Boosting Financial Literacy of Rural Populations in South East Europe

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Foreword

This report discusses the importance of addressing the financial literacy needs of rural populations in a number of countries in South East Europe, namely Bulgaria, Croatia, Georgia, Moldova, Montenegro, the Republic of North Macedonia and Romania. It provides a comparative perspective of the financial literacy and inclusion levels of rural populations and good practice examples of regional and international initiatives. It then proposes a menu of potential relevant measures for consideration by domestic policy makers.

The report was prepared by the OECD International Network on Financial Education within the framework of its Technical Assistance Project for Financial Education in South East Europe carried out with the support of the Netherlands' Ministry of Finance. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

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Executive summary

Low levels of financial literacy and financial inclusion of rural populations in South East Europe (SEE) may have negative consequences for their financial well-being along with potential longer-term economic and social implications. Country and regional level discussions in the framework of the OECD/INFE Technical Assistance Project on Financial Education in SEE highlighted the need to increase financial literacy levels of rural populations in the region. Furthermore, the evidence of the OECD/INFE Financial Literacy Survey of Adults in SEE (OECD, 2020[1]) and the insights from a regional workshop on financial literacy of rural populations, held on 14 December 2020, revealed that dedicated financial education initiatives are scarce, which implies a significant scope for action to address their needs.

According to the 2020 survey, the financial knowledge of rural residents appears to be lower compared to urban populations across the region. This is also the case for each of the countries which are part of this project (Bulgaria, Croatia, Georgia, Moldova, Montenegro, the Republic of North Macedonia and Romania), with the exception of Montenegro where the scores are identical. This pattern is consistent across financial behaviour scores.

Financial attitude scores, however, differ across countries. Rural residents have lower attitude scores than urban citizens in Bulgaria and Croatia, but higher scores across North Macedonia, Moldova, Montenegro, and Romania. In Georgia, the respective scores for both demographic groups are the same. Therefore, financial education of rural populations in SEE needs carefully tailored initiatives and delivery channels in order to achieve the required impact according to the specific challenges and needs in every country.

The financial inclusion level of rural citizens is lower than that of the overall population in the region, with the exception of Croatia and Montenegro. In almost all countries, rural populations appear to be vulnerable to financial shocks, with family and friends being the main source of emergency funds. Saving levels in rural areas, similarly to overall saving levels, are quite low across the region, although there are differences among countries. Saving for retirement is generally uncommon throughout the region as is saving to start, operate or expand a farm or a business. As regards borrowing, rural populations in SEE appear to be similar to the overall population. In contrast, the use of digital financial services is low across SEE countries (Demirgüç-Kunt, 2018[2]).

Moreover, in most SEE countries, the rural population suffers from worsening economic conditions, lower incomes, declining standards of education, and lower (financial, education and health) infrastructure than in urban areas. The COVID-19 pandemic is further exacerbating vulnerabilities of rural populations and rural businesses due to the accompanying containment measures. Demographic characteristics (a higher share of elderly population) and geographic features (larger distances to access health care, education, financial and other services), coupled with suboptimal Internet penetration are factors exposing rural regions to greater difficulties than urban areas. Moreover, the overall slowdown in aggregate demand and the potential further impact on trade and global demand for agricultural production, mining and tourism are likely to hit hard rural populations in SEE (OECD, 2020[3]).

The present report focuses on the importance of addressing the financial literacy needs of rural populations in the region and provides a comparative perspective of the financial literacy and inclusion levels of rural populations in SEE along with regional and international examples of targeted initiatives. Furthermore, it offers a menu of potential relevant measures for consideration by domestic policy makers, which could be summarised as follows:

Apply a strategic approach

- Actively facilitate a comprehensive approach by focusing on inter-related and mutually reinforcing action across policy areas (e.g. ageing, insurance, pensions, health, education and employment). Combine, where feasible, financial education and more comprehensive government action to address potential geographic, demographic, infrastructure, financial service provision and other constraints.
- Adapt to and take into consideration uncertainties and vulnerabilities of rural populations (e.g. as related to the seasonality of their work, to climate change, extreme events, etc).
- Consider "pros" and "cons" of potentially defining rural populations as a specific target group and addressing the specific needs of different segments of rural populations.
- Use evidence-based approaches, monitoring, and evaluation of national initiatives and strategies.

Enhance stakeholder collaboration and synergies

- Establish and co-ordinate the co-operation among relevant stakeholders, including public sector institutions, international organisations, bilateral donors, not-for-profit organisations and representatives of the financial industry.
- Draw on and further develop synergies among on-going initiatives.
- Develop and implement effective programmes and scale up successful initiatives
- Co-operate with relevant stakeholders, especially at local level (local community leaders, co-operatives, entrepreneurial organisations) to better understand the local context of the region/village.
- Recruit and train motivated trainers, familiar with the local context, culture, and speaking local dialects.

Harness synergies and focus on cost-effective approaches with a long-term impact

- Design programmes encompassing a mix of innovative delivery methods, e.g. behavioural science and digitalisation (Internet, social media), with traditional approaches (regional TV, rural radio stations).
- Implement programmes promoting the access of rural populations to a wider range of financial products (in addition to credit) and digital financial services.
- Make full use of the opportunities for financial education of youth since early ages and nurture more financially savvy and capable future generations.

1 Introduction

Context

The OECD and its International Network on Financial Education (OECD/INFE) are leading a five-year (2018-22) Technical Assistance Project on Financial Education in South East European countries from the Constituency Programme of the Ministry of Finance of the Netherlands.[1] Project More specifically, the work under this project, carried out with the financial support of the Ministry of Finance of the Netherlands, focuses on Bulgaria, Croatia, Georgia, the Republic of North Macedonia, Moldova, Montenegro, and Romania.

Building on the OECD/INFE's internationally recognised expertise and longstanding commitment to advancing financial literacy, this five-year project aims to support project countries in their efforts to design and implement effective financial education initiatives, adapted to their specific needs and grounded in sound evidence. The project also aims to promote peer learning and knowledge sharing and encourage regional co-operation through joint initiatives.

The project involves three work streams focused on the following priority areas:

- Research: mapping current activities, establishing the level of financial literacy within participating countries and identifying priorities and target groups
- Development: supporting the design of a national strategy for financial education and the design of an evaluation process to measure its effectiveness
- Implementation: supporting the implementation of national financial education strategies and programmes.

Objectives of this report

The type of challenges experienced by rural populations in SEE are similar to those of other European and OECD economies. However, the rural population in SEE is more than twice the rural population of OECD countries with respectively 41% and 19% of the total population, although country patterns differ (ranging from 26% in Bulgaria to 57% in Moldova) (World Bank, 2019[4]). The significant proportion of the rural population in the region coupled with the mentioned financial literacy, inclusion and socio-economic challenges warrant special policy attention and action to boost financial resilience and well-being. Yet, the current focus on financial education of rural populations in the region is limited in most countries. In the absence of significant resources to boost financial literacy levels of households individuals and MSMEs in the region, including those from rural areas, it is important to apply targeted policies and delivery approaches. To achieve greater impact and meaningful increase of financial literacy levels of rural populations, it is also important to take into consideration the needs of specific rural segments of the population, such as the elderly, youth, women, minorities and micro-, small and medium entrepreneurs.

This report aims to raise awareness of the importance of focusing on the financial literacy of rural populations and of their specific needs in SEE. Its objectives are to also provide a comparative perspective of the financial literacy and inclusion levels of rural populations in the region, good practice examples and potential relevant measures for consideration by domestic policy makers

Structure and sources

To reach these objectives, this report focuses successively on the importance of financial literacy for rural populations in SEE, stemming from an overview of rural development in the region and the underlying demographic, socio-economic and cultural characteristics of rural populations and MSMEs in rural areas.

The report provides further an overview of financial inclusion and literacy levels as well as regional experiences of the work carried out by project countries in the framework of their National Financial Education Strategies or separate initiatives and programmes where strategies are not yet in place.

Good practice examples of OECD/INFE member countries are also discussed in order to foster the development of new approaches and initiatives in the region, as relevant. Last but not least, the report defines potential policy options for consideration by SEE countries in their efforts to promote financial education of rural populations.

This report draws on sources developed in the framework of the Technical Assistance Project:

- Country mapping documents, analysing current financial education provision in South-East European countries.
- The OECD/INFE Financial literacy survey of adults in South-East Europe (2020)
- Insights from knowledge exchange and capacity building events.
- Country contributions and desk research.

The document also builds on insights of broader OECD/INFE documents and reports (non-exhaustive list):

- OECD Recommendation on Financial Literacy
- OECD/INFE (2020) International Adult Financial Education Survey.
- OECD, PISA 2018 Results: Are Students Smart About Money?
- OECD work on financial education in the context of ageing populations and on behavioural insights.
- G20/OECD Policy Guidance on Financial Consumer Protection in the Digital Age.

2 Why is financial literacy of rural populations in SEE so important?

Rural development in SEE

Rapid urbanisation has been one of the main global demographic trends since the 20th century, emerging in parallel to growing economic and social challenges facing rural populations. This trend notwithstanding, rural areas continue to play a key role for prosperity, providing food, environmental, touristic and other resources as well as valuable quality of life attributes. Rural areas are diverse in nature (Box 2.1), depending on their specific natural environments and endowments, the density of their population, the availability and quality of different types of infrastructure, as well as their remoteness or proximity to urban areas.

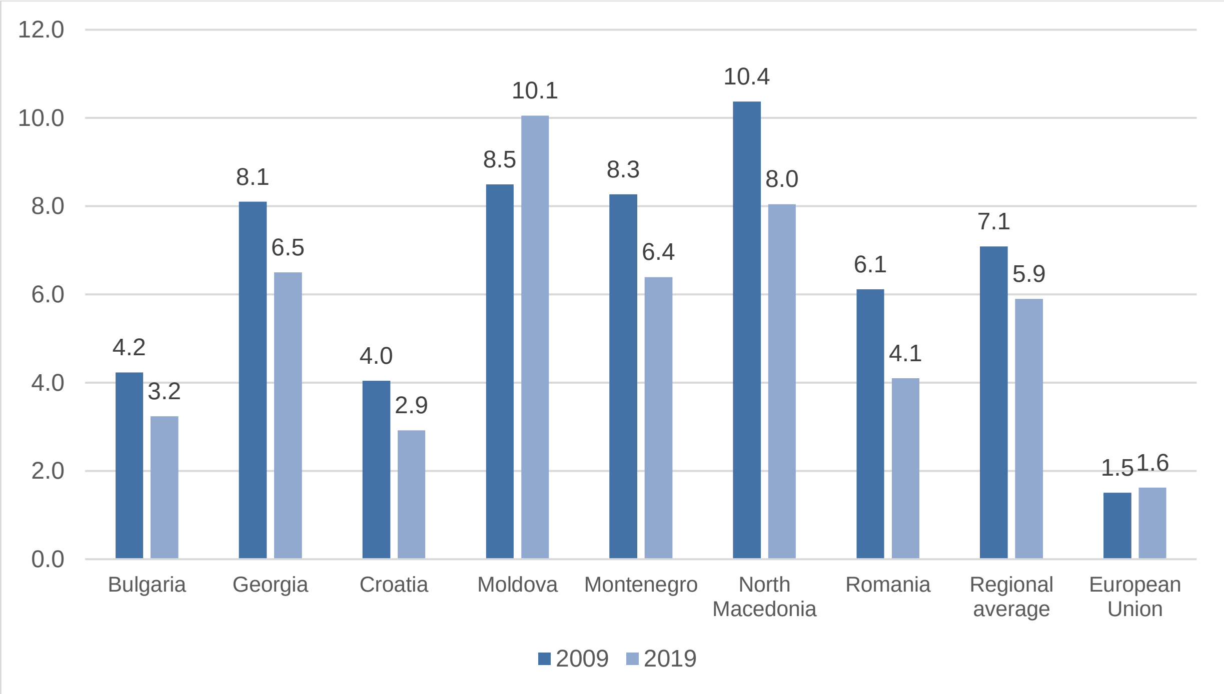
Box 2.1. Defining rural areas

In the absence of an international consensus, recent definitions reflect this diversity by recognising that there are many kinds of rural areas. The OECD has developed a specific definition with a focus on international comparability. Thus, there are three types of rural regions in the OECD approach with different degrees of linkage to metropolitan areas: i) rural areas within a functional urban area (FUA); ii) rural regions close to a FUA; and, iii) remote rural regions. Conversely, Eurostat's definition of 'rural areas' refers to all areas outside urban clusters, where 'urban clusters' are clusters of contiguous[2] grid cells of 1 km² with a density of at least 300 inhabitants per km² and a minimum population of 5 000. Individual countries explore alternative definitions that can best suit their particular needs and that continue to evolve over time. Such definitions reflect a variety of criteria, such as density, economic activity, size or distance to services, among others (OECD, 2016[5]).

Rural development is a key policy area, playing an important role in ensuring the competitiveness of farms, forestry and agro-food enterprises, delivering sustainable management of natural resources and climate action as well as creating growth and jobs in rural areas (OECD, 2020[6]). Agriculture in SEE project countries, including forestry, hunting, and fishing, as well as cultivation of crops and livestock production has prominent historical and social characteristic and a great economic importance for rural development. It contributes almost 6% of gross value added (GVA) in project countries compared to 1.6% in the EU (Figure 2.1) and differs from country to country depending on the specific natural, structural and technological conditions, development status, and production potentials.

In 2019, the share of agriculture, forestry and fishing in total national GVA ranged from 2.9% in Croatia to 10.4% in North Macedonia and with a regional average of 5.9%, it is far above the EU average (1.6%). The EU member states from the region – Croatia, Bulgaria and Romania – are closer to the EU average, while for all other SEE project countries these shares are higher than in any EU member state Subsistence agriculture dominates in many parts of the region, contributing to food security and socio-economic stability in rural areas, thus playing an important function as a social and economic buffer.

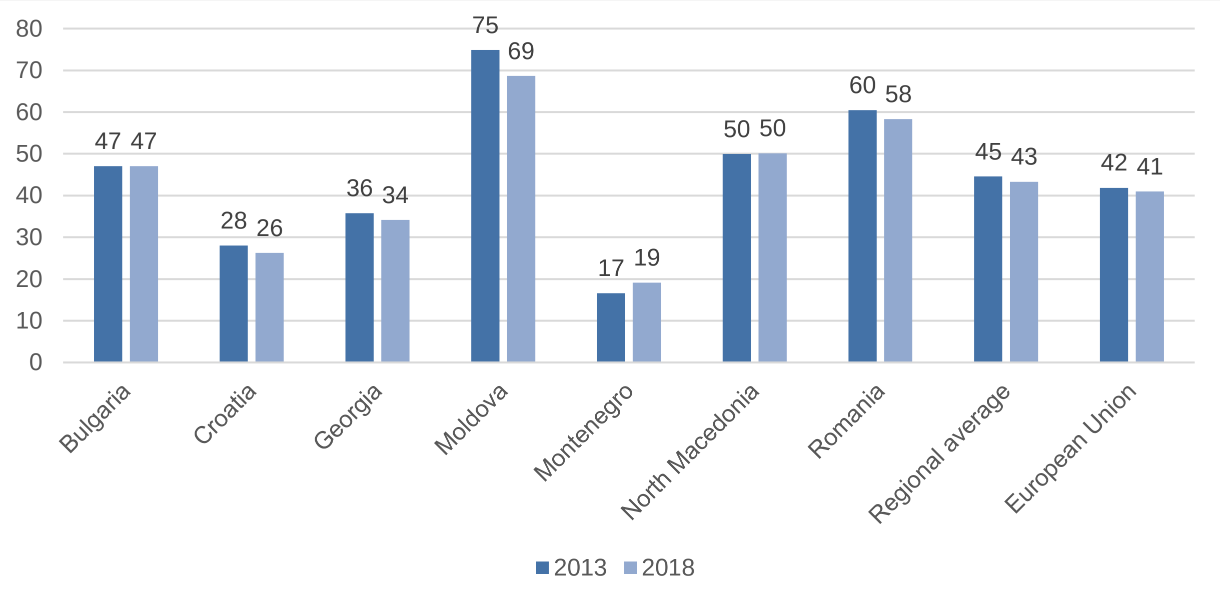
Figure 2.1. Agriculture, forestry, and fishing, value added (% of GDP)



Source: World Bank Development Indicators (Eurostat data).

On the other hand, policy makers are facing a number of challenges, such as low competitiveness and productivity of the agricultural sector, inadequate use of agricultural production potentials, and depopulation of rural areas. Agriculture in SEE economies is also significant user of natural resources, thus putting pressure on the environment. For example, agriculture in the region uses large shares of land, similar to OECD and EU average levels, except for Montenegro, which uses less. In Montenegro, the share of agricultural land of the total land area is the lowest (19%), while it is the highest in Moldova (69%). In spite of country variations, the regional average of agricultural land as percentage of the total land area reaches 43%, which is similar to EU levels (41%, Figure 2.2).

Figure 2.2. Agricultural land (% of land area)



Source: World Bank Development Indicators and national data.

Family farms dominate the structure of SEE agriculture in terms of their numbers, their contribution to agricultural employment and to a lesser degree, the area of land that they cultivate and the value of the output they generate (European Commission, March 2019[7]). Based on the FAO definition, family farming is "a means of organising agricultural, forestry, fisheries, pastoral and aquaculture production which is managed and operated by a family and predominantly reliant on family capital and labour, including both women's and men's". There are similarities with EU member states where there were 10.5 million farms in 2016, with the vast majority of them (95.2%) classified as family farms, using 81.4% of the regular agricultural labour force, but farming a little less than two-thirds of the total area of agricultural land cultivated (Eurostat, 2016[8]).

Family farms covered more than one half of the utilised agricultural area in 22 EU member states, with Bulgaria having among the lowest shares (22.2%), i.e. much less than the EU average (62.3%). More than one-third of family farms in the EU were located in Romania in 2016 (3.4 million). Agriculture is by far the largest activity of the rural population in Montenegro where more than 60 000 households obtain their income partly or entirely from agriculture. The average size of utilised agricultural land per holding is 4.6 hectares but it is important to underline that 72% of the agricultural holdings are up to 2 hectares in size. The farm structure in the country is dominated by small family farms, which produce mainly for their own consumption. Owned or leased family farms are also dominant in North Macedonia where they are highly fragmented into small parcels. State farms are generally much larger (European Commission, March 2019[7]).

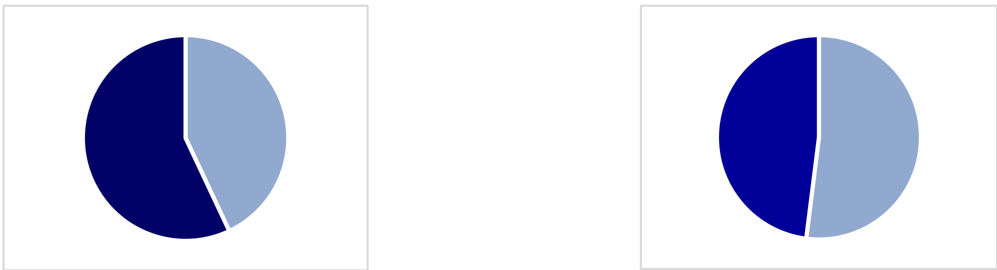
The EU accession aspirations of SEE project countries which are not members yet, requires sustained efforts to enhance competitiveness across agro-food chains as a whole. Rural areas need to be modernised also by providing income alternatives for rural inhabitants. In all SEEs, the agro-food sector is an important contributor to both exports and imports, however, post-harvest treatment and processing of raw materials into the final food products are identified as a weak link in SEE agricultural production and markets. Significant import dependence remains a worrying indicator of underdeveloped agriculture and agro-food chains, which leads to underutilisation of countries' natural endowments and human potential. Poor horizontal and vertical integration in agro-food chains also requires special attention in the region, which has a long tradition of agricultural co-operatives. However, the latter have been “diluted” and dismantled during the process of transition to market economies. Producer organisation in groups or co-operatives is very limited due to negatively perceived past experience, and co-operatives appear to be economically insignificant or limited to purchasing raw materials and supplying inputs (Tina Volk, 2014[9]).

In addition, rural residents in the region and worldwide experience pressures stemming from the COVID-19 pandemic and associated containment. An overall slowdown in demand, likely slowdown in trade, mining and tourism are expected to impact rural populations globally (OECD, FAO, 2019[10]). Demographic characteristics (see following sections) and geographic features (larger distances to access health care centres), coupled with reduced health care staff and facilities, definitely hamper the ability of rural regions to respond to the pandemic. More broadly, rural populations are exposed to structural, long-term downward trends in real commodity prices along with uncertainties emerging from unforeseen events, such as harvest failures or demand shocks.

The shocks experienced by rural populations in the region during the process of transition to a market economy and the overall challenges of rural development further emphasise the importance of public policies in addressing structural socio-economic challenges along with efforts to boost financial literacy, in order to improve the lives of rural residents in SEE, including their financial resilience and well-being.

Figure 2.3. Low access to sanitation and health services (global data)

(% of rural populations)



43% of rural populations have adequate access to sanitation

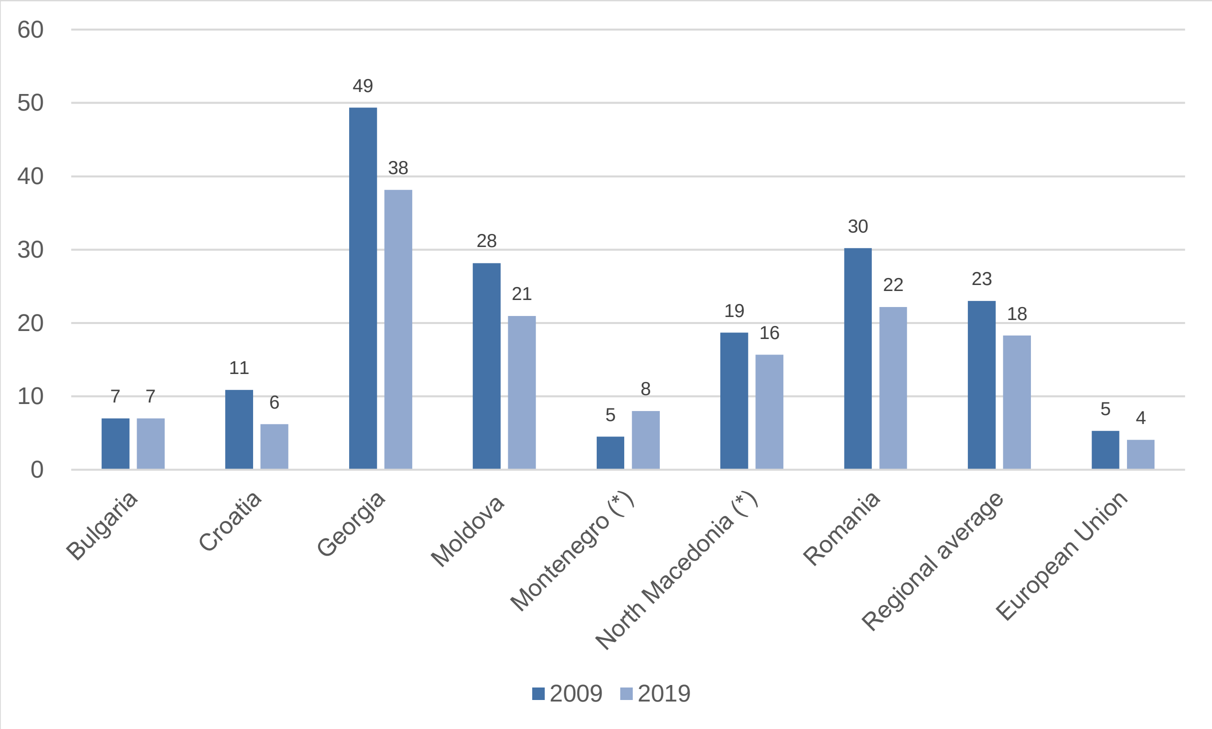
48% of rural populations have adequate access to health services

Source: World Bank (2017), (ILO, 2017[11]).

Socio-economic characteristics

Agriculture, forestry and fishing account for about 6% and 8% of total employment respectively in Croatia and Montenegro, 38% in Georgia and between 16% and 28% in the other SEE project countries. The EU average of this share is much lower (4%, Figure 2.4.). A higher proportion of agriculture in GVA and employment compared with the EU appears to be closely related to the overall level of economic development of the region where the income per capita levels remain lower than the average of the EU member states (Food and Agriculture Organisation, 2014[12]).

Figure 2.4. Employment in agriculture, forestry and fisheries (% of total)

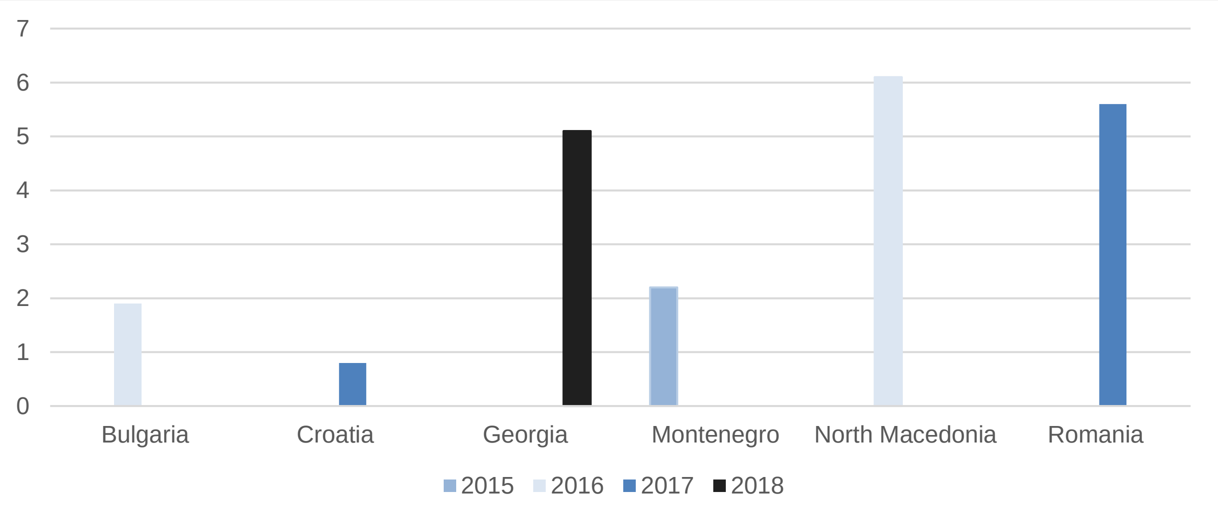


Note: * 2018 instead of 2019.
Source: World Bank Development Indicators (Eurostat data)

In general, SEE economies are characterised by high rates of youth unemployment, long-term unemployment, difficulties in integrating vulnerable groups – including female workers – into the labour market and high rates of informal employment (OECD, 2018[13]). Moreover, unemployment rates have also been affected by the COVID-19 pandemic, which is also bringing about uncertainties as regards potential deterioration of labour market conditions. This is especially the case in rural areas where the majority of the poor are employed in agriculture (OECD, 2020[14]). The exposure varies among countries, but is generally high in SEE, given that the regional average employment in agriculture is of 18% compared to 4% in the EU in 2019 (Figure 2.4).

Rural populations are at a risk of poverty, economic vulnerability and social exclusion in many advanced economies, including most EU member states (Eurostat, 2020[15]). In many European countries, the rural population suffers from worsening economic conditions, lower income, declining standards of education, and lower (financial, education and health) infrastructure than in urban areas. In all project countries of SEE, rural populations are facing an even more challenging situation. In many of the rural areas in the region, the lack of income and employment, depopulation and land-abandonment, as well as the unsustainable use of natural resources have led to a substantial loss of economic viability, poorer quality of life and less cultivated land. In particular, rural poverty represents an important aspect of poverty in SEE, considering that rural area residents account for a large part of the population in the region.

Figure 2.5. Poverty headcount ratio at USD 1.9 a day (2011 PPP) (% of rural population)



Source: World Bank Development Data, KNOEMA, 2020.

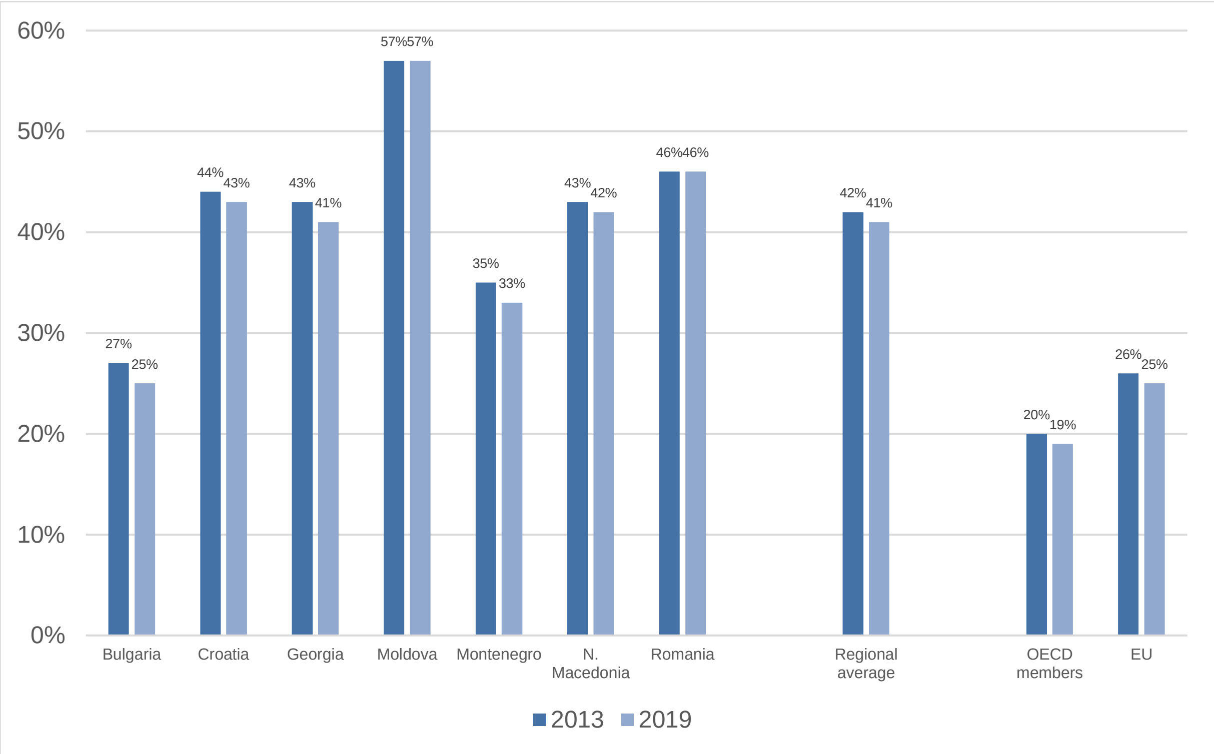
At least half of the rural population in Bulgaria and Romania is at risk of poverty or social exclusion (European Commission, 2017[16]). The case of Croatia is similar insofar as the risk of poverty or social exclusion is much higher in the rural (almost 40%) than in the urban areas (20%) (European Commission, 2015[17]). In spite of progress made in recent years, poverty remains a significant problem in Georgia, where a higher proportion of the rural population lives in extreme poverty, compared to urban areas (National Statistical Office of Georgia, 2019[18]). In Moldova, the numbers of people living in poverty in rural areas is almost 5 times higher than in urban areas (Cimpoies, 2019[19]). According to the National Association of Farmers, poverty is rampant in rural areas in North Macedonia. Moreover, young people between 20 and 24 years (59%) and particularly young women between 25 and 29 years (43%) from rural areas face the highest unemployment rates (Petrovska Mitrevska, 2017[20]). The extreme poverty ratio[3] in the region ranges from 0.8% of the rural population in Croatia to 6.1% in North Macedonia. The remote and poor rural areas in the region are significantly affected by migration, due to the lack of employment and low wages.

Domestic remittances play a significant role in the economies of the region, ranging from 14% in the Republic of North Macedonia to almost 30 and 40% of rural populations respectively in Montenegro and Croatia reporting to have sent or received domestic remittances in the previous year. In terms of international remittances, their relative importance as a source of external financing in the region is expected to increase, although the 2020 decline of international remittances to the region is projected to continue in 2021. The top remittance recipients in absolute terms are Bulgaria (USD 2.3 billion) and Georgia (USD 1.9 billion), followed by Moldova (USD 1.6 billion). In terms of percentage of GDP, Moldova (15.1%) takes the lead in domestic remittances before Georgia (11.8%) and Montenegro (11.1%) (World Bank KNOEMA, October 2020[21]) and national data)

Demographic characteristics

Rural populations are a key demographic group in SEE with more than twice as many people (41%) living in rural areas in the region, compared to OECD countries (19%) and significantly higher than EU member states (Figure 2.6). Moldova and Romania lead the way with respectively 57% and 46% of rural population compared to the total population, followed closely by Croatia (43%), North Macedonia (42%)[4] and Georgia (41%), and finally Bulgaria (26%).

Figure 2.6. Rural populations as percentage of total population

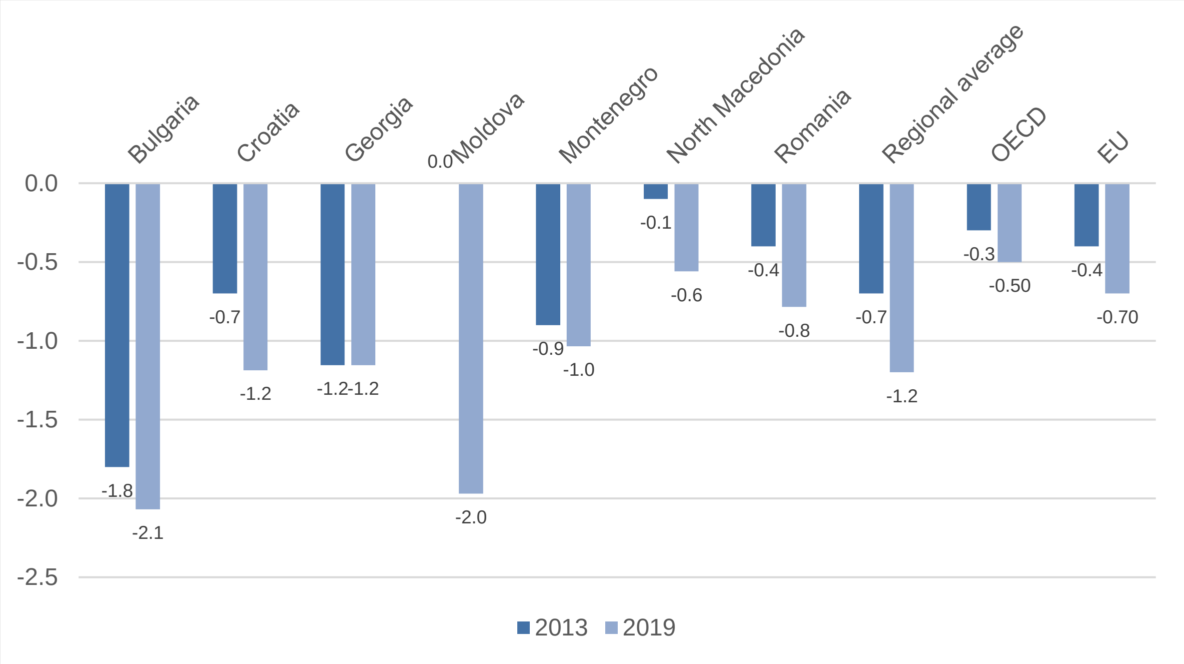


Source: World Bank Development Indicators, 2019.

Depopulation is progressing in a number of SEE countries. Most rural areas in the region are underprivileged and have no real mid-term prospects. Large numbers of villages, residential and industrial buildings in most project countries from the region are either abandoned or likely to be so in the course of the next decade. The "post-socialist" transition period was particularly harmful in this regard, largely because of the collapse of the previous relatively decentralised industrial and food processing industry. As a result, the majority of the rural population in the region has been affected by difficulties to find employment in their local area, which has driven the rural workforce away. This in turn has led to the collapse of part-time farming that was previously an important contributor to the rural economy (Food and Agriculture Organisation, 2014[12]).

In SEE, both urban and rural women outnumber men, which is largely determined by the fact that older population cohorts consist of high numbers of women who tend to live longer than men. The majority of heads of rural households in the region are men. Male household heads have, on average, three more years of education than female household heads. Women work more often than men as farmers on their own account or as unpaid family workers, without declaring themselves as employed in agriculture. Women do not face any apparent legal restrictions in accessing formal credit, and, in some countries, they apparently do so in significant numbers (Valeria Rocca, Zsófia Bossányi, 2014[22]).

Figure 2.7. Rural population growth



Source: World Bank Development Indicators.

Rural populations in the region exhibit negative growth patterns in all countries, ranging from -2.1% in Bulgaria to -0.6% in North Macedonia (Figure 2.7) contributing to the dramatic population drop in the region. In addition, this trend is reinforced by larger numbers of people emigrating from rural areas than immigrating, and because of low birth rates, which means that rural populations in the region are getting smaller and older.[5] The prospect of reduced numbers of working age populations in the region is a source for concern about labour shortages, economic growth prospects, as well as the future of social benefits, notably pensions. Moreover, population ageing is particularly difficult in the rural areas of SEE, as often they are lacking sufficient resources or community capacity to address such challenges (Kulcsár and Brown, 2017[23]).

Educational background

Generally, the quality of education and educational achievement are lower in rural areas in most countries of the region. Rural education in SEE countries faces serious challenges related to the lack of investment in physical infrastructure, number of qualified teachers, staff turnover, and limited access to training for the rural population. For example, in 2020, almost four out of ten Romanians (of a sample of 1 103 surveyed respondents) stated that the educational facilities in Romanian rural areas were fairly bad. Only 12% of respondents considered that the school units in rural areas were very good (Sava, 2020[24]).

Against this background, many adults located in remote, less-developed rural areas of SEE have limited educational and training background, as well as poor literacy, often due to early school drop-out (especially among minorities), which is coupled with limited opportunities for engagement in entrepreneurship training and exchange (OECD, 2018[25]).

Considerable discrepancies are observed also among sub-groups of rural and urban residents. This is the case, for example, for senior citizens in rural areas who tend to exhibit lower educational levels than those living in cities. As regards students in rural areas, they have less access to quality schooling and score lower on international assessments compared to urban areas in many SEE countries. North Macedonia, for example, has among the largest rural-urban performance gaps among the 2018 PISA-participating economies, a gap equivalent to 1.5 years of schooling. With respect to women, about 40% of the female population in the rural areas of Bulgaria has at least upper secondary education completed, while in urban areas it is over 70% (European Commission, n.d.[26]). While school attendance rates are high for both primary and secondary levels, rural children in Moldova are more likely than others to be out of the classroom, especially at secondary school age (UNICEF, 2020[27])and Roma children attendance rates are much lower at all educational levels (Vaculovschi, 2016[28])

Cultural dimensions

In addition to the specific demographic characteristics of rural and urban residents, their place of origin can also influence their financial decisions in light of common cultural characteristics (Box 2.2.). In rural areas values tend to be more stable and change at a slower rate than they do in urban areas. Rural residents are therefore more disposed to maintain existing views, and are more hesitant about change compared to their urban counterparts. Research also suggests that this tends to be the case even when people from rural areas move from a rural to an urban area and vice versa (OECD, 2019[29]).

Further insights suggest that urban areas are more likely to be exposed to different cultures given their larger numbers of residents and that the coexistence of different cultures often allows people to exhibit more individuality. On the contrary, rural areas where most residents share the same languages, religions, and social customs are more homogeneous. Given that rural residents have little opportunity to find other groups to serve as referents, they are more likely to conform to the norms of their own group. People from rural communities are also more likely to live in extended families, and grandparents tend to live close to their children and grandchildren. This is in line with the outcomes of studies demonstrating that the social networks of rural residents tend to be denser, smaller, and of longer duration. As a result, people from rural areas are more likely to be influenced by personal relationships. Moreover, they tend to face pressures to conform from social institutions such as schools and churches, along with families. In light of the small size and limited social diversity in rural communities, rural residents face less tolerance if/when they do not follow social norms than urban populations (Kristin M. Kuntz, 2002[30]).

Box 2.2. The role of cultural factors in financial decision-making

Relatively new literature insights show that certain financial literacy determinants can be strongly related to social norms and culture. Recent research focusing on culture provide interesting evidence which can inform financial education policies and stress the need to account for cultural dimensions in future financial literacy research.

The definition of culture often used by academics describes it as a set of customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation (Guiso, Sapienza and Zingales, n.d.[31]). In discussing financial literacy and culture, researchers also rely on some aspects of the framework developed by Gert Hofstede encompassing six dimensions of culture, namely power distance, individualism versus collectivism, masculinity versus femininity, uncertainty avoidance, long-term versus short-term orientation and indulgence versus restraint.

Evidence demonstrates that to be more effective, financial education policies and initiatives would benefit from taking into consideration and adapting to cultural norms prevailing in the society. Policy makers also need to implement long-term approaches as meaningful change of culture affecting financial literacy levels requires time. Cultural factors can impact household saving behaviours or financial literacy levels in different country language groups. Research also suggests that individuals in countries with a more uncertainty-avoiding culture are more financially literate than in countries with strong preference of individualism. More concretely, this translates into preference to take less risk and invest more in financial literacy in cultures avoiding uncertainty; conversely, in countries with dominant individualistic social norms, people tend to exhibit overconfidence, less risk aversion and less interest in financial advice (De Beckker, De Witte and Van Campenhout, 2020[32]).

In broader terms, the impact of culture on economic outcomes have been attracting attention since the late 1950s. Studies have, for example, looked into the differences in performance among Italian regions, linking it to diverging levels of "social capital" developed back in the free city-states during the late Middle Ages which had developed protection from aggression, provided public goods and which in turn led to stronger civic and co-operative behaviour (Muraskin, 1974[33]) (Putnam, 1993[34]). Subsequent studies have demonstrated that culture does affect the effectiveness of institutions and influences economic development (John E. Carlson, 1981[35])

The literature has also addressed cultural differences between rural and urban populations. Studies using Hofstede's framework focus in particular on the dimension of individualism versus collectivism and on individuals' conformity to others or to social norms (Kristin M. Kuntz, 2002[30]). Individualistic and collectivistic cultures resemble respectively urban and rural societies. Individualistic cultures and urban societies tend to value independence and autonomy / self-reliance, and place a priority on their personal goals. Collectivistic and rural societies are different insofar as they value interdependence, co-operation, and social harmony. For example, farm families which are a key component of rural societies, embrace such values as they have to co-operate and work together in order to sustain a successful farm (Brehm, 1996[36]).

The possible influence of culture on financial literacy of rural residents needs to be further investigated. In light of the complexity of the underlying relations, it can be misleading to draw direct conclusions for rural residents based on the insights of general studies of culture and financial literacy without differentiation among socio-demographic groups. In addition, the focus on target financial education audiences and their specific cultural characteristics could also lead to more granularity (or potentially, a revision of) the conclusions of recent research on the relation between cultural norms and financial literacy levels. The focus should also be on cultural norms and practices and a potential gender-division of labour, which may limit women's participation in education, and training of women in rural areas.

Moreover, on some occasions, studies use interchangeably financial literacy and financial knowledge, while they explore only financial knowledge, i.e. only one aspect of financial literacy. This suggests again the need for more precise focus of the related research and further analysis to understand how culture affects different financial literacy aspects in general and in specific demographic groups, such as rural residents. In this way, their conclusions can be conducive to the definition of effective policies and approaches to financial education delivery (UNESCO, 2012[37]).

In spite of the current scarcity of the research on culture and financial literacy levels in general and of rural residents in particular, it would be particularly beneficial to consider cultural characteristics in designing solutions to their financial education needs and challenges. For example, cultural insights could inform behavioural approaches to improving financial literacy of rural residents in SEE. The application of behavioural science takes into account cultural and cognitive behavioural biases and characteristics of individuals in financial decision-making and behaviours, as they can be predictable across large portions of the population (Sona Lalayan, 2019[38]). In understanding and taking into consideration such insights, financial education policies and initiatives could become more effective. Conversely, they can yield better results in helping rural populations to overcome cultural and cognitive biases. Financial product design and delivery for rural populations could also be improved by considering cultural and behavioural insights.

Box 2.3. Approaches harnessing behavioural insights

The joint IOSCO-OECD report on “The Application of Behavioural Insights to Financial Literacy and Investor Education Programmes and Initiatives” (2018) contains a series of approaches to help policy makers and practitioners in their use of behavioural insights:

1. Rely on evidence to better understand and define the problem at hand

Whenever possible, quantitative and qualitative analysis should be carried out to understand current experiences, detect the main biases affecting the financial decisions under study, and identify where behavioural insights’ applications make sense. Defining precisely the behaviour changes to be attained is crucial.

2. Design the intervention considering the context

After understanding the context, policy makers ought to design tailored interventions and remember that simple is better.

3. Start small

Starting with a pilot stage may be a cost effective manner of progressing to a full-blown solution.

4. Evaluate rigorously

Ideally, interventions need to be evaluated experimentally (e.g. randomised control trials), or at least quasi-experimentally against a control group, to identify their impact on behavioural responses accurately. Where an initiative is designed to be of wide-ranging benefit, it is important to test and assess responses of the intended target groups, possibly across geographical areas, in order to provide precise and usable evidence.

5. Interact, learn, and keep track

The field of behavioural science is relatively new, especially in terms of its application to financial literacy and investor education. Organisations should seek to accumulate knowledge and experience through the available literature, partnerships, networks, events, and other institutions that have already used behavioural insights in their efforts.

6. Create thought leadership

Before starting to work with behavioural insights, review published white papers and reports on the prevalent biases, the available frameworks, and the behavioural remedies that are already being applied. This is important in order to inform national stakeholders, develop understanding, and encourage acceptance of new approaches to supporting consumers and investors.

7. Consider combining traditional approaches and those based on behavioural insights

Applications of behavioural sciences (e.g. nudges) may be considered a complement to, rather than a substitute for, traditional delivery models of investor education and financial literacy. Programmes that combine behavioural insights and cognitive-based approaches may be able to reach further.

8. Review programmes/initiatives regularly

Existing educational methods, means, services, and materials should be reassessed through a behavioural insights lens, as they might be actually working against the grain of human behaviour and thus using valuable resources whilst making little or no impact. It is important to examine all components of a policy or initiative critically and re-examine regularly, taking into account even the most embedded components. Evaluation naturally plays a key role in the review process.

MSMEs in rural areas

In 2018, there were 1.1 million MSMEs (employment of less than 250) in SEE project countries, of which 90% were micro-enterprises. MSMEs accounted for 99.7% (99.8%, EU-28) of all enterprises, generating 72.6% (56.4%, EU-28) of value added and 72.7% (66.6%, 2U-28) of employment (European Commission, 2019[39]), thus MSMEs playing, on average, a more significant role in SEE than in the EU.

The vast majority of firms in rural regions worldwide are MSMEs with prevailing numbers of micro SMEs (employment less than 10) given small local labour markets and slow employment growth of the vast majority of rural firms. Small local labour markets reflect small local populations, which results in a small home market with limited local demand for firm outputs. This is also related to a difficulty for rural SMEs to obtain economies of scale and a need to rely on access to external markets if they are to expand. However, rural MSMEs make, in aggregate, an important contribution to regional and national growth.[6] MSMEs in rural regions span across a broad range of industries, with a larger share producing tradable goods (compared to urban MSMEs), which are usually considered as inputs in the production of other goods and services (OECD, 2019/07[40]).

In SEE, as well as at European level, MSMEs play a dominant role in the agro-food sector, which ensures the supply of raw materials for the secondary sector and the food industry. This sector encompasses both agriculture and food processing, including beverages. Agricultural activities include the production of raw agricultural products such as crops and livestock and food processing activities include the chemical, mechanical or physical transformation of raw agricultural products into new products for consumption. Rural enterprises, farms and MSMEs are also the backbone of sustainable regional development given their role for agri-tourism and the delivery of environmental services.

The transition from central planning to a market economy in the region led to the collapse of agricultural value chains, which were once dominated by vertically integrated output-driven “agrokombinats”. A number of small farmers emerged as a result, operating unsophisticated production structures, outside organised value chains and without adequate access to input markets, which prevented them from taking advantage of economies of scale. The food processing sector was also slow to develop in the region, with inadequate links to good retail networks and an insufficient supply of products (Lampietti, 2009[41]).

In order for MSMEs in all sectors of the economy to thrive, they need an economically sound business environment as well as access to finance. Access to finance from banks and alternative sources – such as microfinance, leasing and factoring – allows MSMEs to expand their operations and modernise their equipment, thereby supporting their competitiveness and growth. However, access to finance is typically correlated with firm size, meaning that the smaller the company, the more difficult it is to tap into external financing options. Borrowing conditions, more specifically, tend to be stricter for MSMEs than for larger enterprises, as evidenced by the positive interest rate spread between the interest rate applied to large company loans and the one applied to small business loans in a large number of jurisdictions (OECD, 2017[42]).

Moreover, the global financial crisis led to a sharp reduction in the availability of external funding in SEE and set the stage for a reduction in bank lending, limiting access to finance for households and businesses, including MSMEs. Non-performing loan levels in the region peaked at 11.8% on average in 2010-15 but went gradually down to 5.4% in 2019. Table 2.1. below provides a breakdown of key banking sector indicators in SEE, by domestic credit to the private sector (as percentage of GDP) and ratio of bank non-performing loans to total gross loans to MSMEs in 2015, 2017 and 2019.

The workout of MSME loans presents banks with particular challenges, as they are large by number but small by nominal amounts, making it a labour-intense and a costly process. In addition to increasing recourse to loan restructuring, a number of countries from SEE, including Bulgaria and Romania, opted to revamp their insolvency laws, generally aiming to incorporate modern insolvency creditor/debtor regimes with an emphasis on reorganisation. Thanks to such measures and the improving economic context, since 2015, credit growth has picked up and in some economies (such as Montenegro) banks were showing renewed interest in MSME lending.

Table 2.1. MSMEs: Key banking sector indicators (2015–19)

	Domestic credit to private sector (% of GDP)			Ratio of bank non-performing loans to total gross loans		
	2015	**2017**	**2019**	**2015**	**2017**	**2019**
Bulgaria	54.92%	49.97%	49.80%	14.60%	10.43%	6.62%
Croatia	64.42%	57.08%	54.40%	16.33%	11.20%	6.99%
Georgia	58.05%	51.05%	64.80%	2.71%	2.78%	1.93%
Moldova	29.13%	22.76%	24.83%	10.31%	18.38%	8.49%
Montenegro	48.76%	48.67%	49.02%	14.75%	8.36%	5.12%
North Macedonia	52.03%	49.88%	51.50%	10.31%	6.10%	4.63%
Romania	29.93%	26.47%	24.83%	13.51%	6.41%	4.09%

Source: World Bank Development Indicators, https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS

However, when the COVID-19 crisis struck, many SEE borrowers quickly saw their income flow drastically reduce or stop. In the context of uncertain economic recovery, increasing caseloads, and new emergency measures, borrower distress is growing again. Aggregate non-performing loan ratios have reportedly remained largely unchanged in the presence of extraordinary government relief measures. Nevertheless, to avoid consequences as the ones experienced in the aftermath of the global financial crisis, policy makers need to put in place comprehensive policies, including opportunities to rehabilitate distressed but potentially viable borrowers through loan and operational restructuring, to support ailing companies (World Bank, 2020[43]).

As regards MSMEs in the agro-food sector, the pandemic has affected them in a number of other ways, leading to decreased production volumes and sales, difficulties accessing inputs, challenges accessing financing and drops in output prices. This required adaptation of MSMEs to shortages of supplies, as well as transportation and distribution disruptions. A whole range of actions have been necessary to mitigate the COVID-19 impact (e.g. reviewing/adapting supply chains, more frequent customer communication, increasing/modifying marketing, staffing changes, etc), including downsizing staff. At the same time, the pandemic is creating opportunities for MSME owners and managers to shift business onto a stronger long-term trajectory by exploring new strategies (e.g. producing healthy, safe or “immunity boosting” and “shelf-stable” foods, diversifying into new markets, etc) and digitising operations via, for example, on-line sales, marketing and home delivery (United Nations World Food Programme (WFP), 2020[44]).

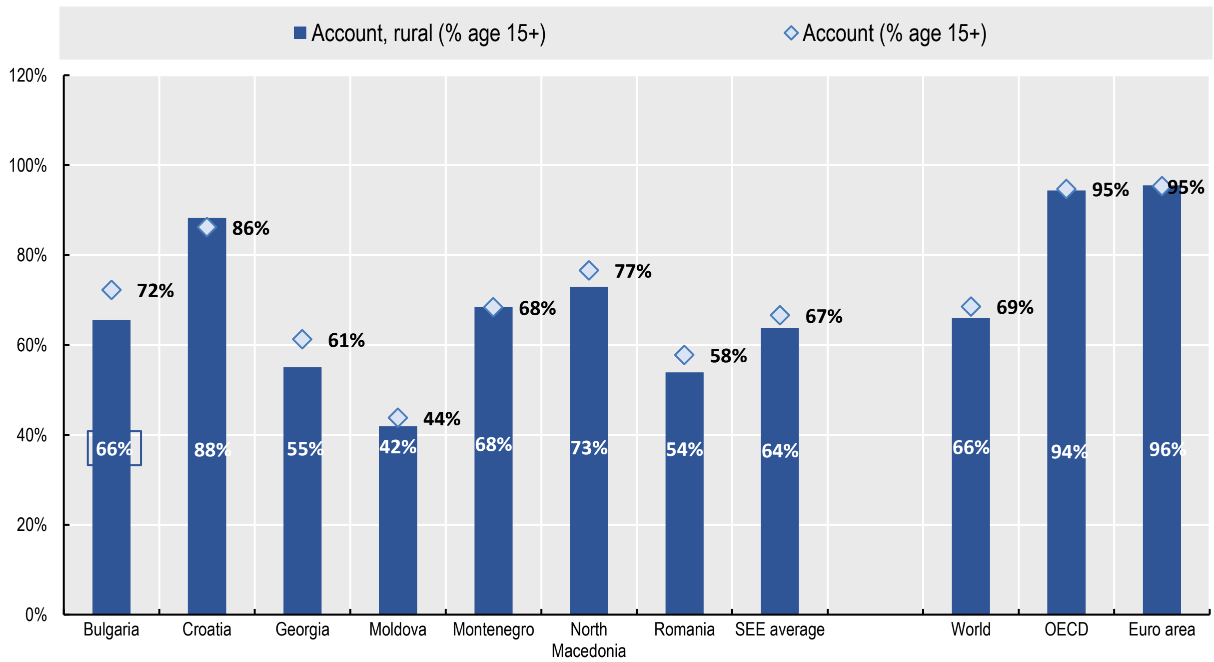
MSMEs in the rural areas of SEE are expected to face more transformative opportunities in the years to come. They are stemming from a growing global population with changing preferences, which is raising demand for higher quality agro-food products, but also from emerging niche markets with specialty and higher value-added products. This is increasing stress on natural resources, while the changing climate is transforming agricultural production. MSME owners and entrepreneurs in the region should therefore be prepared to tap into these opportunities and at the same time address the challenges hampering the agro-food sector’s productivity and sustainability. Along with broader policy actions, strengthening agro-food education and innovation systems to improve the economic, environmental and social performance (OECD, 2019[45]) would be key for the sound development of rural MSMEs in the region. Continuous efforts to improve financial education and literacy levels (including digital financial literacy) should be part and parcel of these policy actions to enable rural MSME owners and managers to fully address current and future challenges and cease new opportunities for the sustainability and success of their businesses.

3 Financial inclusion and literacy of rural populations in SEE

Financial inclusion

Financial inclusion enables individuals, households and businesses to access affordable and useful financial products and services in order to carry out financial transactions, make payments, save and borrow money, and contract insurance to mitigate risks. Countries worldwide increasingly commit to advancing financial inclusion as a matter of priority, along with international institutions and multilateral fora such as the G20, supporting such efforts. The G20 High-Level Principles for Digital Financial Inclusion are an example of the importance placed in closing existing gaps by harnessing the opportunities that could be brought about, for instance, by digital technologies.

Figure 3.1. Individuals owning an account



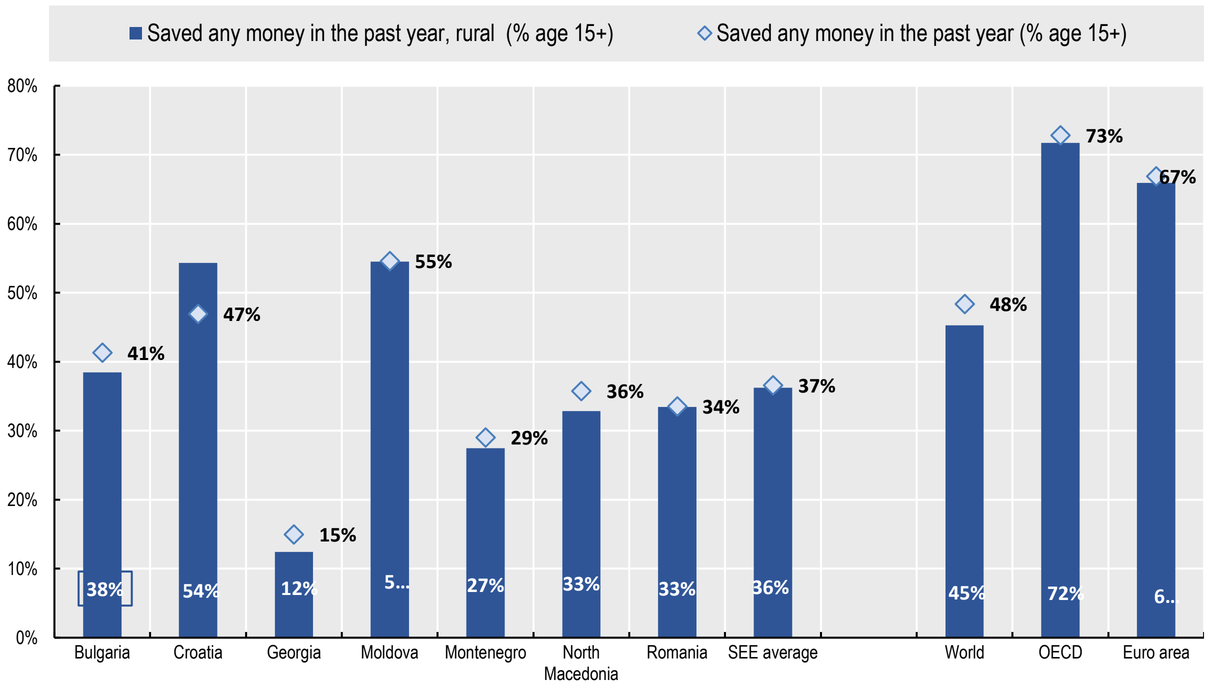
Note: For comparability reasons, this section looks at the over 15 year olds, as data was available for both the total population and rural residents only for this age group.
Source: World Bank, Global Financial Inclusion Database, 2017.

Bank accounts as a first step of financial inclusion are key for people's daily lives. They are a "gateway" to a plethora of useful financial services, enabling individuals, households and businesses to manage their finances, to achieve greater financial resilience to shocks and more generally greater financial well-being. Against this background, boosting financial inclusion can complement broader policy efforts to make societies more inclusive and in particular, to help get vulnerable groups out of poverty, including those living in rural areas.

SEE countries have progressed significantly in achieving greater financial inclusion over the years. In 2017, an average of 64% of rural residents and 67% of the total population (age 15 +) have access to an account at a financial institution –such as a bank, credit union, co-operative, or microfinance institution –or through a mobile money provider (Figure 3.1). The differences between rural residents and the total populations in SEE are on average small, as is the case in OECD and EU countries, as well as globally. However, while most SEE countries exhibit slight differences between the data for rural and the total population (between 2 to 6% less account owners in rural areas), in Montenegro these numbers are identical and in Croatia, the proportion of account holders in rural areas slightly exceeds the total.

These numbers are also up from an average of 48% in 2011 to 64% of account ownership of rural residents in 2017. This puts the region very close to the 66% account ownership rate of rural populations in the world overall in 2017. Some economies within the region experienced especially big gains in account ownership of rural residents, including Moldova, Bulgaria, Montenegro, Romania and Georgia

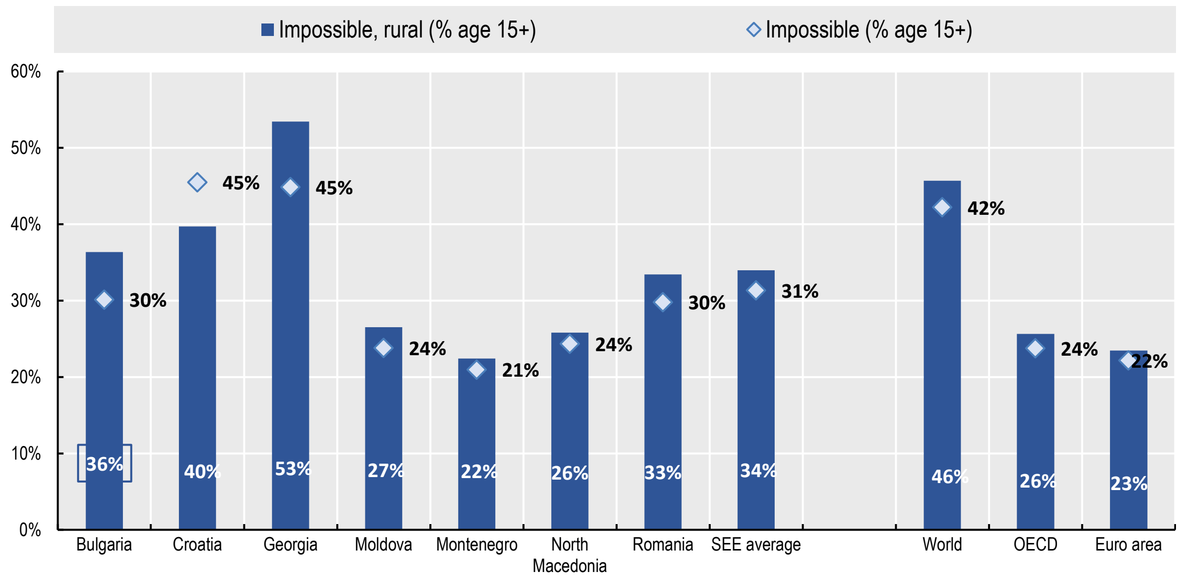
Figure 3.2. Individuals saving any money in the past year



Source: World Bank, Global Financial Inclusion Database, 2017.

The most prominent obstacles to financial inclusion in SEE include insufficient funds for an average of 20% of the individuals in the region (age +15) and lack of trust in financial institutions for a regional average of approximately 9% (age 15+). Country variations are significant ranging from 4% (Croatia) to 37% (Moldova) of individuals who do not open an account for lack of funds and from 1% (Croatia) to 24% (Moldova) of individuals who lack trust in financial institutions. Moreover, rural populations in almost all countries appear to be vulnerable to financial shocks with family and friends being the main source of emergency funds. For example, more than half of Georgians living in rural areas have reported that they are not in a position to come up with emergency funds, compared to 45% of the overall population (Figure 3.3).

Figure 3.3. Ability to come up with emergency funds



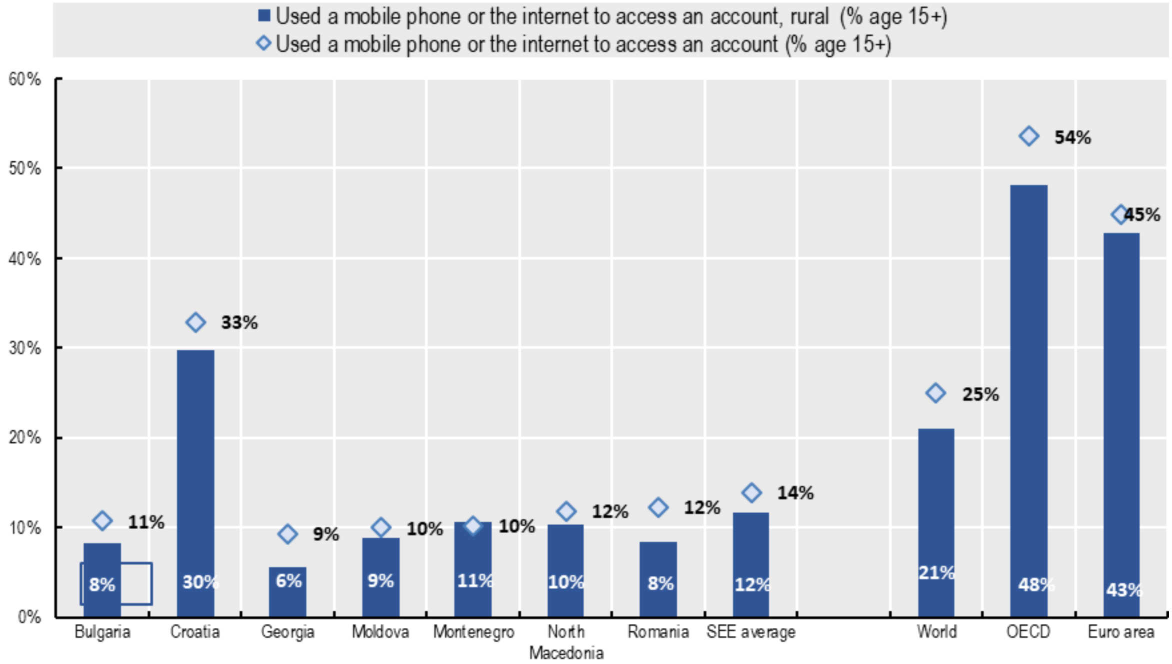
Source: World Bank, Global Financial Inclusion Database, 2017.

Saving patterns of the population in general and rural residents alike are quite low which does not bode well for the ability of SEE citizens to meet unexpected expenses. Only 37% of individuals and 36% of rural residents (age 15+) in the region save money (Figure 3.2), which is well below the world average of respectively 48 and 45%. Moreover, only 17% of the total population and the same proportion of rural residents from SEE save at a financial institution, which is about 30% of the respective levels (56 and 55% respectively) in OECD countries and well the world averages of 24 and 27%[7].

Furthermore, there are pronounced differences in savings among countries. For example, while in Croatia and Moldova about half of rural residents reported to have saved money in the previous year, this is the case for only 12% of Georgians. The percentage of people who have saved at a financial institution is even lower in rural areas – from only 4% and 8% respectively in Georgia and Moldova, to 26% in Bulgaria and 43% in Croatia. Saving for retirement is generally uncommon throughout the region, with only one of ten Montenegrins, one of five Romanians or Bulgarians and one-third of Croatians saving for the old age among those living in rural areas. Moreover, only one in ten rural residents in Croatia, Moldova and Montenegro reported to have saved to start, operate or expand a farm or a business in the previous year. These figures are even lower in other countries of the region.

As regards borrowing, rural populations in SEE appear to exhibit similar patterns as the overall population. The percentages of the population borrowing money in the previous year are different among countries ranging from over one-third in Bulgaria and North Macedonia, to more than half in Croatia and Moldova. Moreover, informal borrowing from friends and family rather than from financial institutions is quite widespread: for example, only about 12% of Bulgarians and 10% of Moldovans reported to have borrowed from a financial institution in the previous year. Between 9% and 16% of the population in these countries borrowed funds to start operating or expanding a farm or a small business.

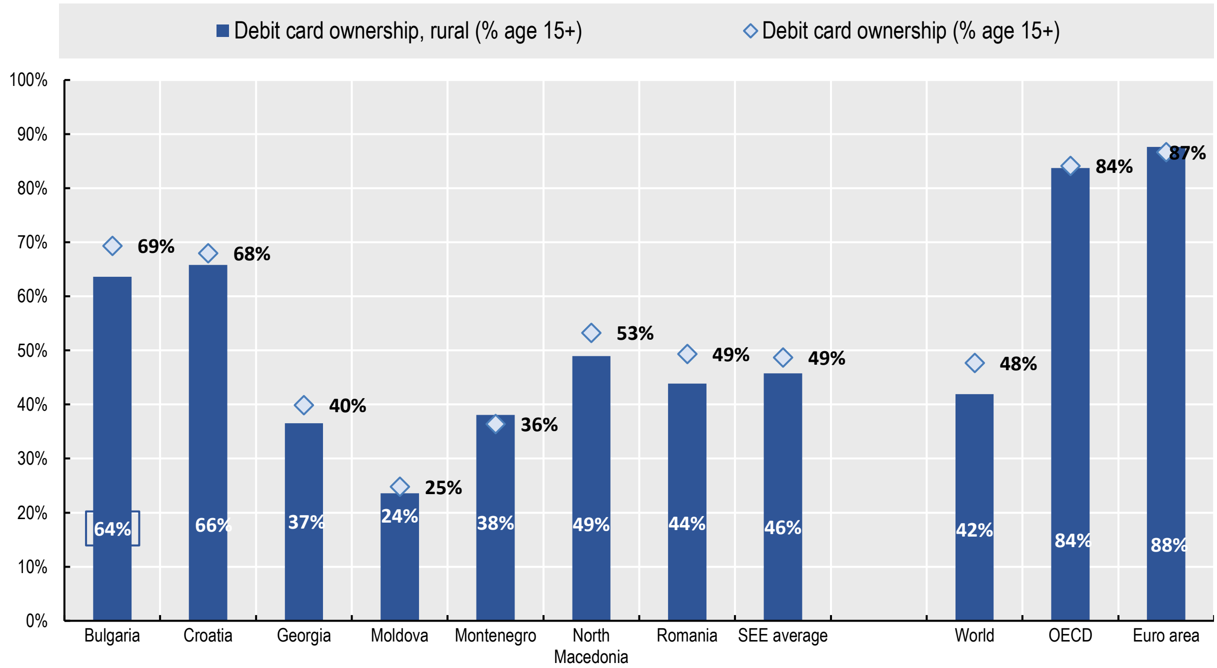
Figure 3.4. Using mobile phone or the Internet to access an account



Source: World Bank, Global Financial Inclusion Database, 2017.

Over recent decades, the financial environment has evolved, giving greater opportunities to individuals to access finance as well as manage and plan their financial future. This is the case to a great extent thanks to digital technologies which offer unprecedented opportunities to boost financial inclusion. This is especially the case in the aftermath of the COVID-19 outbreak, which shed new light on the need to increase financial inclusion and literacy and on the importance of harnessing digital technologies in this process. In the region (Figure 3.4), the use of the Internet and mobile phones to access an account for example, is low in general and for rural citizens in particular (almost 60% lower compared to the world levels). In Croatia, however, about one-third bit of rural populations report to have used digital channels to access their accounts. In terms of using the Internet to pay bills, the percentages are higher at a regional average of 15% of rural populations (age 15+) and 19% of the total population, which is closer to the world levels of 18 and 22% respectively. Moreover, the regional average of debit card ownership is slightly above world levels, with significant country disparities suggesting that Moldova, Montenegro and Georgia have a vast scope for improvement (Figure 3.5).

Figure 3.5. Debit card ownership



Source: World Bank, Global Financial Inclusion Database, 2017.

Fostering digital payments could help accelerate financial inclusion and therefore, businesses and governments need to offer greater support to people in order to get an account by abandoning cash payments, especially wages. Through the digitalisation of public and private sector wages, many unbanked adults could get an account. Payments for the sale of agricultural products offer another opportunity. Moving those payments into accounts could help millions of adults join the formal financial system. Furthermore, digitising such payments could yield many potential benefits for both senders and receivers by improving the efficiency of the process through greater speed and lower costs. Digitised payments could also enhance the security of payments and thus lower the incidence of associated crime and possibilities for corruption.

In order for such approaches to be successful, they need to be accompanied by awareness raising and education, and to be backed by existing infrastructure in rural areas, such as credit card terminals, opportunities for mobile and Internet banking, etc. This would help financial consumers in rural areas use these opportunities to their full potential (instead of, for example, keeping credit cards idle or using them only for withdrawing of cash).

Financial literacy of adults

The 2020 OECD/INFE Survey of financial literacy of adult populations in South East Europe provides useful evidence, by looking at a sample of almost 7 500 respondents between the ages of 18 to 79 who were interviewed in person. Booster samples aimed to increase the number of respondents falling in categories, such as owners and/or directors of MSMEs (about 9% of the total sample), migrants and their families (about 21%) and rural residents (about 40%). The percentages quoted here represent all the individuals in the total survey who identified as part of each of these categories. There are overlaps between booster samples, i.e. individuals who are part of one, two, or all three categories and the statistics, as well as the underlying behaviours, may often also be similar across groups.

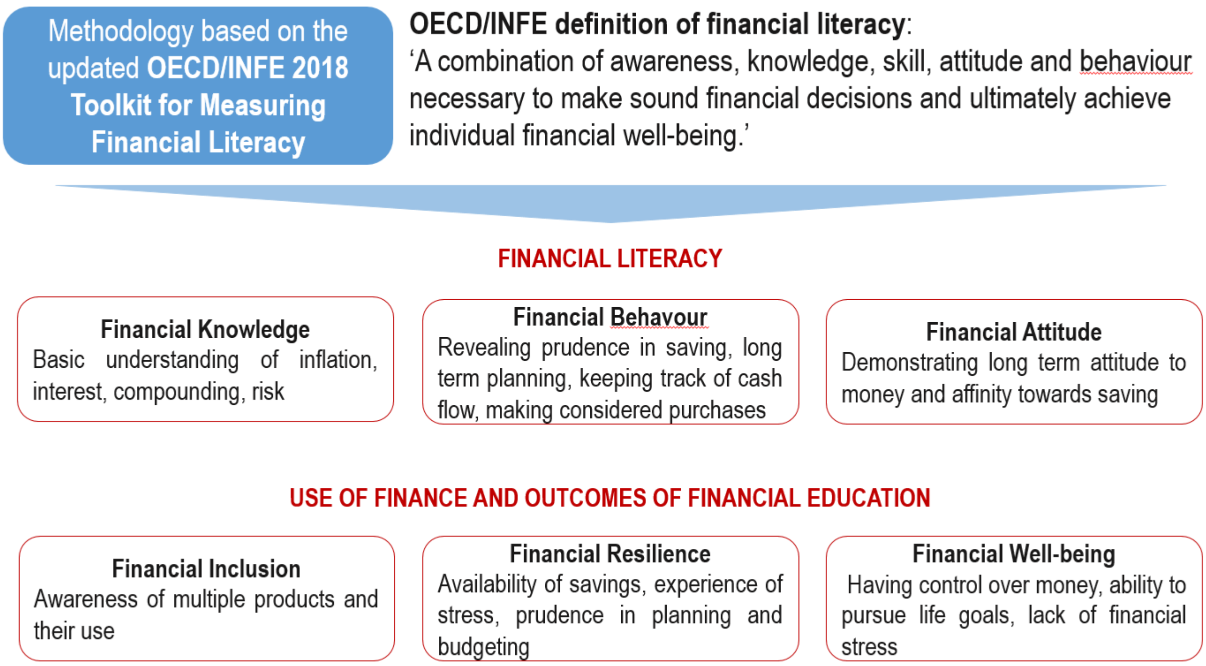
Table 3.1. Main sample and booster samples

The table reports the absolute numbers of respondents per booster sample group and the percent of the total sample they form.

	MSMEs owners / directors		Migrants		Rural residents	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Target Groups	660	8.9	1558	21.0	2954	39.8
Other	6762	91.1	5864	79.0	4468	60.2
Total	***7422***	***100.0***	***7422***	***100.0***	***7422***	***100.0***

Note: **MSME** owners and directors have been identified by replying to questions on their corporate role, as well as the size of their enterprise. As MSMEs have been identified enterprises with 250 or fewer employees, following the EU and OECD definitions.
The OECD has been developing financial literacy tools for migrants and their families, thus for the purposes of this survey **'migrants'** is more accurately described as migrants and their families – a group that combines those respondents who have reported to have worked abroad in the past year or have received remittances from abroad in the past year.
The measure for **rural residents** differentiates rural/urban according to the survey data for place of residence and its size, and corrected based on the official classification of rural locations.
Source: 2020 OECD/INFE Survey of financial literacy of adult populations in South East Europe

Figure 3.6. Definitions and Methodology of the 2020 OECD/INFE Financial Literacy Survey of Adults in SEE



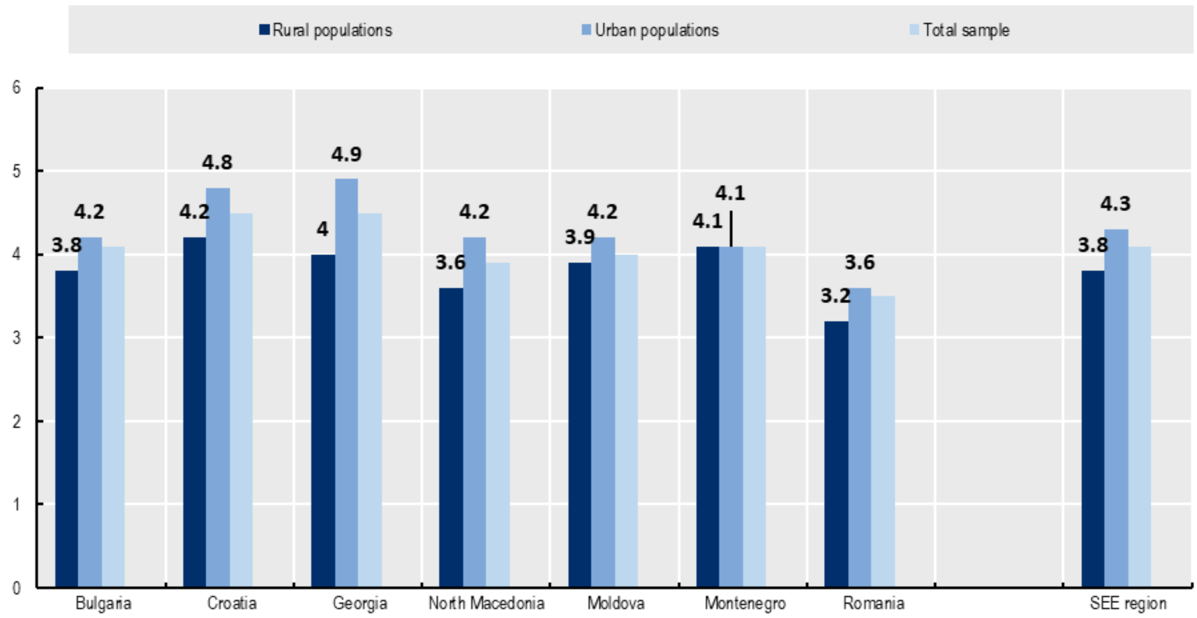
This section discusses the differences in financial literacy and its elements – knowledge, behaviour, and attitude – between the rural populations and the urban residents identified in the sample and interviewed for the purposes of the survey (Figure 3.6). The evidence is collected in order to gauge, inter alia, specific needs, which policy makers, practitioners, experts and stakeholders at large could address through tailored measures and assistance.

Data analysis: Rural versus urban residents

Overall, the data gathered thanks to the Survey shows that adults living in urban areas exhibit higher scores in knowledge, attitude, and behaviour, than those in rural areas. Therefore, rural residents will require a special effort to increase their financial knowledge through initiatives and delivery channels crafted to respond to the identified gaps.

Figure 3.7. Financial knowledge scores split by area of residence

Absolute scores and percentage of maximum possible score (7)



Source: OECD, (2020).

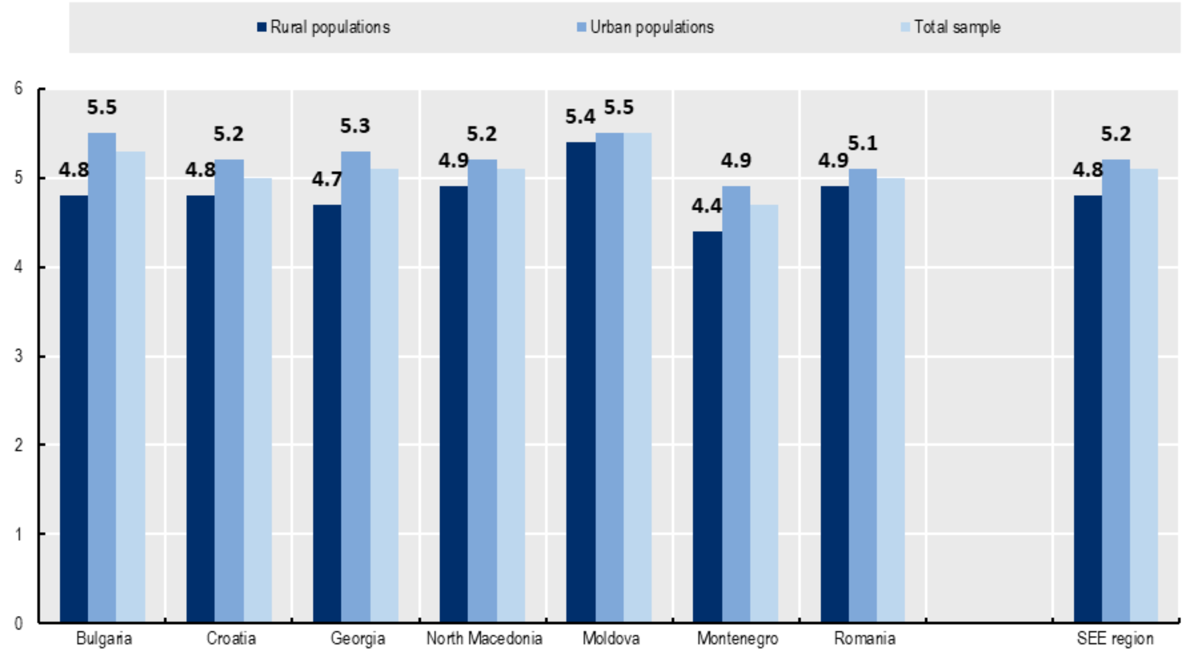
A basic knowledge of financial concepts and the ability to apply numeracy skills in a financial context ensure that consumers can act autonomously to manage their financial matters and react to news and events that may have implications for their financial well-being. Evidence consistently indicates that higher levels of financial knowledge are associated with positive outcomes (e.g. planning for retirement; reduction in negative outcomes such as debt accumulation).

In terms of financial knowledge, rural residents underperform compared to individuals living in cities across the entire SEE region. This is also the case for each SEE country, but Montenegro, where the scores are identical.

Financially unsavvy behaviours, such as putting off bill payments, choosing financial products without shopping around or using credit to make up a shortfall in income are likely to have a negative impact on financial resilience and financial well-being in the long term. The Survey results show that rural populations underperform across behaviour scores compared to urban residents in the region.

Figure 3.8. Financial behaviour scores split by area of residence

Absolute scores and percentage of maximum possible score (9)

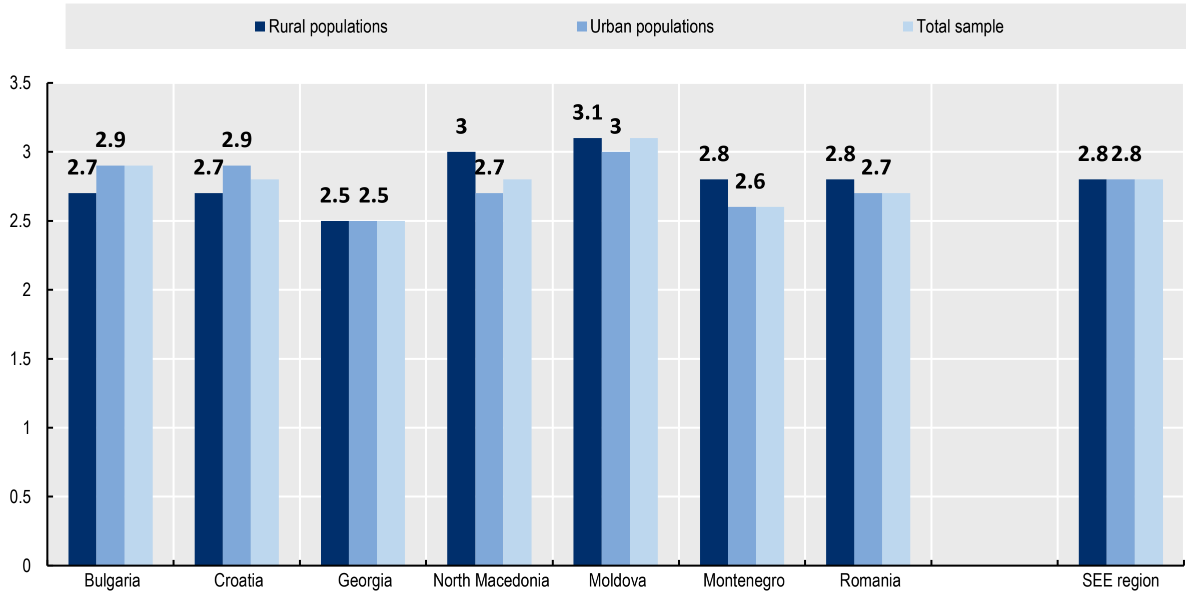


Source: OECD, (2020).

Attitude scores are computed as the sum of the values for three statements: (i) I tend to live for today and let tomorrow take care of itself; (ii) I find it more satisfying to spend money than to save it for the long term; (iii) money is there to be spent. SEE respondents exhibit different country patterns as regards attitude, where rural populations (2.7) have significantly lower attitude scores than urban populations (2.9) in Bulgaria and Croatia, but higher across North Macedonia, Moldova, Montenegro, and Romania. Georgia exhibits the lowest attitude scores (2.5), however, there is no difference between the performance of urban and rural populations.

Figure 3.9. Financial attitude scores split by area of residence

Absolute scores and percentage of maximum possible score (5)



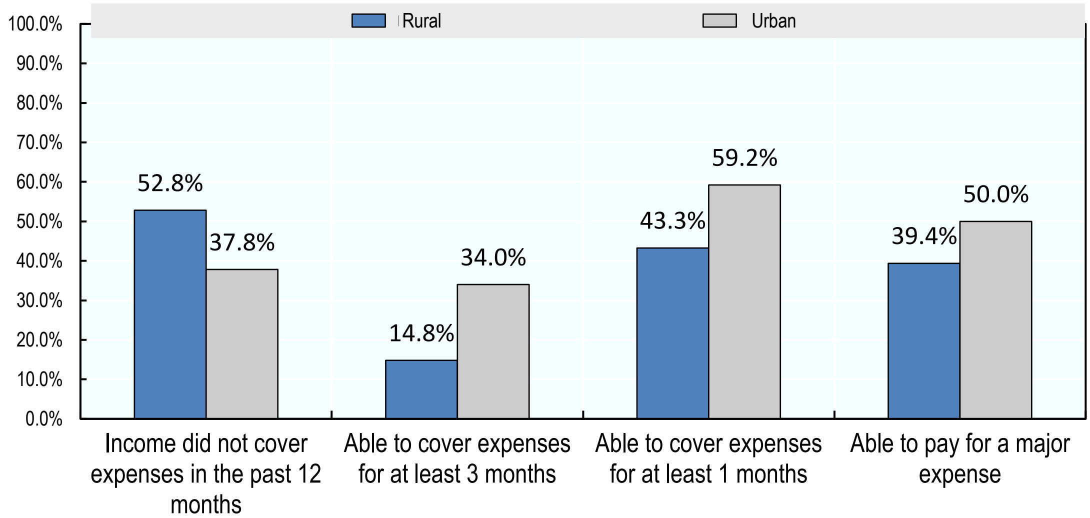
Source: OECD, (2020).

Resilience

Financial literacy is now recognised as a core component of financial resilience, defined by the availability of financial cushion, coping with a financial shortfall and stress, and behavioural traits promoting long-term planning and saving, keeping control over money, taking care with expenditure and avoiding financial fraud. Thus, while economic and financial factors play an important role for financial resilience, it is also related to sound money management and planning. Individuals need skills and resources to put in place short- and long-term strategies to cope with financial shocks and unexpected losses of income and be able to cover unplanned expenditures.

Rural populations across the region have limited financial resilience. About 53% of rural residents participating in the 2020 Regional financial literacy survey responded that that their income did not cover expenses in the past 12 months versus about 38% of urban residents (Figure 3.10). Only about 15% or people living in rural areas responded that they would be able to cover expenses for at least 3 months in case of a financial shortfall. This percentage more than doubles for urban residents (34%). The difference between rural (43%) and urban (59%) residents remains significant regarding their ability to cover expenses for at least 1 months if they lose their main income. As regards their ability to pay for a major expense, 39% of rural versus 50% of urban residents respond that they can do so. These figures reveal the unpreparedness of rural populations to consider or withstand financial shocks and the lack of resources for a financial cushion.

Figure 3.10. Percentage of rural and urban residents who answered YES to the following questions



Source: OECD, (2020).

Box 3.1. Financial resilience in SEE

The 2020 SEE Survey pays special attention to attributes of individual financial resilience by reporting attitudes to active saving and behaviours that aim to avoid indebtedness and focus on the long term. The SEE survey results show overall that impulsive purchases which can significantly weaken financial resilience, and run counter to the notion of money management and budgeting are not a challenge for the majority of respondents. Across SEE countries, an average of 71% of survey respondents carefully consider their purchases. The largest share of SEE adults who reported that they are making considered purchases are in Moldova (85%), while some 67% of Romanian adult respondents do the same

People in the region save in different ways. Across the surveyed SEE countries, over two-thirds (67%) were identified as active savers, while 40% reported striving to achieve long-term goals. However almost one-quarter (24.3%) of the adult respondents were not active savers and did not set long-term goals. Importantly, the use of savings accounts in a bank is quite low amounting to 22% of respondents. The reliance on family and informal networks for savings in the region is, on average 12%, with the exception of Georgia where it is as high as 25%. This may point to a slightly higher reliance on the family and informal network for savings in Georgia and less so on the formal banking system, where only 11% of Georgian respondents suggested they held money.

Source: OECD (2020) Financial Literacy Survey of Adults in South East Europe

Well-being considerations

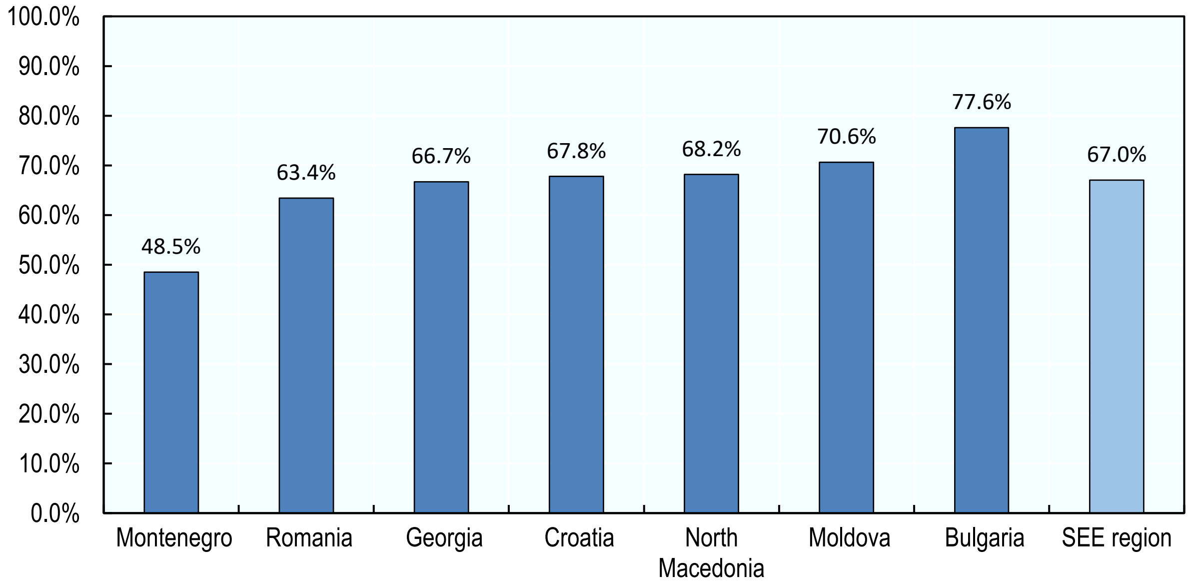
The SEE Survey further enquired into key elements of financial well-being, which results primarily from positive behaviours, or in other words, to have a tangible impact on well-being, financial education needs to focus on changing behaviours. The questions posed to Survey respondents from

SEE sought to determine the extent to which citizens' financial situation and their financial literacy provide them with security and freedom of choice in their lives.

Financial well-being in the region is undermined by high levels of financial stress and worry when discussing the current financial situation and the ability of Survey respondents to meet living expenses. The satisfaction of respondents with their current financial situation is at 41% on average, while only a third of adults agree they are satisfied. Excessive debt (64% reject this statement) does not appear to be the underlying reason, but more likely low incomes relative to the cost of living. Almost 60% expressed their worry to meet current expenses and agreed that money tends to control their lives.

Figure 3.11. Active savers

Base: all respondents. percentage of respondents reporting that they had saved in the previous 12 months



Source: OECD, (2020) Financial Literacy Survey of Adults in South East Europe.

Digitalisation and financial literacy

The SEE Survey identifies technologically savvy respondents, which are approximated with those who report having used a computer in the past week. The observed patterns suggest that digital literacy in the region is consistent with higher financial knowledge and more resilient financial behaviour patterns. Attitude scores appear lower, i.e. digitally savvy respondents exhibit short-term attitudes, with the exception of Moldova. These scores are significant in Bulgaria, Montenegro and Romania.

Widespread access to the internet and (often smart) mobile devices means easier, faster, and cheaper access to financial services. This is important for a region with a high fraction of the population living and working in rural and often hard to reach regions, where access to brick-and-mortar outlets for financial services may be costlier and more difficult. While acting as positive drivers of improved financial inclusion, digital financial innovations may also pose substantial risks to consumers (OECD, 2017[46]). In response to potential risks, policy makers in SEE need to consider adapting their existing financial consumer protection and financial education frameworks for digital finance, alongside any prudential regulation that is in place. Special attention needs to be paid to young consumers (including in rural areas), who belong to cohorts that are well versed in the use of mobile technology and significant portions of whom already use technology to access and use financial services.

Students’ financial literacy

Many 15-year-old students in urban and rural areas are consumers of financial services, make financial decisions and are likely to face growing complexity and risks in the financial marketplace as they move into adulthood. The OECD 2018 PISA report on financial literacy of 15-year-old students (Mo, 2020[47]) shows that larger communities may offer a greater exposure to a variety of financial products than smaller communities, simply based on their size. For example, students in cities might be more likely than students in towns or villages to live near a bank branch and thus have a bank account (although the digitalisation of financial services may reduce such rural-urban divides).

Only Bulgaria and Georgia from the SEE economies discussed in this report took part in the 2018 PISA financial literacy assessment, which enables to compare their performance internationally. On average, across the OECD countries/economies that took part in the assessment, some 11% of students attended schools in a village, hamlet or rural area (a place with fewer than 3 000 inhabitants). Over half (52%) of students attended schools in a town (of between 3 000 and 100 000 people) and 37% attended schools in cities or urban areas (of 100 000 inhabitants or more). Three percent and less attended schools in rural areas in Bulgaria, Spain, Portugal, Italy, the Netherlands and Serbia. By contrast, almost 30% of students in Georgia, Peru and Poland attended schools in rural areas.

PISA also allows to study differences between students belonging to difference socio-economic backgrounds, gender differences, or access to financial services. In Georgia and Bulgaria, as in every country/economy that participated in PISA 2018, advantaged students (belonging to higher income families) performed significantly better than disadvantaged students, with a gap of 79 points, or roughly one proficiency level in Georgia and 108 points in Bulgaria, second highest registered gap between advantaged and disadvantaged students. Almost 15% of the variation in student performance in financial literacy in Bulgaria is explained by socio-economic status, with urban students performing better than rural students in financial literacy-specific skills.

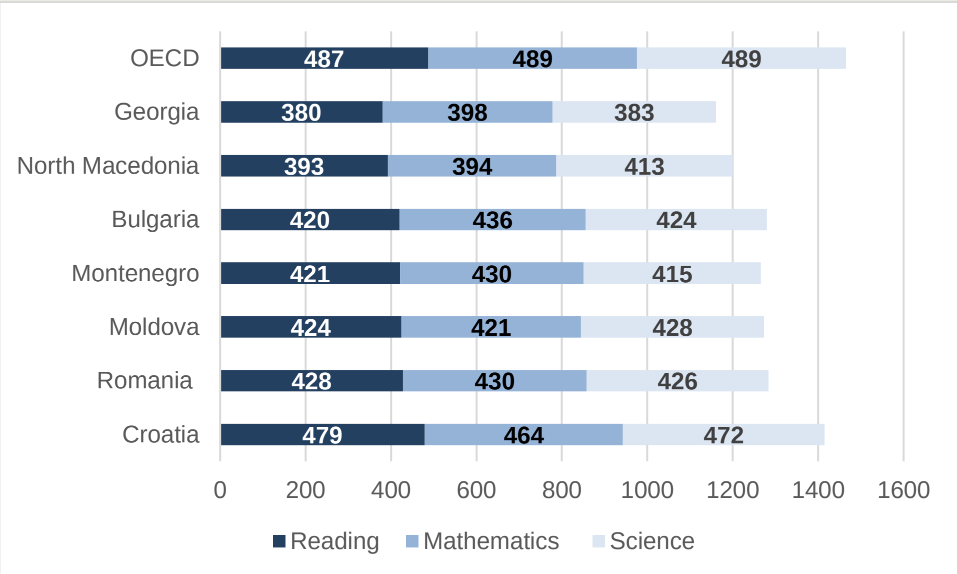
More concretely, students in rural areas scored 474 points in the PISA 2018 financial literacy assessment, on average across OECD countries, while students in towns and urban areas scored 501 and 519 points, respectively. The urban-rural score gap was 45 points, on average across OECD countries/economies, while it was of 62 and 113 score points respectively in Georgia and Bulgaria. However, students in urban areas were generally of higher socio-economic status than students in rural areas. Once this was accounted for, the performance gap shrank to 26 score points, on average across OECD countries/economies and respectively to 44 and 68 score points respectively in Georgia and Bulgaria. The urban-rural score gap overall is the second largest in Bulgaria among all surveyed economies (following Indonesia).

Box 3.2. PISA results: SEE countries

The OECD Programme for International Student Assessment (PISA) (OECD, 2018[14]) is a triennial survey of 15-year-old students that assesses the extent to which they have acquired the key knowledge and skills essential for full participation in society. The assessment focuses on proficiency in reading, mathematics and science. On average, across OECD countries, mean performance in reading, mathematics and science remained stable between 2015 and 2018. Similarly, in SEE the mean performance of Croatia, Moldova and Montenegro remained almost unchanged in 2018. There was a drop in performance for Bulgaria, Georgia and Romania, while North Macedonia had a higher score in 2018 compared to 2015. However, the regional averages remain significantly lower than those of the OECD (Figure 3.12).

Figure 3.12. PISA 2018 results: Snapshot of students' performance in reading, mathematics and science

PISA 2018 results: snapshot of students' performance in reading, mathematics and science



Socio-economic status was a strong predictor of performance in mathematics and science in all PISA participating countries in 2018. In SEE, socio-economically advantaged students outperformed disadvantaged students in reading as well. In Bulgaria (106 score points), Moldova (102 score points) and Romania (109 score points), the difference was larger than the average difference between the two groups across OECD countries (89 score points).

Source: OECD (2018), PISA

Students in urban areas also performed better in mathematics and reading than students in rural areas. After accounting for performance in these two subjects, urban and rural students exhibited similar levels of competency in areas that were specific to financial literacy (and not shared with mathematics or reading). However, in Georgia (along with Brazil, Indonesia, Latvia and Peru), urban students performed better than rural students in financial literacy-specific skills.

Based on the insights of SEE country participation the 2018 PISA report on financial literacy and the regional performance in the general 2018 PISA assessment (Box 3.2), it may be expected that students in rural areas lag behind students in urban areas at least in some financial literacy aspects. Therefore, participation of SEE economies in future PISA financial literacy surveys could provide useful insights to policy makers and inform their financial education initiatives, which would need to be effective and targeted in order to help rural students to fill any potential gaps.

Financial literacy of owners of MSMEs

MSME globally make a significant contribution to sustainable economic growth and development. Agricultural MSMEs, in particular, play a key role in securing access to food, alleviating poverty and growing the economy. Micro, small and medium-sized companies are found at each link of value chains as input suppliers, farmers, traders, processors, wholesalers and retailers. Small farms, agro-food and retail businesses also create opportunities for people to use banking services and products and hence to foster financial inclusion.

OECD/INFE work has focused on financial education as a means to support the establishment, growth and survival of MSMEs. Given their role in employment, food security and the economy, improving the financial literacy of owners and managers of MSMEs in rural areas has the potential to help them thrive and thus make greater contributions to the achievement of poverty reduction, gender, employment, environment and environmental objectives of rural development.

Supporting the financial literacy of MSMEs in rural areas through formalised programmes could help them in many ways. Financial literacy and skills could complement the development of other skills, such as business planning and financial management skills, making entrepreneurs more attractive clients for financial service providers. Better financial literacy levels can also empower MSMEs and potential entrepreneurs with knowledge about possible sources of finance including public funding schemes, and skills that will allow them to weigh their options, successfully seek financing and optimise their financial structure. Furthermore, enhancing the competitiveness of rural MSMEs is linked to their ability to attract and manage capital for innovations to successfully upgrade their enterprises. Financial education could also help in increasing awareness of the need to use credit in a responsible fashion in order to avoid financial distress and to learn how to mitigate the risks of the potential pitfalls of new delivery methods such as FinTech, but also those associated with potential theft and fraud (OECD, 2018[48]).

However, basic financial literacy and numeracy skills are often limited in rural areas. Low levels of financial literacy can hinder the sustainability and growth of a business in particular for MSMEs in the growth phase. However, in some countries such as Romania, financial literacy is not considered to be the most pressing issue for enterprises in the growth and mature phases. This could be related to potentially improving financial literacy levels as businesses grow. Another concern specific to the agricultural sector and MSMEs in rural areas in SEE, could be the lack of sector specific and general entrepreneurial skills (Atkinson, 2017[49]).

In SEE financial literacy levels and needs of MSMEs are rarely recognised in policy frameworks and there are currently a limited number of tailored initiatives underway. Georgia is a notable exception (Box 3.3.) with a number of educational materials, and programmes, including for agricultural MSMEs.

Box 3.3. Financial education of MSMEs in Georgia led by the National Bank of Georgia

1. Financial Education Programme for Agricultural MSME’s (2020), which includes:

- Educational brochure for farmers “Making better financial decisions”
- Training-module, presentation and trainer’s manual
- Educational Video
- Digital Hackathon to promote the Programme
- Pilot TOT and training for agricultural businesses.

Partners: European Fund for South East Europe, Development Facility (*EFSE DF*), The Civil Development Agency (CiDA), Georgia’s innovation and technology agency (GITA), GeoLab

2. Financial Education Programme for MSME’s (2018), which encompasses:

- “Guidebook for micro and small enterprises: interacting with financial organisations and financial decision-making”, with accompanying financial statement’s templates and loan calculator;
- Training-module, presentation and trainer’s manual
- Training of trainers and trainings for entrepreneurs (including online trainings)

Partners: EFSE DF, the Georgian Export Development Association (EDA)

3. Educational Brochure for MSME’s (2016) about foreign exchange risks titled“Improve your financial decisions”

Partner: EFSE DF

4 Selected initiatives for rural populations in SEE

This section provides some examples of financial education approaches and initiatives for rural populations carried out in the region. They are based on project country inputs provided in response to an OECD questionnaire and are not meant to be an exhaustive overview of activities. The initiatives in this section need to be placed in the context of National Strategies where they exist. Although some of these initiatives may have existed before their launch, the strategies play a role in contributing to their alignment with the overall national frameworks of financial education.

National Strategies for Financial Education

Bulgaria has adopted its first National Strategy on Financial Literacy (NSFL) in February 2021 together with an Action Plan for the period 2021-25. The Ministry of Finance is the leading institution responsible for co-ordinating the design and adoption of the strategy and currently its implementation. This strategy does not list the population in rural areas as a specific target group. However, some people in rural areas may be considered included in the target groups of "economically active population" or "vulnerable groups facing a higher risk of poverty, social and financial exclusion". On the other hand, the need to focus the efforts of the strategy to people from urban as well as rural areas is also recognised in the strategy.

Bulgaria has established an inter-institutional working group in order to prepare the NSFL and to be responsible for its implementation. Representatives from the Ministry of Agriculture, Food and Forestry as well as from the Ministry of Economy are part of the public sector stakeholders of the working group and take part in the discussions regarding national financial education activities.

In **Croatia**, the government identified the Ministry of Finance as leading institution for the preparation and implementation of a Strategic framework for financial literacy, in co-operation with competent ministries and agencies, supervisory bodies, interested representatives of scientific and educational institutions, consumer organisations and the financial industry. A second Strategic framework was adopted in 2021 with Action Plans which define specific financial education activities of all stakeholders, with deadlines for and status of implementation, performance indicators and sources of financing. The Strategic framework of Croatia does not include rural populations as a specific target group, but as part of other socio-demographic groups targeted by financial education initiatives.

The National Strategy on Financial Education of **Georgia** provides the context and the framework for the implementation of financial education activities in the country. Co-ordination and implementation is ensured by the National Bank of Georgia together with a Steering Committee. The National Strategy is implemented through Action Plans, which identify specific activities for implementation, with dedicated timelines and corresponding funding sources, responsible implementing organisation and a detailed description of initiatives for each target audience. The

Action Plans are prepared each year, while the National Strategy is a broad document without a sunset date and can be up-dated when the need arises. Importantly, the National Strategy identifies rural populations as a specific target group and foresees initiatives to improve their financial literacy without focusing on specific segments[8].

The National Strategy for Financial Education and Financial Inclusion of **North Macedonia** was adopted in 2021 by the financial regulators. The Strategy has been developed by the Co-ordinating Body for Financial Education and Financial Inclusion of the financial regulators, led by the National Bank. Other relevant stakeholders from the private and civil sectors have been also involved in the preparation of the Strategy. The Strategy foresees the development of financial education programmes for different target groups, which will be defined in the process of its implementation. The section on financial inclusion of the Strategy includes activities supporting access to finance for rural populations, as a specific target group.

Montenegro has established a national committee on financial education in February 2020, which aims at co-ordinating financial education activities in the country and spearheading the development of a National Strategy. It is led by the Central Bank of Montenegro and includes representatives from relevant ministries, such as the Ministry of National Education and supervisory authorities. The specific / vulnerable/ target groups (MSMEs, rural population etc.) in **Montenegro** will be defined in the coming period, in agreement with all participants in the preparation of the forthcoming Strategy.

In 2021, the National Bank of **Moldova** created a Directorate of Financial Education with a mandate to promote and develop a concept of financial education and co-ordinate the design and implementation of a National Strategy. Moldova has also reached out to key public sector stakeholders to establish a drafting group.

Starting in 2018, the National Bank of **Romania**, the Financial Supervision Authority, the Ministry for Education, the Finance Ministry and the Romanian Association of Banks have taken active steps to design a national strategy. At the time of writing, Romania has not yet adopted a National Strategy.

Table 4.1. Co-ordination mechanisms for financial education programmes in SEE

Country	NSFE	Leading institution	Rural populations as a target group
Bulgaria	Yes	Ministry of Finance	No
Croatia	Yes	Ministry of Finance	No
Georgia	Yes	National Bank	Yes
Moldova	No	National Bank	–
Montenegro	Planned	Central Bank	–
North Macedonia	Yes	National Bank	No
Romania	In development	Unclear	–

Financial education activities and initiatives

In **Bulgaria**, the Ministry of Agriculture, Food and Forestry – with its Rural development directorate – was the managing authority of the Bulgarian Rural Development Programme 2014-20, financed by the European Agriculture Fond for Rural Development (EAFRD). This programme and the overall work under the ministry addresses various needs of rural populations. However, financial education is not considered under this programme. The Ministry of Finance has established contacts with the Ministry of agriculture, but at the moment of writing, there are no co-ordinated financial education initiatives for rural populations focusing solely on their needs.

The Ministry of Labor and Social Policy finances training for unemployed persons in the field of finance and accounting, as well as training courses on key competencies in finance and entrepreneurship. The measures are not specifically targeted at rural areas, but have a national scope and people from areas with high unemployment rate and at risk of poverty and social exclusion are included with a priority. The measures – although not directly aimed at increasing the financial literacy of individuals, but at facilitating access to the labour market – have been instrumental in increasing the knowledge and skills of individuals in the field of finance.

In **Croatia**, the Ministry of agriculture addresses various needs of rural populations, but not financial education. As in Bulgaria, at the moment of writing, there are no financial education initiatives for rural populations focusing solely on their needs. However, the implementation of Croatia's rural development programme included the development of a "crop, animal and plant insurance". Moreover, many financial education initiatives carried out in the country encompass rural populations as well, in addition to urban citizens. For example, such activities include the following ones:

<table>
<tr><th>The Croatian National Bank (CNB)</th><th>The Croatian Financial Services Supervisory Agency (HANFA)</th></tr>
<tr><td>• Financial education leaflets
• Lectures for students: 679 participants in 2021 online
• Lectures for teachers encompassing 469 teachers in 2021
• High school student debate 2021
• University school debate (in co-operation with Croatian Financial Services Supervisory Agency)
• Video presentations
• "Bi-weekly public TV broadcasts on financial literacy topics within the show "Good morning, Croatia"</td><td>• Financial education leaflets
• Lectures for pupils and students:1100 participants in 2021 online, of which 20% from rural area
• Lectures for teachers encompassing 1 500 participants in 2021 (by HANFA alone or with partners)
• "Secure your future" high school award, with a winning school from a rural area
• Annual award to students for the best scientific and professional work
• Online public lectures attended by more than 320 individuals</td></tr>
<tr><td colspan="2">Cooperation of the CNB and HANFA with the Croatian catholic radio: radio show "Financijska abeceda</td></tr>
</table>

In **Georgia**, the Ministry of Environmental Protection and Agriculture and in particular the Rural Development Agency, the Ministry of Infrastructure and Regional Development, the Ministry of Economy and Sustainable Development and Enterprise Georgia are key governmental organisations with responsibilities for rural populations.

The **National Bank of Georgia** (NBG), having a mandate for financial education, is focusing on rural populations, identified as a target group in the National Strategy for Financial Education. In 2020 the NBG in collaboration with the European Fund for South East Europe and its Development Facility (EFSE, DF) and the Civil Development Agency (CiDA) developed a financial literacy programme for agricultural micro- and small entrepreneurs. The programme includes an educational brochure "Making better financial decisions", a standard training module with presentation and a trainer's manual. The NBG's brochure aims to provide current and future micro- and small agricultural business owners with essential knowledge and skills for making sound financial decisions based on their own business needs and capacities. This brochure also includes information about agricultural loans, leasing and agricultural insurance. Moreover, NBG's educational brochure helps farmers and owners of agricultural enterprises to independently evaluate short- and long-term business needs and creditworthiness, and choose the most appropriate financial products and services. In 2020 CiDA held a pilot training of trainers and a pilot training for agricultural business representatives.

To scale up the project, NBG, CiDA and EFSE DF in collaboration with Geolab and Georgia's innovation and technology agency (GITA), developed an educational video based on the brochure and held a digital hackathon to promote the programme (Box 3.3 for a summary and more information). In addition, the NBG financial education website www.finedu.gov.ge provides information about digital financial products (Internet and Mobile Bank, Open Banking), including to rural populations. This website also provides information to help financial consumers, including in rural areas, avoid financial scams and fraud.

Enterprise Georgia, under the Ministry of Economy and Sustainable Development, implements a MSME programme designed to provide financial support to enterprises across Georgia, including in rural regions. Two government platforms "programs.gov.ge" and "tradewithgeorgia.com" provide access to information and financial resources for businesses, including rural ones. In addition, Enterprise Georgia is planning to launch a project titled "Growth Hubs" in order to foster MSME development via dedicated programmes and services. The "Growth Hubs" project will assist rural businesses across many fields and on various issues, including access to finance and related training. "Growth Hubs" is envisaged as a platform facilitating the interaction of all relevant stakeholders, including government, advisers, businesses, academia and others. Moreover, Enterprise Georgia is working on the development of a web-platform for MSMEs, as one-stop-shop with information about all stakeholders providing financial support for businesses in Georgia, including those located in rural areas.

The **German Sparkassestiftung for International Co-operation (DSIK)** implements a number of financial education initiatives for rural populations in Georgia. This includes the development of specific educational materials responding to their needs, such as brochures and budget planners, but also more interactive tools, such as board games. These materials aim, inter alia, to foster savings in financial institutions and help people to plan for the longer-term, including retirement. DSIK board games and other materials for micro entrepreneurs and farmers also touch on risk assessment/management and insurance. One example of a concrete initiative concerns the development iof a "Farmers' Business game" n 2019 in co-operation with the NBG. This is an interactive game for small and emerging farmers and agricultural entrepreneurs for a successful and sustainable farm management, with financial literacy aspects. In the framework of this project, DSIK conducted training for local trainers.

Since 2002 DSIK and the German Institute for International Co-operation of the Deutscher Volkshochschul-Verband e.V. (DVV International), with input from the NBG, provide financial counselling and trainings at adult education centres in different regions of Georgia (Samtskhe-Javakheti; Tetritskaro; Marneuli, Senaki, Tsalenjikha, Lagodekhi, Chokhatauri, Keda, Ambrolauri). DSIK and the NBG are engaged in training of trainers and counsellors at DVV centres. The project focuses on poverty reduction, providing career planning, promoting employment and includes a personal finance management module.

Future DSIK plans include a focus on identifying other specific needs and designing initiatives and materials to support the development of digital/IT and digital financial services, including rural populations.

In 2019 the **Association Rural Development for Future Georgia (RDFG)** carried out a Regional Youth Entrepreneurship Project, which aims at empowering youth living in the rural regions of Georgia. The project involved almost 500 young people aged 18-29 in entrepreneurship training. During the project, the National Bank of Georgia conducted financial literacy training for the participants, which were selected among those who provided the best entrepreneurial ideas selected in the framework of the project.

The National Bank of the Republic of **North Macedonia** carries out a project titled “Financial Educational Caravan”, which is part of its regular activities on financial education, which focuses on elementary and high schools. Since 2013, many training sessions in the framework of the Caravan have also targeted rural populations. For example about 30% of the total lectures have taken place in rural areas, and around 25% of the total number of pupils/students are from rural areas.

The Alliance of Microfinance Organisations (AMO) of North Macedonia, assists microfinance organisations in strengthening their offer for poor and low income citizens, including in rural areas, and helps them access basic financial services (loans, savings) as well as new, innovative services (E-banking, M-banking). The initiative targets 1 100 entrepreneurs, students and farmers from all regions of the country (one-third of cities/villages) through 44 (one- or two-day) training courses on financial literacy, focusing on the basics The Alliance also participates in the “Financial Education Caravan” organised during the Global Money Week initiative, in partnership with the National Bank and the Ministry of Finance.

To ensure the quality of financial advice provided to consumers, the Alliance trains hundreds of staff members of microfinance institutions via educational weekends, thus building a network of professionals and a platform for sharing of practices and experiences, resulting in continued co-operation and mutual assistance of microfinance organisations.

The experience gathered in the context of this work illustrates the need for careful timing to take into account the seasonality of rural work and ensure wider participation in training initiatives. Another insight from the experience of the AMO suggests the importance of combining financial literacy with digital literacy training (the latter being an increasingly important prerequisite for accessing financial services). Recourse to agricultural enterprises, religious communities and other stakeholders in providing financial education is also key in order to ensure broadest possible reach of rural populations.

5 International good practice examples

Rural populations are being targeted by financial education interventions in many countries around the world. This section offers examples of financial education initiatives and approaches based on relevant international experiences discussed in OECD/INFE research and publications, as well as on presentations from the workshop on *Financial education for rural populations*, held by the OECD in December 2020 for project countries. The experiences discussed in this section are grouped according to their focus on synergies and stakeholder co-operation and their importance for ensuring the effectiveness and relevance of the respective initiatives.

Stakeholder co-operation

Broad-based stakeholder engagement

In **India**, stakeholders primarily provide education at the local level, which targets various socio-demographic groups of the population, including in rural areas. For example:

- The **Reserve Bank of India** requires banks to establish financial literacy centres to educate groups including farmers, women, unemployed, senior ctizens, youth and micro and small entrepreneurs through financial education camps. The Reserve Bank suggests that each target group should be catered for with a special camp each month to discuss their concerns. The Reserve Bank also requires centres to provide quarterly reports on their activities in a standardised reporting framework which records the number of participants, the target audience and participating stakeholders. The **Reserve Bank of India** has also published a booklet titled "Nurturing dreams, empowering enterprises – Financial needs of micro and small enterprises – A guide" which educates enterprises on financing options, including in rural areas (OECD, 2017[50]).
- Rural self-employment training institutes also provide entrepreneurship education catering for a range of target groups including MSMEs, youth, women and the unemployed. The National Institute of Rural Development & Panchayati Raj targets business owners, rural development officials and other rural community members by providing training, workshops and seminars to improve their knowledge and skills.
- In India, the **Citi Centre for Financial Literacy** (CCFL) operates within the **Indian School of Microfinance for Women (ISMW)**. Twenty-six ISMW initiatives include programmes for women, disadvantaged demographic groups as well as train-the-trainer programmes in rural areas.

Role of micro-finance institutions

The consumer co-operative **Republican Microfinance Center (RMC)**, with support from USAID, has focused on improving access to finance and financial literacy of the rural population of **Belarus**, with a focus on micro entrepreneurs in the agricultural sector. Over the years of the project, which started in 2014, more than 200 events were carried out to support the development of micro-entrepreneurship in rural areas. The project had a broad focus, aiming to increase investment opportunities in rural areas, promote the role of rural MSME's in supply chains, expand rural development, revitalise rural communities, contribute to household income as well as more broadly foster economic growth.

The project delivered a "train the trainers" programme providing courses on debt management and financial planning. The trainers in turn conducted more than 140 seminars in all administrative regions of Belarus on both topics. The course syllabuses were adapted from the training provided by other institutions (e.g. the 'Plan your future' course was developed by the Microfinance Center for CEE & CIS, Poland). The latter course covered the following five issue areas: *(i)* long-term financial planning in the household; *(ii)* systematic savings, *(iii)* sensible borrowing and prevention of financial crisis, *(iv)* finance organisations and services, and *(v)* negotiating loans from a finance organisation.

According to the National Bank of the Republic of Belarus, the evaluation of this experience demonstrated that participants increased their financial capabilities and received important financial skills. They included: accounting for income and expenses, saving small amounts and determining loan objectives. An important outcome was the willingness of trained entrepreneurs to start evaluating their solvency before taking a new loan, to draw up a payment calendar, and start saving for unforeseen expenses.

Compliance with good practices in working with private institutions

Different stakeholders, including public authorities and industry associations, are targeting rural populations with financial education programmes. Due to the geographical spread and the difficulties to reach low income groups in rural or remote areas, private financial institutions have an important role in both delivering financial education and promoting financial inclusion. Their initiatives have potential to increase financial capability of consumers, but have to be implemented responsibly, to avoid possible conflict of interest. To this end OECD/INFE developed Guidelines for Private and Not-for-profit Stakeholders in Financial Education that are intended for public authorities who want to set a framework and define criteria for the involvement of private and not-for-profit stakeholders in national financial education strategies and programmes (see Box 5.1. outlining relevant country approaches). They are also meant to be used by private and not-for-profit stakeholders involved in financial education to develop their own codes of conduct and guide their initiatives.

Boosting the effectiveness of financial education initiatives

Reaching out to remote areas

The **Brazilian** experience discussed at the 2020 OECD workshop on financial education of rural populations focused on the *Aprender Valor* (Learning Value) initiative of the Central Bank of Brazil aiming to foster financial literacy of students from elementary and middle schools, from 1st to 9th grade, ages 6 to 15. The Programme is delivered through an on-line platform that offers: teacher training and training for the schools' management teams, educational resources (activities, routines, and lesson plans for in-class use), student learning assessments (diagnostic and impact evaluations), management tools (protocols for application, participant registration and monitoring of key indicators of programme development).

One of the key challenges of the programme is to reach out to remote rural areas along the Amazon river. One such region is the state of Pará. Its example was discussed also because of its challenges as the state with the lowest financial citizenship index (aggregating inclusion and literacy indicators) in the country, including low cell phone ownership and limited use of Internet. Some lessons learned until now include as follows:

- Start small: a pilot study has included1 000 out of over 128 000 schools
- Stay focused: pilot cut-off of schools with 150/120 students (lower/upper primary)
- Learn to navigate public education: talk to municipalities!
- Be flexible: accommodate specific needs (modify workshop content to address specific needs)
- Collaborate: the Brazilian programme partnered with the Internal Network of Central Bank Financial Educators to be more efficient and effective
- Go local: consider establishing regional presence, e.g. Financial Education Team in Pará was the first regional office of the programme
- Focus on the long-term: deliver knowledge for a number of consecutive years which helps to acquire and keep relevant knowledge for a longer period of time.
- Aim to address behaviours and attitudes for a long lasting effect.

The experience of **South Africa (**also discussed at the 2020 OECD workshop) with financial education initiatives for remote populations living in rural areas emphasises the importance of identifying and focusing on particularly vulnerable groups and co-operating with trusted financial service providers, but also with community leaders. Policy makers and providers of financial education to rural populations in South Africa also aim to customise the training of trainers and ensure it is adapted to address remoteness and other problems (e.g. digital connectivity). To increase the effectiveness and reach of financial education initiatives, the delivery encompasses traditional media (radio, newspapers) and also uses messages provided in shops, taxies, local public transport, etc.

Collaboration of international and local trainers

Ukraine has valuable experience with the design of a pilot training of rural populations, comprising youth, aged 14-25 years. The initiative at hand was carried out in co-operation with Peace Corps representatives in the framework of a programme titled "Me and My Money", comprising five modules and nine sessions. Training content was translated into English to enable training by US volunteers along with local Peace Corps representatives. Training of trainers programmes included 30 people, who felt well equipped to carry out their tasks after their training. Trainers delivered off- and on-line training sessions making significant use of case studies relevant for each region. Local community representatives (e.g. local journalism club prepared a FL video) were also contributing to the training as relevant. An on-line course for trainers is also planned in the future, in order to ensure their continuous education.

"Go local" and customise

Beyond the fact that from a geographic perspective, the challenges in **Brazil** are of continental magnitude, a number of particularly relevant points were made, including: start with scalable pilots; collaborate with the department of education, their state and local offices, as well as municipalities (go local); be flexible, evaluate and start customising in accordance with lessons learned. The involvement of Central Bank volunteers was particularly useful for face-to-face trainings, better understanding of idiosyncrasies and direct feedback to the CB team developing the training materials.

Integration of financial education modules in broader programmes

Recent evidence presented to the 2020 OECD workshop identified a number of important challenges to financial literacy of rural populations in **Kazakhstan**. Notably, rural people in the country still have very limited access to financial education programs, they suffer from lack of financial experience due to the insufficient presence of financial institutions in rural areas (underdeveloped financial infrastructure) and lack awareness of available financial products and services. Moreover, low income levels of rural populations, the lack of trust in financial institutions and low levels of financial consumer protection are among the most important impediments to using financial services. Additionally, due to nearly year-round occupation, farmers have little interest in attending any training seminars, which are not exclusively practical and applicable. However, nowadays, in order to get state support (favourable loans and subsidies) micro-farmers need to improve their financial literacy through compulsory trainings.

The Kazakh experience also illustrated the importance of evidence-based financial education delivery stemming from surveys carried out prior to training. It also showed the value of providing targeted training for rural residents and the positive experience of integrating financial education in business training programmes (at the example of an initiative carried out by the National Chamber of Entrepreneurs from 2016–19 and covering over 85 000 participants, predominantly from rural areas). The financial education modules in business programmes could in particular provide practical knowledge to help trainees to access existing financial products. Moreover, linking credit provision to the participation in financial literacy training is an important incentive to increase interest and enrolment in financial education training.

Training also needs to take into account the specific characteristics of rural areas and address the difficulties with access to Internet in remote areas. Rural populations should get knowledge through an appropriate programme type, such as TV-based education programmes for elderly people, mobile applications and social networks for younger people. Segmentation and targeting financial education depending on the specific needs of different sub-groups of rural populations appears particularly important. “Family book-keeping” should also be part of financial education initiatives in order to help households to rationally manage the family budget. Taking specific initiatives to address the problem of access to remote areas is another challenge that needs to be addressed going forward.

Evaluation of financial literacy initiatives in rural areas

The Financial Education in Rural Areas (FERA) project (part of the National Strategy for Financial Education (NSFE) was Launched in 2016, with the objective to assess and improve financial literacy in **Armenia**. To this end, the central bank conducted 2- to 3-hour financial education workshops[9] in randomly selected 50 villages in six regions of Armenia and measured the outcomes of the workshops against the survey responses of the control group, using the randomised control trial method.

This experience showed, for example, the importance of understanding the local context of the region and village, as there are many cultural and social differences between regions and even among villages in the same region. In addition, there may be a preliminary negative attitude of rural populations towards the training, which needs to be addressed. The Armenian experience also suggests the importance of selecting trainers from respective regions knowing the local context and culture, challenges, and speaking local dialects. It is also beneficial to select, when possible, trainers with economy/business background. When planning training initiatives, it is important to put in place approaches (including innovative ones, based on behavioural science) to foster commitment of trainees and ensure they remain engaged throughout the complete course of the training. This is especially the case given the voluntary nature of these workshops.

Three surveys were conducted to assess the short- and long-term impact of the workshops, namely pre- and post-survey in both treatment and control groups (after six months), and post-survey in treatment group only (right after the workshop).[10] The results provided compelling evidence of the effectiveness of the workshops in the short-term related to knowledge accumulation, building trust and increasing financial resilience of the targeted rural populations. This result bodes well for the potential of financial education to contribute to economic development and growth by improving the sustainability of livelihoods and savings levels of the population. However, the evaluation suggests that the positive and significant results of classroom workshops are gradually fading and can be only short-term. Therefore, it is important to also develop follow-up to retain the benefits of the workshop training over the long-term as well.

Box 5.1. Co-operation with private and not-for-profit stakeholders in financial education

The **Australian Securities and Investments Commission (ASIC)** has developed a network, including business and industry organisations, that participate in the implementation of the national strategy. ASIC specifically states that, to be included as a strategy supporter, an organisation must be committed to the delivery of financial literacy initiatives that are consistent with the core principle and priorities of the strategy, and that are balanced, impartial, unbiased and not linked to an organisation's commercial priorities, in accordance with the OECD/INFE Guidelines for Private and Not-for-profit Stakeholders in Financial Education.

In **Indonesia**, the financial consumer protection regulation states that financial institutions regulated by the **Financial Services Authority**, including banks, insurance companies, pension funds, etc., must conduct financial education activities in order to improve the community's financial literacy. Such programmes must be in line with the national strategy and should not be conducted as part of marketing activities. Financial institutions should submit a financial education plan and follow up about implementation to the Financial Services Authority.

The **Commission for Financial Capability in New Zealand** defined a set of principles of engagement for all financial education programmes, stating that they should be aligned to the National Strategy for Financial Capability and follow a recognised teaching or learning framework. The Commission also defined specific principles of engagement for financial education programmes provided by the financial sector, indicating that such programmes should be aligned to the national strategy and should be accessible, impartial and not product-specific, accurate, learner-centric and evaluated.

In the **Philippines, the Bangko Sentral ng Pilipinas (BSP)** adopted financial consumer protection regulation in 2014 requiring all financial institutions supervised by the BSP to develop and implement a financial education programme for their respective clients, as they have the expertise and the established relationships necessary to deliver financial education. The financial consumer protection framework mandates that financial education should be integral to the good governance of the financial institutions and that it should be distinguished from commercial advice. The BSP will monitor compliance with the regulation.

6 Policy options for SEE

Different stakeholder groups, including policy makers in South East Europe, are increasingly concerned that consumers residing in rural areas lack a working knowledge of financial concepts and do not have the tools they need to make decisions most advantageous to their economic well-being. Such financial literacy challenges can affect individuals' or households' day-to-day money management and ability to save for long-term goals such as buying a home, seeking higher education, or financing retirement. Lack of knowledge and suboptimal money management skills can also make consumers vulnerable to severe financial shocks and crises.

This report explored major factors shaping the characteristics, constraints and financial education needs of rural populations in the region. On this basis, and drawing on OECD/INFE and project country experiences, this section outlines some conclusions and policy options for consideration, which can help in defining actions aiming to improve financial literacy of rural populations in the region. Successful financial education initiatives could be instrumental in increasing financial awareness and financial literacy of individuals living in rural areas in South East Europe and ultimately help them achieve greater financial well-being and financial resilience.

To ensure greater impact and meaningful increase of financial literacy levels of rural populations, financial education policies and delivery in SEE could include – *inter alia* – a focus on the approaches described below.

Apply a strategic approach

Rural populations are a significant demographic group in the region, compared to OECD or EU member countries and moreover, their financial literacy levels are relatively low. The increasing number of National Strategies for Financial Education in South East Europe are currently co-ordinating the implementation of initiatives across stakeholders, which is also a key objective of the strategies which are currently being developed. The following recommendations could be considered in this respect by policy makers and other stakeholders from the region in order to improve the financial literacy of rural populations:

- Actively facilitate a **comprehensive approach by focusing on inter-related and mutually reinforcing action across policy areas**, such as ageing, insurance, pension, health and social security (care) systems, education and employment.
- Monitor developments in these areas in order to define potential joint work with relevant partner organisations. Co-ordinating institutions and policy makers could consider combining financial education with financial inclusion and more comprehensive government action to address **geographic, demographic, infrastructure, financial service provision and other challenges**. For example, making smart investments and harnessing innovation to retain youth and address ageing in rural areas could be combined with the provision of digital financial services and products and targeted financial education initiatives. They could also use a comprehensive approach and action to address the issue of **trust in financial**

institutions, which appears to be particularly prominent among rural populations in the region.

- Rely on a comprehensive and strategic approach in addressing **uncertainties and vulnerabilities, which are particularly important for rural populations**. Rural populations experience vulnerabilities, for example, due to the seasonality of their work or to climate change and extreme events. Concrete financial education initiatives and adequate financial service provision and in particular insurance offerings could be particularly helpful in addressing these issues.
- Step up work and bridge the gaps in financial literacy of rural populations by considering "pros" and "cons" of emulating the Georgian experience and **potentially defining rural populations as a specific target group.** Furthermore, concrete initiatives could be developed to address the specific needs of **different segments of rural populations, such as youth, elderly, women, minorities, low-income individuals and rural (MSME) entrepreneurs.**
- **Use evidence-based approaches** – as is the norm in the development and delivery of effective financial education – to change behaviours and making a difference in terms of financial resilience and well-being. Organisation of national surveys and participation in regional and international data collection exercises**, monitoring, evaluating and national initiatives**, taking action to address their insights in subsequent financial education initiatives could make a tangible impact on the financial literacy levels of the rural populations in the region.

Enhance stakeholder collaboration and synergies

Rural populations are not always considered as a financial education target group of National Strategies for Financial Education. They have specific needs as a socio-demographic group (and also across its different segments), and are often located in remote areas or in areas, where they are difficult to reach and where they benefit from smaller numbers of financial institutions. In addition to the challenge of their lower levels of financial literacy, stakeholders need to address the problem of trust in financial institutions and tackle the issues of availability and willingness of rural populations to enrol in financial education initiatives. Against this background, the efficiency and effectiveness of financial education is even more important for a long-term impact and stakeholder co-operation could play a particularly useful role in this respect, along the following lines:

- **Establish and co-ordinate the co-operation among relevant public sector institutions** in favour of efficient design and implementation of strategies and programmes reaching out to the largest numbers of rural populations. Consider co-ordination and partnerships with a wide number of trusted stakeholders, ranging from **international organisations, bilateral donors, not-for-profit organisations and representatives of the financial industry**, including micro-finance organisations.
- Draw on and further develop **synergies among on-going initiatives**, thus enhancing effectiveness, but also efficiency by mobilising a variety of funding sources. Both, countries which decide to identify rural populations as a target group of National Strategies and those who don't, can consider using the co-ordination mechanisms established in the framework of their strategies in order to explore opportunities for **adding financial education modules focusing on rural populations in general financial education initiatives**. Relying on synergies could expand the reach of financial education delivery in a cost-effective fashion. Combine, for example, financial education with other initiatives (e.g. savings incentives,

welfare payments) or using financial education training as a condition, for example for receiving loans by farmers and MSME owners in rural areas, when appropriate, could also help increase financial literacy levels for the long term.

Develop and implement effective programmes and scale up successful initiatives

Several South East European economies have now developed or refined a strategic approach to financial education and the remaining ones are in the process of designing their strategies. While there is scope for accelerating the implementation (or design) of national strategies, all economies could consider further refining the quality and effectiveness of financial education initiatives especially given that in-depth evaluation efforts are still missing from many of the region's programmes and initiatives. This would provide an informed basis for scaling up successful programmes in order to increase the impact and potential behavioural change which could bring about greater financial resilience and well-being. The below actions could be considered by stakeholders in the region as they structure and carry out financial education initiatives in rural areas.

- **Co-operate with relevant stakeholders and especially with community organisations and intermediaries**. In doing this, it is important to understand the local context of the region and village, as there are many cultural and social differences between regions and even among villages in the same region. In addition, there may be a preliminary negative attitude of rural populations towards the training and this needs to be addressed in designing initiatives and potentially including incentives for attending financial education courses.
- **Recruit and train motivated trainers**. Consider identifying and selecting trainers from respective regions familiar with the local context, culture and challenges, and speaking local dialects. This could facilitate communication especially as regards certain cultural practices and informality, which can lead rural community members to acquire loans from family or community members for important ilfe events (e.g. weddings and funerals) and experience over-indebtedness. It is also necessary to select, when possible, trainers with economy/business background.
- **Work with local community leaders, co-operatives and entrepreneurial organisations**. This could help to put the financial education content in the relevant context and cultural norms, relevant to communities, in order to make it more meaningful. Collectivistic and rural societies value interdependence, co-operation, and social harmony. For example, farm families which are a key component of rural societies, embrace such values as they have to co-operate and work together in order to sustain a successful farm.
- **Build on synergies and focus on cost-effective approaches with a long-term impact.** Where warranted and in order to harness synergies and cost efficient approaches, training of trainers as well as financial education courses for rural populations could also be part of broader programmes encompassing a number of topics, including also financial literacy. Working with chambers of commerce and industry associations with existing training facilities and accommodation for trainers/participants could be worth exploring. When planning training initiatives, consider approaches to foster the commitment of trainees and ensure that they remain engaged throughout the complete course of the training (e.g. including through incentives or as a special condition for receiving a loan by farmers).
- **Design programmes encompassing a mix of innovative delivery methods**, including behavioural science and digitalisation (Internet, social media), **with traditional approaches** (regional TV, rural radio stations) in order to reach larger numbers of rural populations and

build trust. Consider synergies between financial literacy and digital literacy training, and carry out regular impact evaluation and actions to sustain financial literacy achievements in the long term and as a basis for scaling up successful initiatives. Focus on changing behaviours by fostering the use of budget planners, interest tables, etc. and use simple, informative and clear content, while embedding financial education delivery in the local cultural and social context.

- Implement programmes **promoting the access of rural populations to a wider range of financial products** (in addition to credit) **and digital financial services**. Consider aligning financial education to available products (focus first on the basic products and then on the more sophisticated ones), focus on fostering long-term savings and insurance financial products to address seasonality and risks. Identify incentives to increase access to / use of financial products.
- **Make full use of the opportunities for financial education of youth** since early ages as early in the lives of students as possible, including at the early childhood education level, in order to ensure more financially savvy and capable future generations. Ideally, this should be a in compulsory subject to ensure that no child is left behind, and should be examined or evaluated to ensure that it young people are meeting their learning goals. Moreover, financial education through schools can be delivered over the course of many years which could help keeping knowledge and skills relevant in the long-term. Financial education in schools could also be accompanied by after-school education to students and their families.

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Notes

[1] The Constituency Programme of the Dutch Ministry of Finance assists the Ministries of Finance and affiliated organisations in constituency countries to apply (or promote awareness of) European and international standards in the area of transparent and solid public finances. The seven project countries are part of the Dutch constituencies at the IMF, World Bank Group and the European Bank for Reconstruction and Development.

[2] Contiguity for urban clusters includes the diagonals (i.e. cells with only the corners touching). Gaps in the urban cluster are not filled (i.e. cells surrounded by urban cells).

[3] Extreme poverty set by the World Bank refers to an income below the international poverty line of USD 1.90 per day (in 2011 prices, equivalent to USD 2.16 in 2019).

[4] This figure could be lower due to migration and given that it is likely based on the last census of population, which took place in 2002.

[5] Population ageing is a global trend, which is expected to more than double the numbers of older persons aged over 65 years in the next three decades to reach over 1.5 billion in 2050 (United Nations, 2020[52]).

[6] MSMEs in SEE rural areas can be expected to also to make a significant contribution to employment (no data available). For example, MSMEs in the rural areas of EU-28 account for about 75%, EU-28) of total employment according to the Opinion of the Committee on Agriculture and Rural Development for the Committee on Industry, Research and Energy on a new strategy for SMEs, 24.9.2020, European Parliament, https://www.europarl.europa.eu/doceo/document/AGRI-AD-652568_EN.pdf

[7] The SEE performance is almost on par with the respective levels of 15 and 14% in Sub-Saharan Africa, but above the performance of countries from Europe and Central Asia, Latin America and the Caribbean, and the Middle East and North Africa.

[8] Some level of segmentation is applied in the financial education programmes of the German Sparkassenstiftung (DSIK), which has an internal criteria for agro/rural entrepreneurs, segmenting them into two target groups of Micro and Small holders (micro with turnover under 30 000 GEL and small with turnover under 500 000 GEL).

[9] Previously the optimal duration for financial literacy workshops was 5-6 hours in total, however considering the difficulties to organise this workshop in one day, it was decided to split the content between two consecutive days.

[10] Unlike others the post-survey after six months was done by phone.

www.oecd.org/financial/education

OECD