

Title

Financial Literacy and its role in helping the poor to cope with the impact of COVID-19

Background and objectives

Are people who have a higher level of financial literacy less subject to financial vulnerability during a crisis? Research has established a strong correlation between financial literacy and the ability of individuals to make informed financial decisions. However, we know very little about the role of literacy as a coping mechanism in handling the impact of a catastrophic event.

Utilizing our recent project on financial interventions, we assess the effects of traditional financial education and maintaining a financial diary on assisting households in rural areas following economic and health shocks caused by a pandemic.

Specifically, we seek to address the following research questions:

1. whether the financial interventions (financial education and diary) assisted participants to better cope with economic and health shocks?
2. whether the financial interventions (financial education and diary) affected the welfare and general health behaviour of participants following COVID-19?
3. whether the financial interventions (financial literacy training and diary) affect households' ability to mitigate, adapt to and recover from the shocks due the pandemic?

Research design

Our pre-existing RCT presents a unique and clear opportunity to conduct further short and cost-effective phone surveys to document their financial conditions during, and after, the COVID-19 crisis. This allows us to treat COVID-19 as a natural experiment. In our RCT, we employed a large-scale randomized control trial to compare the effectiveness of teaching a standard financial curriculum with maintaining a financial diary on improving overall wellbeing of 2215 women from 150 villages in rural Bangladesh. We find that financial education has a significant impact on several dimensions of financial and economic wellbeing. More importantly, we find that maintaining a financial diary, as a low-cost alternative treatment, realized almost the same benefits as the traditional education treatment. The research team is conducting surveys via telephone with the same households to analyse their financial behaviour, financial situation, and coping mechanism during COVID-19.

Potential policy implications

The existing RCT and its results will provide us with a cost-effective and timely opportunity to provide useful insights into the effectiveness of financial interventions and cash transfer as policy tools to improve households' livelihoods during, and after, the crisis. We can confirm the role of our financial interventions immediately after the first round of survey – and the subsequent phone survey will confirm the effect of both interventions in coping with post-crisis. This information will help us to design a program at the time of crisis, which will form

the basis of a future grant application on financial inclusion and management at the time of crisis.