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Vulnerable population in Argentina: how lack of financial literacy is causing social protection programs to fail

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1. Introduction

The levels of extreme and moderate poverty have steadily decreased in the last 4 decades. The global poverty headcount ratio at $1.90 went from 42.7% in 1981 to 9.1% in 2017[1], while the ratio at $3.20 went from 57.4% to 24.3%[2] and the ratio at $5.5 went from 66.5% to 43.5%[3].

Regardless of the successfully taken steps towards the reduction of global poverty, some regions still face great levels of poverty. Some countries have poverty due to extreme underdevelopment, like in Africa, where basic needs like water or electricity are only accessible for a few. These nations have always had high levels of poverty. But some other regions face more poverty today than in the past, due to the extreme volatility in the economy. An example of this is Argentina, a country whose instability and political tension have caused diverse macroeconomic problems in the past, as well as major economic crises which left sequels on the population.

Nowadays, Argentina is recovering from the 2017 crisis while the poverty headcount ratio doubled in the last four years, the GDP went from US$ 643 billion in 2017 to US$ 445 billion in 2019 and the exchange rate in the informal market keeps depreciating.

The problem we aim to address in this paper are the reasons behind so many "new poor", despite the attempts to end poverty. The issue is not one of chronic poverty but of vulnerability.

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1 https://data.worldbank.org/indicator/SI.POV.DDAY

2 https://data.worldbank.org/indicator/SI.POV.LMIC

3 https://data.worldbank.org/indicator/SI.POV.UMIC

There are several definitions of vulnerability and dimensions of it. Just as poverty classifications, there are monetary and multidimensional aspects of vulnerability that need to be studied. The main objective of this Thesis is to analyze if the lack of financial literacy makes people more vulnerable to poverty, in spite of the government's attempts to make households less vulnerable through financial help such as conditional cash transfers. Financial literacy is by definition:

"A combination of awareness, knowledge, skill, attitude, and behavior necessary to make sound financial decisions and ultimately, achieve individual financial wellbeing" (Atkinson & Messy, 2012).

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In this Thesis' first section, we will review the concept of vulnerability and its relationship with poverty. In the second part, we will analyze social protection programs in Latin America, particularly conditional cash transfers in Argentina, and discuss how financial literacy can affect its results. Finally, we will study the financial channels through which people are vulnerable to poverty and see if financial education and its effect on behavior could reduce the risk of people being vulnerable to economic threats.

2. Concepts and notions of vulnerability

We started this paper talking about poverty. The concept of vulnerability has deeply enriched the notions of poverty, as it is said by *Arellano, Bernal (2017):*

"the incorporation of vulnerability to the measurement of poverty is due to the acknowledgment of the benefits obtained by this approach. The vulnerability approach is dynamic, inclusive, and contextual, which allows us to build a solid conceptual framework, given that according to Kaztman (2000) vulnerability allows us to understand the heterogeneity of poverty"

But even though its relation with the poverty concept is vital to this paper, we must understand and define the limits of vulnerability itself. One general definition can be "the characteristics of a person or group and its context, that affect their ability to anticipate, deal, resist and recover from the effect of a threat" (Wisner et al., 2004: 11). Also, for purpose of this paper we will consider the classification proposed by Falcon (2009), in which he says there are two dimensions of vulnerability: " an external one, referred to the risks to which an individual or household are exposed, and another one internal that alludes to be helpless or in need of resources to confront risks without losses"

There are several channels through which people can be vulnerable to poverty as it is described in section 3. Argentina's macroeconomic problems mentioned in the introduction are considered external vulnerabilities given that they represent a threat which households have no control of. On the other hand, internal vulnerabilities can be related to behaviors, education, and everything that's in control of the individual and can affect its safety and autonomy. It is important to understand that even in scenarios where external financial

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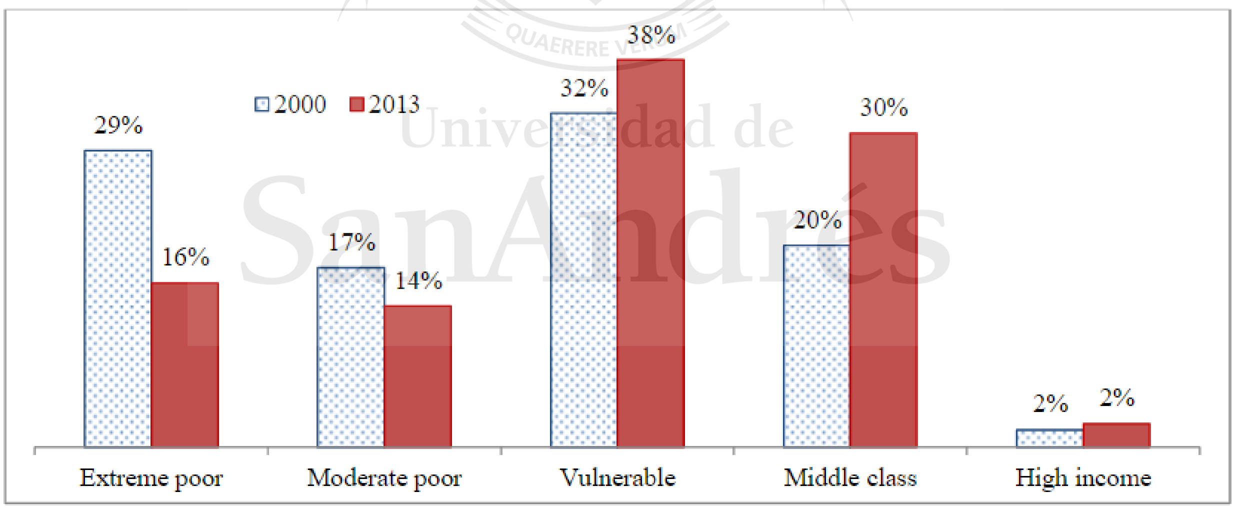
vulnerabilities are reduced by social protection programs do, internal vulnerabilities like lack of financial literacy will make these programs fail to meet their objectives.

Medellín et al (2015) discovered that 30% to 40% of the LAC population is vulnerable to poverty. The authors found that in a ten-year period, 65% of the vulnerable population and 14% of the middle class were monetarily poor at some point. Argentina particularly has a vulnerable population of 34.4%. The vulnerable population in all LAC is bigger than the poor population and the middle population. But as we said before, there is social mobility. Not all poor are chronically poor, which indicates that when a great number of people are getting out of poverty, another great number are falling into it.

Figure 1 – Income Distribution in Latin America (2000-2013), Region Aggregate



Source: Stampini et al (2015)

Stampini et al (2015) found that as extreme and moderate poverty is reduced, the vulnerable population increases considerably, being bigger than the middle class. Reducing vulnerability is key to ensure that people who leave poverty situations will most likely not return to them.

One of the main reasons so many people are leaving poverty is because of the great level of social protection implemented in LAC countries. The issue though is that under the wrong conditions, the programs can generate incentives for people to have financially risky behaviors. This will be studied in section 2.

3. Social protection programs

Medellín et al (2015), discuss the different types of conditional cash transfers and analyze the problem of the conditions imposed on people to be part of the program. When programs lack an established time frame, meaning that a process of recertification doesn't exist, people stay on the programs for as long as they have a family member that qualifies for the original conditions. This can generate wrong incentives because there is no motivation to change conditions, and when the family member stops qualifying the household returns to their original situation or worse. A good example of this is Argentina.

These programs are created to monetarily help a household who is facing a vulnerability of some kind, such as being a single parent, being a domestic employee, being unemployed, etc. The authors address the importance of the recertification process as a key contributing factor to the success of the program as well as its effectiveness regarding the use of Government funds.

Following this thought, Argentina not only has one of the highest expenditures in Social Protection of all the Latin America region, spending 12.74% of its GDP (2019), but also has one of the least efficient social protection programs. The fact that recertification does not exist shows that there is no aim of attacking the vulnerability the household is suffering.

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So, how do the problematics of these programs intersect with the issues caused by internal vulnerabilities? The argument presented here is that even in situations where people who are monetarily vulnerable are helped with the resources they need to defeat that vulnerability, the probability for them to join the middle class is small because they usually do not have the instruments to take advantage of the resources given to them.

Lack of financial literacy can cause poor consumer behavior. As is explained by Hausman (2012), the lack of knowledge and expertise in money management severely affects the way people behave at the time of buying food, for example. Even though households may be in the need of making the best usage of resources possible, the author found that financial decision-making is not an area in which rational thinking is prioritized. Emotional factors, lack of education and understanding of the financial system as well as short-term thinking that characterize people who have lived in poverty, are some of the issues that cause these financial internal vulnerabilities we mentioned above.

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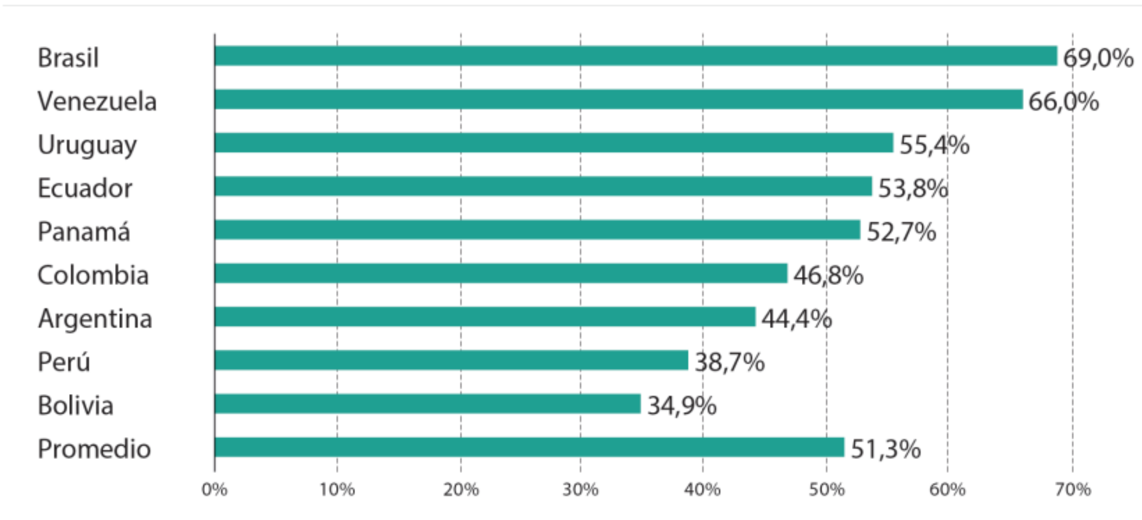
One fact that is essential to mention is that another cause of the internal financial vulnerability is the absence of financial inclusion. Lack of financial education does not only cover the way people behave at the time of consumption but also how people behave and feel about financial institutions. According to CAF, N. (2013), only 51,3% of Latin America's population has a bank account, with Argentina having one of the lowest rates.

Figure. 2: Percentage of surveyed who have at least one bank account



Source: CAF (2013).

Nowadays, social protection programs don't have a follow-up system to try to attract people to formal financial institutions. In this sense, Dermiguc Kunt et al (2017) explain:

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"Access to formal financial services allows people to make financial transactions more efficiently and safely and helps poor people climb out of poverty by making it possible to invest in education and business. By providing ways to manage income shocks like unemployment or the loss of a breadwinner, financial inclusion can also prevent people from falling into poverty in the first place"

The main concern is that the amount of people who are financially excluded and vulnerable is really propense to grow over time. Luisardi and Mitchell (2014) argue that the increasing development of financial services brought plenty of benefits such as better contracts and major access to credit, but at the same time it increased its complexity, making financial education a key to get more people to meet their needs and do not fall into poverty. These new advances in the system have brought more responsibility to households on their own finances, and with that comes the several channels of financial vulnerability that we are going to discuss in section 3.

4. Channels of financial vulnerability

There are several channels through which a household can be exposed to financial threats based on region and social class. In Argentina, a great problem is informal labor. As we mentioned in the previous section, sometimes social protection can create the wrong incentives for people. Even though there is no robust evidence of conditional cash transfers influencing the decision of working or not, there is mixed evidence about whether it affects the decision of joining the formal or informal labor market (Medellín et al, 2015).

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Being an informal employee enables people to qualify for conditional cash transfers while it allows employers to pay fewer taxes, which is a really important factor in a country like Argentina which is so severely taxed. At the same time, employees don't have access to, for example, health insurance, indemnification rights, which increases vulnerability and government costs.

Another factor is that people are making poor decisions regarding credit. This is something that has been already mentioned in studies by economists like Esther Dufflo or Muhammad Yunus in Asian countries. In Latin American countries people usually go to friends or family to ask for money loans, instead of going to a financial institution. This is partly because they do not trust formal financial institutions but also because they do not have a credit history since they have been excluded from the formal financial system their whole lives. In Table 1 (see appendix), we can observe the reasons why LAC people don't have a bank account. A few of them seem legitimate reasons, such as high-interest rates, unemployment, or inability to qualify. The Table shows how restricted is the vulnerable population knowledge about the financial system and, therefore, how limited they are to take advantage of financial tools and mitigation financial instruments. In Argentina's second biggest city, Cordoba, 22% of the population declared that having a bank account doesn't seem to have any advantage.

It's key to highlight that both Buenos Aires and Cordoba are big, wealthy cities. It's highly probable that if the same surveys are done in little towns or the poorer provinces, greater evidence of lack of financial education is would be found. On average, Argentina seems to be in a better position than most of the countries in Latin America, but due to the great income inequality considering only Buenos Aires and Cordoba can lead to biased results.

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If we look at the average numbers, we will find that preferring to avoid the financial system and keep their savings somewhere else is the third most frequent response. The paper doesn't go deeper on this matter but is interesting to think about where people are putting their money. With the rise of digital wallets and investing apps, often more appeling for the younger population, is probable that people are choosing these alternatives over formal financial institutions, which have more entering barriers and higher fees.

Along those lines, it seems important to address savings. It is difficult to promote adequate levels of savings in a country like Argentina with over 50% interannual inflation rate and negative real interest rates. However, there are options like designing long-term deposits earning positive real rates and, consequently, helping people in mitigating the impact of inflation. Although some 50% of the population declared to not have enough money, having a bank account could help them in confronting the negative distribution effects of high inflation. . In this regard, something usual in Argentina is to buy things in monthly dues thorough credit cards financing under negative real interest rates. This way, the real amount of money due every month decreases as the level of inflation rises. In those situations, having a credit or debit card would imply a financial advantage, besides building a credit history which could pave the way to other financial instruments .

Finally, with the incorporation of new financial instruments such as MercadoPago[4], HomeBanking, GooglePay or ApplePay, LemonCash[5], Brubank[6], etc, people need more help understanding and entering financial systems. In particular, retired people which make up a considerable part of the vulnerable population and are not very in touch with technology. Addressing the complexity and multifaceted nature of vulnerable populations is key to understand what is putting them in that situation of vulnerability and achieve economic safety.

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4 https://www.mercadopago.com.ar/home
5 https://www.lemon.me/
6 https://www.brubank.com/

5. Conclusion and limitations

The main purpose of this Thesis was to address the importance of financial literacy, as well as to encourage governments to invest in financial education not only in schools but also during adulthood, through social protection programs and every other way they have to assist and educate them.

Financial education is necessary for everyone, not only for poor or vulnerable populations. Financial stress is very common in highly inflationary and politically unstable economies, and teaching the young population basic financial concepts such as interest rates, exchange rates, inflation, budget creation, taxation and others can and will make a difference.

It is vital to understand that in countries like Argentina, which often suffer so many exogenous economic shocks, public policy should promote that households are prepared to face those shocks and take advantage of every opportunity. It is way easier to fix people's attitudes toward the crisis than to fix the crisis itself, especially in a country that has, on average, a recession every 3 years.

Also, we wanted to acknowledge the importance of the multidimensional concepts of poverty and vulnerability. It is never enough to secure monetary income, but it is also necessary to address and assure people's abilities to use their incomes to enhance their autonomy and boost their self-esteem, a factor that is proven to be key in the fight against poverty.

Despite myths and misconceptions about social protection programs, this Thesis has intended to show that cash transfers can actually be a tool for people to learn how to create a relatively stable income. Lack of financial literacy is the main reason why , cash transfers tend to be less efficient compared to non-cash conditional transfer. Is essential to understand that risky

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behaviour comes from lack of economic understanding and many years of short-term financial thinking due to living in poverty.

. Little evidence about channels of vulnerability in more remote parts of the Argentina has been found. Also, studies are yet to be conducted about new digital financial instruments, which can surely enrich the analysis done. We encourage authors and academics to continue studying and researching the effects of financial education on people's financial behavior, to continue fighting and reducing poverty efficiently.

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Appendix

Table 1: Reasons why people do not have a bank account

City	Don't have enough money	Don't have job	Prefers to have its money somewhere else	Do not trust financial institutions	It doesn't seem to have any advantage	They don't qualify to open an account	Interest rates are too high
Buenos Aires	53.8	21.1	19.1	15.2	7.6	17.2	1.7
Cordoba	55	17.9	4.6	7.8	22.8	10.7	1.6
La Paz	72.9	16.6	16.3	16.8	12.6	12.1	8.2
Santa Cruz	56.9	9.5	20.3	15.4	5.4	8.5	10
Rio	54.6	19.5	12.7	4.9	17.1	13.2	12.2
Sao Paulo	51.2	14	5.5	1.8	28.7	13.4	14.6
Bogota	62.7	24.4	15.3	16.7	19.5	9.1	9.4
Medellin	75.1	30.5	35.8	5.9	28.7	11.2	4.7
Guayaquilla	82.5	27.1	16.2	22.3	19.4	10.9	3.7
Quito	71.4	18.3	19.4	34.9	13.1	13.1	6.3
Ciudad de Pana	68.6	27.6	19.2	6.5	2.7	14.6	7.7
Arequipa	56.6	13.8	31.5	19.9	2.5	4.7	9.9
Lima	59.1	21	23.2	21.6	14.3	8.7	16.5
Montevideo	69.5	15.8	10.9	10.5	7.5	9	1.1
Salto	74.7	13.6	7.9	1.9	7.9	14.3	2.3
Caracas	74.3	37.6	30.3	21.1	19.3	20.2	-
Maracaibo	78.8	21.2	18.8	20.1	1.4	8.5	2.7
Average	65.8	20.6	18.1	14.3	13.6	11.7	6.6

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