative and quantitative studies demonstrate, however, that the desire to provide children with **insurance remains a wishful thinking, or an object of planning at best, and is rarely put to practice (as is saving for children's education)**.

Another form of coverage that elicited some interest among the respondents was insurance in the event of the death of parents whose earnings (retirement pays) provided a substantial contribution to the household budget.

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<sup>32</sup> All statistics using in this part are worked out by authors of this report basing on data included in „Diagnoza Społeczna” (Czapiński i Panek 2003)

The subject of voluntary **life insurance** was brought up practically only in meetings with better-off respondents while those worse-off seemed to have very little knowledge on the subject. It was noted that a life insurance policy could have a similar function to a bank account, i.e. could be used to freeze funds. This provides further evidence of the need to provide households with opportunities to keep their savings in a safe place.

## 6) SUMMARY: KEY GAPS IN FINANCIAL EDUCATION AND HOW TO DEAL WITH THEM

Simplified calculations point out that **target group** in Poland that has needs on financial education in worse-off part of society amounts **13,5 million people**, saying in another way – **almost 5 million household**.

### 6.1) Key gaps in financial education among poor households in Poland

The study demonstrated a high demand for financial education among poor households in Poland. Figure 10 presents basic gaps – and hence key problems to be addressed – in the financial management literacy and skills of household members. These gaps result mainly from specific attitude towards their abilities to manage finances in a competent way and how they perceive all types of financial institutions that could support them in that task.

**Figure 10: Basic gaps in financial education**

Existing behaviour	Desired behaviour	Area of financial education
1. Tendency to live day by day; no ability or habit to make long-term plans to build household assets.	Taking care not only of current needs but also paying attention to future events, particularly those related to the life cycle, and opportunities to invest in financial, physical, human and social capital.	Economic planning
2. A wrong attitude to saving and household budgeting.  Inability to keep to the adopted savings goals.  No systematic approach to saving.	Realising the advisability and necessity of expenditure planning, tracking and assessment. Understanding the opportunities for saving.  Rationalising needs and expenditure, regular and targeted saving.	Regular saving and household budgeting
3. No safeguards against emergency situations and overreliance on external sources of finance to address recurrent and predictable expenses.  Reactive borrowing.  No in-depth analysis of repayment risk.	Maintaining a reserve fund for unanticipated expenses.  More effective distribution of resources over time and increased own contribution to funding of recurrent and predictable expenses.  Rational choice of loan options and risk repayment analysis.	Crisis management and rational borrowing
4. No confidence in financial institutions and infrequent use of their services	Informed and effective use of available financial services	Banking and financial services

Solutions for promoting financial education in the areas designated above should be developed taking into account the knowledge, skills and attitudes the household members should possess in order to better manage their assets (Figure 11).

**Figure 11: Knowledge, skills and attitudes required for informed and effective management of household finances**

Knowledge	Skills	Attitude
<b>Economic planning</b>		
<p>How to develop a household budget taking into account future expenses.</p> <p>Benefits of planning and tracking expenses.</p> <p>Where the necessary information can be obtained on household budgeting and planning.</p>	<p>Projecting expenses against anticipated income (taking into account the seasonality of income and expenditure) and assessing the impact of today's decision on the budget in the future.</p> <p>Preparing emergency plans in advance to address a situation where expenses exceed anticipated income.</p> <p>Controlling and assessing the advisability of expenses – dividing expenses into those necessary and those that can wait.</p>	<p>Conviction of the necessity of future planning</p>
<b>Regular saving</b>		
<p>Where and how can savings be made.</p> <p>Benefits of saving in the face of emergency expenses and life cycle events.</p> <p>The role of savings in providing for life in old age.</p> <p>Terms and conditions for saving.</p> <p>Where the necessary information can be obtained about saving options.</p>	<p>Setting and keeping to specific savings goals.</p> <p>Comparing available saving options (interest rates, loss risk, options to freely use the deposited funds, etc.).</p> <p>Opening a savings deposit.</p>	<p>Conviction that it is possible and in many respects profitable to save on a regular basis.</p> <p>Conviction of the necessity of maintaining a reserve fund for unanticipated expenses.</p>
<b>Rational borrowing</b>		
<p>Available loan sources.</p> <p>Terms and conditions of borrowing.</p> <p>Consequences of borrowing (debt trap).</p> <p>Where the necessary information can be obtained about loans.</p>	<p>Rational distribution of resources over time and moving toward self-financing of needs.</p> <p>Taking coping measures well in advance.</p> <p>Comparing available offers and choosing appropriate loan options.</p> <p>Assessing one's capacity for repayment in the future.</p>	<p>Conviction of the necessity to avoid overreliance on loans.</p>

	Preparing emergency plans in advance to address a situation where income is insufficient to pay off the loan.	
<b>Financial services</b>		
Various financial institutions and the services they provide.  How these services can be used and how can they support household finance management.  Where the necessary information can be obtained about financial institutions.	Completing all procedures involved in using financial institution services.  Comparing available offers (interest rates, handling charges, etc.).  Using bank accounts (payments and withdrawals), credit (ATM) cards, etc.	Confidence in financial institutions.  Willingness to use financial services despite the need to complete all the formalities and paperwork.

## 6.2) Effective education and information channels

Figures 10 and 11 illustrate the basic issues that must be addressed by financial education. An important question is, however, how to accomplish these tasks. One of the goals of the field study was to establish **the most effective channels that could be used for financial education to have the widest possible reach**. According to the respondents, financial literacy could be promoted through:

- information sharing among family members and friends;
- television broadcasts (or, to lesser degree, radio broadcasts);
- press releases (notably local press);
- meetings organised by communes;
- information brochures distributed by post;
- information leaflets;
- information displayed on notice boards (inside the apartment buildings or in front of offices and churches);
- initiatives of persons enjoying an established reputation on a local level (local authorities, priests);
- the Internet;
- books.

**Of the above ways to promote financial literacy, the most effective** according to the respondents would be the following:

- group or private meetings to discuss household finance issues in a casual manner;
- providing examples of individuals who have managed to come out of poverty using practices promoted by financial education;
- television broadcasts and local press articles.

What the respondents often emphasised was **a huge demand for organised meetings** that would provide simply an opportunity to talk: *“one may talk at leisure [...] a very nice talk”*. The respondents expressed an opinion that people *“are growing apart [...] there is no time for get-togethers”*. Meetings devoted to discussing household finances would, on the one hand, be a venue for participants to share their experiences while on the other providing an opportunity to seek guidance and advice from the meeting moderators.

**Examples of individuals** who have succeeded in improving their financial situation would, in their turn, provide tangible evidence that it is possible to change the existing status quo. They would also be helpful in demonstrating ways to achieve improvement.

**Television broadcasts and local press articles** would have the broadest audience. According to the respondents, information is best communicated to the public through television or the press, whereupon it starts circulating on the grapevine which is a very effective information channel.

**Other communication channels are, according to the respondents, less effective.** The Internet, for instance, is not easily accessible and used by young persons only. Local authorities are either thoroughly discredited or lack persuasion, and thus rarely command respect. Very few people read books while leaflets are illegible and the information they are to communicate is lost among less important messages.

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## ANNEX 1: STUDY PLANNING

### Focus Group Interviews

day	#	localisation	respondents	# of participants	hour	venue
Thu 15 July 2004	1	Nowe Miasto Lubawskie	FWW	6	10:00	Starostwo
Thu	2	Nowe Miasto Lubawskie	FWW	7	10:00	PUP
Fri	3	Kurzętnik	GOPS	6	18:00	Szkoła
Fri	4	Kurzętnik	FWW	4	18:00	Szkoła
Sat	5	Susz	FWW	6	10:00	GCI
Sat	6	Susz	GCI	7	10:00	GCI
Mon	7	Rypin	PUP	8	10:00	Starostwo
Tue	8	Biskupiec	GCI	7	10:00	GCI
Tue	9	Biskupiec	GCI	5	10:00	GOK
Wed	10	Susz	GCI	7	10:00	GCI
Wed	11	Susz	GCI	5	10:00	GCI

### Individual Interviews

Day	#	localisation	respondents	hour
Thu	1	Nowe Miasto Lubawskie	FWW	13:00
Thu	2	Nowe Miasto Lubawskie	FWW	14:00
Fri	3	Kurzętnik	FWW	14:00
Fri	4	Kurzętnik	FWW	15:00
Fri	5	Kurzętnik	FWW	16:00
Fri	6	Kurzętnik	FWW	17:00
Sat	7	Susz	GCI	13:00
Sat	8	Susz	FWW	13:00
Sat	9	Susz	FWW	14:00
Sat	10	Susz	FWW	13:00
Mon	11	Rypin	PUP	10:00
Mon	12	Rypin	PUP	10:00
Mon	13	Rypin	PUP	12:00
Mon	14	Rypin	PUP	13:00
Mon	15	Rypin	FWW	13:30
Mon	16	Rypin	PUP	13:00
Tue	17	Biskupiec	GCI	13:00
Tue	18	Biskupiec	FWW	13:00
Tue	19	Biskupiec	GCI	13:30
Tue	20	Biskupiec	GCI	13:00
Wed	21	Susz	GCI	12:30
Wed	22	Susz	GCI	13:30
Wed	23	Susz	GCI	13:30

## ANNEX 2: EXAMPLE OF A TOOL USED DURING THE FOCUS GROUPS

tool #1a – emergency expenses and strategies

<p><b>Introduction</b></p> <ul style="list-style-type: none"> <li>• Thank you for coming and giving us your time.</li> <li>• Let us introduce ourselves... We are from an organisation called Microfinance Centre. It is a non-governmental organisation that promotes broad access to responsible financial services. Together with the Rural Development Foundation, we are currently conducting a study to work out good ways to manage money that will help households and families in making better use of their finances and in planning for the future.</li> <li>• We have invited you because we want to learn from you. This is the way we always work: trying to learn from people what is really needed and then developing new solutions. That's why your contribution to the project is very important. You have been selected as representatives of your social group in this region and we really hope that you as experts will help us understand how households manage their finances.</li> <li>• Details of the discussions and your names will be kept confidential so please feel free to express your opinions and take an active part in the discussion. It is not our intention to conduct an interview using a set of prepared questions. We are rather looking forward to a casual discussion. It would be the best if you conversed among yourselves while we will be just asking key questions that will keep the discussion going.</li> <li>• We would like to record these discussions. Do you mind if we do? Thank you!</li> <li>• The discussion will take not more than one hour and a half. Can you give us that much time?</li> <li>• Do you have any questions?</li> </ul>	<p>Next phase - each participant introduces himself/herself.</p>
<p><b>Warm-up</b></p>	<p>How are microenterprises doing in your community? And now we would like you to take a look at the most immediate problems from a family, household and local community perspective.</p>
<p><b>1</b> <b>What unanticipated events happen in your community that give rise to emergency expenses?</b></p>	<p>What are the most serious events (shocks) that give rise to considerable expenses? Which events are the most difficult to prepare for (the most difficult to plan for)? How are families in your community affected by such events? What amount of money is typically needed? Is it difficult to procure it? How do you manage? How often does such an event happen in your community?  Which of the events discussed here is, in your opinion, the most serious from the perspective of families in your community? Select the two most important events – which one causes the most trouble in terms of the amount needed, difficulties in procuring it, and frequency of occurrence?</p>
<p><b>2</b> <b>How do families in your community cope with this problem?</b></p>	<p>How do families in your community typically cope with emergency situations? What strategies are used? How accessible are these strategies? Who has access to them? To what degree do they cover the amount required / solve the problem? How effective are particular strategies? (do they provide any protection against re-occurrence of the event in the future?) How expensive is this strategy? (including long-term costs) What are its limitations? What do you do to prepare yourself for a given event?</p>

		Which of the strategies discussed here is the most popular in your community? <i>Ranking and an analysis of popularity versus effectiveness. Detailed analysis of formal financial services – through knowledge, skills and attitude, with a stress on insurance.</i>
3	<b>How do families in your community cope with debt?</b>	What problems are encountered when repaying debt? What are other debt traps? Do you know of any people who have got into the debt trap? Why did it happen to them? How did they cope? Does it happen often? How do people plan getting out of debt? What is the social perception of debt?
4	<b>What do you think of credit cards?</b>	What do you know about credit cards? How do they work? What are the main advantages of credit cards? What are the major traps of credit cards?

### ANNEX 3: INDIVIDUAL INTERVIEW GUIDE

#### Introduction

- Thank you very much for agreeing to meet us and participate in our study. We are very happy that you have agreed to meet us and give us your time.
- My name is ....
- We are from an organisation called Microfinance Centre. It is a non-governmental organisation that promotes broad access to responsible financial services. Together with the Rural Development Foundation, we are currently conducting a study to work out good ways to manage money that will help households and families in making better use of their finances and in planning for the future.
- This will not be a questionnaire. We are looking forward to having a casual conversation and we would like to hear as much as possible from you.
- If you don't mind, I would like to record our discussion so that I don't miss any of the information you give us. Our discussion is, of course, confidential – so please feel free to express your opinions.
- Our meeting will take around one hour and a half. Thank you again for your time.

(warm-up) **Could you perhaps first tell us about yourself and your family? How is business? How are people doing here? Do many of them run their own business? How do they make a living?**

1	<b>Managing day-to-day</b>	<b>Income</b>	<ul style="list-style-type: none"> <li>▪ What income sources other than business does your family have?</li> <li>▪ How sustainable are these sources? Are they permanent/do they provide a feeling of safety?</li> </ul>
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	<p><b>income and expenditure</b></p>	<p>We have talked about income. Now let's talk about <b>expenditure...</b></p> <p><i>(note down luxury goods)</i></p>	<ul style="list-style-type: none"> <li>▪ What expenses do you have? How do you succeed in meeting your needs?</li> <li>▪ What can you afford (necessities – food, fuel, clothing, medicines, transport, fees / superior goods) and what can't you afford? What do you buy and what you don't? What limits on spending are introduced and using what criteria?</li> <li>▪ Why is money insufficient? When do you run out of money? How often?</li> <li>▪ How does the family cope when money is short?</li> <li>▪ How does the family cope to make ends meet?</li> <li>▪ How to manage money to make it last longer?</li> </ul>
		<p><b>Consumerism</b> – vulnerability of various groups to consumerism, causes (feeling of loss, compulsive, conspicuous)</p> <p>Spending on redundant/luxury goods and what consequences it has</p>	<ul style="list-style-type: none"> <li>▪ (give an example of a luxury expense) – you mentioned spending on...</li> <li>▪ Why did you decide to make that purchase?</li> <li>▪ Are such expenditures frequent? How do you pay for such purchases?</li> <li>▪ How does it affect the fulfilment of day-to-day/other needs? (household budget)</li> <li>▪ (if negative impact) How could such purchases be made to secure yourself against their negative impact?</li> </ul>
2	<ul style="list-style-type: none"> <li><input type="checkbox"/> Emergency expenses</li> <li><input type="checkbox"/> Extraordinary expenses</li> </ul>	<p><b>Emergency expenses +</b></p> <p>Impact on the household budget?</p>	<ul style="list-style-type: none"> <li>▪ How is income and expenditure (household budget) affected when an emergency situation occurs? When there are expenditures that require a larger amount of money? Why? (what problems)</li> <li>▪ How are emergencies taken into account in the household budget? Why yes/no?</li> <li>▪ How to manage money to ensure that emergency expenses are not that much of a problem?</li> </ul>
		<p>Extraordinary expenses</p> <ul style="list-style-type: none"> <li>▪ family events</li> <li>▪ <b>name-day celebrations, Christmas Eve party, the priest's Christmas visit</b></li> </ul> <p>+ impact on the household budget?</p>	<ul style="list-style-type: none"> <li>▪ What about extraordinary expenses that can, however, be anticipated?</li> <li>▪ When recently have you experienced such expenses? How were your finances affected? Why did these expenses occur? Do they happen often?</li> <li>▪ What is their impact on the household budget?</li> <li>▪ How to manage money to ensure that extraordinary expenses are less of a problem for the daily budget?</li> </ul>
3	<p><b>Household practices budgeting</b></p>	<ul style="list-style-type: none"> <li>▪ Expenditure planning</li> <li>▪ Effectiveness of planning in money management</li> <li>▪ Planning versus reality</li> <li>▪ Improving budgeting strategies</li> </ul>	<ul style="list-style-type: none"> <li>▪ How do you plan household finances?</li> <li>▪ Within what time horizon?</li> <li>▪ How does it help in management?</li> <li>▪ Is the plan followed in practice?</li> <li>▪ How are planning/management practices changing?</li> </ul>

4	<b>Financial strategies</b>	<p><b>Savings</b></p> <p><i>(refer to the forms mentioned before)</i></p>	<ul style="list-style-type: none"> <li>▪ What do you keep savings for? (for rainy days, consumption, investments, etc.)</li> <li>▪ How do you save?</li> <li>▪ Within what time horizon? How often do you use your savings? When?</li> <li>▪ What are savings actually spent on?</li> <li>▪ Difficulties in saving? Reasons?</li> <li>▪ Does it pay to save? Why yes/no? Where and how does it pay to save?</li> <li>▪ Response to savings products – for first holy communions (<i>Kujawiak</i>), for children’s education, etc.</li> </ul>
		<p><b>Borrowing</b></p> <p><i>(refer to the discussion, particularly about credit, without the FWW)</i></p>	<ul style="list-style-type: none"> <li>▪ Do you borrow? What for? Sources? When (planned/unplanned; with/without consideration)? How often? Terms and conditions? Who has access to what types of loans?</li> <li>▪ How did you last choose the source of finance?</li> <li>▪ How do you cope with repayment (what repayment problems are typically encountered)? Do you plan repayment and if yes, how? What time horizon do you choose for repayment?</li> <li>▪ What is the impact on the household budget (short and long term)?</li> <li>▪ What is the attitude to borrowing (your, neighbours’, family’s and friends’)? Does it pay to borrow/lend from/to someone? Who does/doesn’t it pay to borrow from and why? Do you lend anyone? Whom? When? For what purpose? Any problems with lending? How did you cope?</li> </ul>
5	<b>Effective channels and learning strategies</b>	<ul style="list-style-type: none"> <li>▪ Agent of changes in the family</li> <li>▪ Change process</li> </ul>	<ul style="list-style-type: none"> <li>▪ What changes have you witness recently in your town? at your neighbours’? AT YOUR PLACE? What has it been? Who has initiated these changes? How have these changes been brought about? Are they popular in the town? Who is changing and who is not? Why? How often do changes take place and within what area of life?</li> <li>▪ What is the best way to promote a good idea among the town inhabitants/family-neighbours, AT YOUR PLACE?</li> </ul>