



Understanding  
**Financial literacy**  
among refugees in Germany

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## Abstract

This paper will explore the role of and need for efforts to improve the financial literacy of refugees in Germany. It will address attempts to help refugees better cope with their new financial responsibilities and the challenges they face as they integrate into the German economy. The paper draws upon the findings of research from 2018 conducted by the author to understand the current situation of access to financial services for refugees in Germany, their unique financial needs, and the challenges in financially including them from a demand and supply perspective. The research was based on primary qualitative interviews with refugees, key informant interviews with stakeholders involved in refugee integration, and a desk review. It showed how many of the challenges on the demand side arise due to a lack of understanding of and trust in formal financial services.

As refugees pass through different stages of integration (arrival, initial displacement and asylum, protracted displacement, permanence, and return) they deal with many financial 'firsts' such as using the bank card, filing taxes, taking credit, paying utility bills, or starting a business. With limited understanding of these new systems and a language barrier, they are likely to make mistakes resulting in financial liabilities or lost economic opportunities. In addition to understanding these new systems, they must perform the strategic task of managing their financial transactions, manage household budgets, and find coping mechanisms when confronted with financial emergencies. In the context of low savings, limited social networks, lack of stable incomes and behavioural constraints (due to uncertain future and declining self-confidence), their money management tends to be more 'reactionary' and not optimal.

The paper provides recommendations on how financial literacy initiatives could be aligned to the financial goals and challenges of refugees, to help them improve their capabilities to manage their financial lives. It also draws upon the international experiences from migrant and refugee contexts from developed as well as developing countries to identify what has already been learned.

**Keywords:** *Financial literacy, refugees, Germany, financial services, integration*

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## Introduction

As the world witnesses an unremitting rise in the number of people fleeing war and violence, the majority of those crossing borders (nearly 80 percent) continue to be hosted by their neighboring countries in the developing regions (UNHCR, 2019, pp. 2-3). In such cases these people, known as asylum-seekers and refugees<sup>1</sup>, often share similar cultural, social, and economic practices with their hosts. They speak the same language and have similar labour, trade, and financial systems. This makes it easier for them to navigate their way in these new countries. However, there are many (nearly 16 percent of all refugees) who make longer journeys over land, sea, and air to reach developed economies mainly in North America, Europe, and Australia (ibid.). They do so in the hope for a brighter future and safety for their families.

In 2015, as the world saw an overwhelming number of refugees trying to reach these countries, many residents displayed an endearing 'refugees welcome' culture. However, this is now over-shadowed by fueling political debates on the increasing economic burden of refugees, including in Germany which hosts 1.1 million refugees (the largest among developed countries). Nevertheless, there is increasing evidence for the positive net contribution of refugees where their economic contributions to tax and labour market surpass the welfare support provided to them (Evans & Fitzgerald, 2017) (Fratscher & Junker, 2015). A representative survey of refugees in Germany in 2016 also shows that a majority of them are motivated to be gainfully employed and be financially self-sufficient (Brücker, et al., 2016, p. 8).

The key question this raises is, how might we best support refugees to achieve their economic potential? A lot of programming for refugees in Germany has focused on labour market integration. However, this can take longer than expected to achieve. The 2016 survey showed that only 9 percent, 22 percent, and 31 percent of those who arrived in Germany 2013 or earlier, 2014, and 2015 respectively were employed in 2016 (Brücker et al., 2016, p. 9). Moreover, many of those who manage to find employment

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<sup>1</sup> Both asylum seekers and refugees are people fleeing conflict or persecution. According to UNHCR, an "asylum-seeker" is an individual who is seeking international protection. In countries with individualized procedures, an asylum-seeker is someone whose claim has not yet been finally decided on by the country in which the claim is submitted. Not every asylum-seeker will ultimately be recognized as a refugee, but every refugee was initially an asylum-seeker. Moreover, a "refugee" is a person who meets the eligibility criteria under the applicable refugee definition, as provided for by international or regional instruments, under UNHCR's mandate, and/or in national legislation (UNHCR, 2005). In Germany, the asylum systems are well developed and the Federal Office of Migration and Refugees examines each asylum application as per the German Asylum Act. The outcome could be one of the four forms of protection - entitlement to asylum, refugee protection, subsidiary protection, or a ban on deportation.



earn lower and less stable incomes compared to native born (Degler & Liebig, 2017, p. 26). This is similar to the experience of immigrants in Germany who earn up to 20 percent less income than native Germans (Beyer, 2016).

As refugees arrive, integrate, and work towards regaining their financial footing they need to perform various economic tasks – open a bank account, receive welfare assistance, move out of government shelters, rent an apartment, pay for utilities, manage household expenses, upgrade their skills, start a job or business, file for taxes, save and send money home, and take credit. The proficiency with which they can perform these tasks affects their ability to build assets, reduce liabilities, move towards self-sufficiency, and most importantly gain confidence of being able to “make it” in this new country. However, navigating through a completely new economic and financial system, without proper language skills, limited social networks, and limited financial resources remains challenging for many refugees. In such situation, access to right information and prompt support can improve their early experiences.

This paper focuses on the importance of financial literacy measures for refugees to help them better cope with their new financial responsibilities and improve their financial resilience. It takes a different approach by first highlighting the context, goals and aspirations, challenges, and coping mechanisms of refugees. This then becomes the basis to not only establish the need to focus on financial literacy, but also to inform programmatic interventions to achieve the same.

## Methodology

The paper draws upon research on the access to financial services for refugees in Germany that was conducted in 2018, looking at the current situation, challenges, and a way forward.<sup>2</sup> The research collected qualitative insights on strategies refugees use to manage their day-to-day financial needs across different phases of integration in Germany, perform various financial tasks, and overcome financial risks. An important aspect of this is to also understand which behavioural factors affect their financial and economic decisions. Primary qualitative research was conducted using in-depth interviews as the main tool. In total thirty-four respondents were interviewed, with in-depth financial information collected using financial diaries<sup>3</sup> with half of them. The study de-

<sup>2</sup> The research was conducted by the author as part of the German Chancellor Fellowship 2017-2019. The research was conducted between November 2017 and September 2018.

<sup>3</sup> Financial diaries (FDs) is a record of transactions made by people over a selected period of time. It captures the value of transaction, its purpose, people involved in the transaction as well as how and where the transaction takes place. FDs were intended to provide a deep view of the ways refugees manage their money and make financial choices.



ployed a small sample in order to enable in-depth interaction with the respondents through multiple interviews over a period of four months.

The interviews were conducted in the cities of Bonn and Berlin. The respondents were refugees from Syria, Iraq and Afghanistan which are the top three countries of origin for refugees in Germany.<sup>4</sup> The interviews were conducted in their native languages of Arabic and Dari. Key informant interviews were also conducted with different stakeholders to understand the policy environment for integration, their role and experience of working with refugees, and challenges faced in financially including them. These key informants had different backgrounds such as humanitarian organisations, local NGOs, social workers, local government agencies involved in integration, financial service providers, migrant diaspora organisations, business incubators, and academic researchers.

## Defining financial literacy

Financial literacy as a concept has evolved over time. Traditionally, the understanding of financial literacy has solely focussed on “knowledge that enable[s] individuals to make sound financial decisions” (Buch, 2017, p. 3). Since recent times, researchers and policy-makers are gradually replacing the concept of financial literacy with financial capability which has a broader focus on the individual’s ability to act. Building on Amartya Sen’s capability approach, it emphasizes a multi-dimensional understanding of how individuals manage their money. It goes beyond the traditional definition of financial literacy with a focus on just knowledge and skills (literacy), to also include factors that influence the ability to act (skills, attitude, self-efficacy), and providing the right enabling environment (access) (Stuart, 2013). Stuart further defines a financially capable person as “someone who: 1) Sees the **value in managing money** proactively (attitude); 2) **Knows what is needed** to make appropriate money management decisions and act on them (knowledge); 3) Has the **skills** to turn that knowledge into practice; 4) Believes and has **confidence** that she or he is able to act on that desire (self-efficacy); and 5) Has **access to an environment** that enables them to act on that desire” (ibid.).

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<sup>4</sup> To state the number of refugees in Germany, two sets of data are available. Firstly, BAMF publishes statistics of new asylum applications on a monthly basis. Secondly, the Federal Statistics Office publishes data on foreigners living in Germany, indicating their residency status and countries of origin. According to BAMF, in 2017, the majority of newly arrived asylum seekers came from Syria (24.7%), followed by Iraq (11.1%) and Afghanistan (8.3%). In the following year, most asylum seekers still came from Syria (27.3%) and Iraq (10.1%) and Iran (6.7%) (BAMF, 2018a) (BAMF, 2019). In regard to the total population of refugees living in Germany by the end of 2018 (1,781,750 in total), Syrians made up 30.97% (551,830 individuals), Afghans 12% (213,935) and Iraqis 10.52% (187,480) (Destatis, 2019).



For the purpose of this paper we apply a broader definition of financial literacy which considers psychological constructs and personal attributes (e.g. age, gender, education, assets, skills and competencies) to have a more holistic understanding how refugees make money management decisions. While addressing challenges to ensure access to appropriate financial services is an important cog in the financial capability wheel, it remains out of the scope of this paper. It has however been addressed in a separate paper by the author<sup>5</sup>.

This paper will be using the definition of financial literacy provided by the OECD International Network on Financial Education, as endorsed by the G20 leaders in the High-Level Principles on National Strategies for Financial Education at the G20 meeting in Los Cabos, Mexico. In 2012

It defines **financial literacy** as “a combination of **financial awareness, knowledge, skills, attitude and behaviours** necessary to make **sound financial decisions** and ultimately achieve **individual financial wellbeing**” (OECD, 2012, p. 2). This definition is geared more towards the capability approach by including a focus on not just knowledge and skills, but also behaviour.

It further defines **financial education** as “the process by which financial consumers/investors **improve their understanding of financial products, concepts and risks** and, through **information, instruction and/or objective advice** develop the **skills and confidence** to become more **aware of (financial) risks and opportunities** to **make informed choices, to know where to go for help, and take other effective actions to improve their financial wellbeing**”. (OECD, 2012, p. 7)

The OECD measures financial literacy across G20 countries on three key aspects – financial knowledge, financial behaviour, and financial attitudes, which are summarised in the table below (ibid.).

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<sup>5</sup> Dhawan, Swati Mehta (2018, October). *Financial Inclusion of Germany's Refugees: Current Situation and Road Ahead*. EMN Working Paper N°2. European Microfinance Network.

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Table 1: Components of Financial Literacy defined by OECD INFE

Components	Definition	Sub-components
<b>Financial knowledge</b>	Financial knowledge is an important component of financial literacy for individuals, to help them compare financial products and services and make appropriate, well-informed financial decisions.	<ul style="list-style-type: none"> <li>• Basic knowledge of financial concepts (e.g. simple and compound interest, risk and return, and inflation)</li> <li>• The ability to apply numeracy skills in a financial context</li> </ul>
<b>Financial behaviour</b>	<p>Consumers' actions and behaviour are what ultimately shape their financial situation and wellbeing, in both the short and longer-term.</p> <p>The positive outcomes from being financially literate are driven by behaviour such as planning expenditure and building up a financial safety net; conversely, certain behaviours, such as over-using credit, can reduce financial wellbeing.</p>	<p><b>Financial control:</b></p> <ul style="list-style-type: none"> <li>• Taking responsibility for financial decisions</li> <li>• Budgeting</li> <li>• Making considered purchases</li> <li>• Paying bills on time</li> <li>• Keeping watch of financial affairs</li> </ul> <p><b>Financial resilience:</b></p> <ul style="list-style-type: none"> <li>• Active saving</li> <li>• Making ends meet and facing external shocks</li> <li>• Striving to achieve long-term goals</li> <li>• Making informed choices of financial products</li> <li>• Making informed choices of financial products</li> </ul>
<b>Financial attitudes</b>	Taking financial attitudes into consideration recognizes that even if an individual has sufficient knowledge and ability to act in a particular way, their attitude will influence their decision of whether or not to act.	<ul style="list-style-type: none"> <li>• Planning for the future</li> <li>• Living day by day</li> <li>• Spending favoured over saving</li> </ul>

## Why focus on financial literacy for refugees?

The welfare payment system and financial sector in Germany are much more complex than what refugees experienced back home. The German welfare state system has developed over the past 150 years and consists of various intertwined mechanisms, such as social assistance for people in need, a rather complex system of public and private health insurance as well as pension insurance. The financial system in Germany is bank based, resting on private commercial banks, public savings bank and cooperative banks (Neuberger, 2017, p. 3-4). The banking system is increasingly moving towards digital channels and online banking. During an interview with a representative of the state-owned savings bank Sparkasse in Berlin, they spoke of the banks focus on digital onboarding of customers and a phased scaling down of physical branches.





The financial literacy rates in Germany are among the highest worldwide. This is the result of a global survey on financial literacy, conducted by Standard & Poor in 2014 (S&P Global FinLit Survey), which shows that about 65 percent of adults in Germany are able to answer a set of selected questions touching on basic financial concepts (Klapper, Lusardi, & Oudheusden, 2015, p. 7).<sup>6</sup> However, this knowledge is unevenly concentrated, and vulnerable sections of society display lower levels of financial literacy (Neuberger, 2017, p. 15).

One of them are refugees, who come from countries that have less developed economic and financial sectors. Due to prolonged wars the financial infrastructure in these countries remains under-developed and most of the transactions have been cash based. As a result, their interaction with formal financial services is limited. For instance, in Afghanistan only 14.9 percent of the population owned a bank account in 2018, in Iraq this number is slightly higher at 22.7 percent, and in Syria this was 23.8 percent in 2011 (Worldbank 2018a; 2018b; 2020b). Only 10.8 percent of adults in Afghanistan have made or received a digital payment, and 19.7 percent in Iraq (ibid.). In regard to easy availability of cash, Afghanistan only featured 1.6 automated teller machines (ATMs) per 100,000 adults, while Iraq had 3.95, and Syria had 8.39 (in 2012 before the war) display a higher density of ATMs (Worldbank, 2020a).

These economies are also highly informal compared to Germany. For instance, in 2012 the share of informal employment in total employment in Iraq was almost seven times higher when compared to Germany (66.9 percent compared to 10.2 percent) (ILO, n.d.). The available figures from Syria are from 2003 which stands at 70 percent (ibid.).

Furthermore, knowledge of the financial system is often not prevalent in the countries where a majority of refugees in Germany are from, as the data from the S&P Global FinLit Survey illustrates. Only 27 percent of Iraq's population are financially literate and in Afghanistan this rate is even lower at 14 percent (Klapper, Lusardi, & Oudheusden, 2015, p. 23).<sup>7</sup> Even though there is no data available for Syria, it can be assumed that levels of financial literacy are similarly low. An indicator could be Antonia Grohmann's study on financial inclusion of refugee and migrants in Germany. She used three out of the four questions from the S&P Global FinLit Survey in her small-scale research project among Syrian refugees. Only 32 percent of the Syrian respondents were able to answer the questions while comparable questions were answered correctly by 65 percent of German respondents (Grohmann, 2018, p. 7).

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<sup>6</sup> The survey measured the four fundamental concepts for financial decision making – basic numeracy (interest), interest compounding, inflation and risk diversification. A person is defined financially literate when at least three out of the four concepts are answered correctly (Klapper, Lusardi, & Oudheusden, 2015).

<sup>7</sup> No data available for Syria.





The importance of financial education and its impact on financial behaviour has been well established

## FINANCIAL LITERACY INITIATIVES IN GERMANY

Financial literacy is getting more and more into the spotlight globally. Recently, the concept has been added to national surveys to achieve a better understanding of people's financial knowledge and behavior (Buch, 2017, p. 3). According to Neuberger, "the need for financial education of consumers has grown because of increased market opportunities with risk-shifting to consumers. In Germany, this is due to three developments: (1) the creation of a more flexible labor market, (2) contraction of the welfare state, e.g., through the privatization of retirement pensions, and (3) demographic change, in particular aging population, which increases the need for private pension insurance." (Neuberger, 2017, p. 15)

This need is met by a growing number of initiatives by public and private service providers in Germany that aim to increase financial literacy. The following selection gives an overview of the diversity of the programmes offered, with both native Germans and newcomers (refugees and migrants) as target groups.

➔ **"Deutschland im Plus"** foundation offers modules to teach young migrants about the financial system in Germany (taught in education centres in Nuremberg and Düsseldorf, and also available nationwide with 80 cooperation partners and digitally).

➔ **Consumer Information for Migrants** (Verbraucherinformationen für Flüchtlinge) offers youtube videos and example letters to help refugees make informed decisions as consumers, including topics such as opening bank accounts and insurances.

➔ **SavingBuddies** offers economic education through workshops and seminars and supports people to create savings groups.

➔ **Geld und Haushalt (Sparkasse's financial literacy program)** aims to support customers in improving their financial competencies via online modules and lectures.

➔ **My Finance Coach** provides teaching material to teach students about basic economics and finance. Previously finance experts had been send to schools to teach students.

➔ **WirtschaftsWerkstatt** (Economics Workshop, SCHUFA's educational initiative) provides information about finance aimed at young people on its website, but also provides materials for teachers.

➔ **Integration courses** cover financial topics, but only at the margins.

➔ **Sparkasse Bank** opened additional branches for refugees, with information and leaflets available in languages other than German.



(Lusardi & Mitchell, 2015; Kaiser & Menkhoff, 2016). Financial education for migrants and their families is also an important policy focus, though it focuses mostly on remittances (Atkinson, 2015). However, limited research exists on financial inclusion and financial literacy of migrants in Germany, and even less on refugees (Arnold et al., 2018; Grohmann, 2018). This population faces unique challenges in comparison to migrants and the low-income native population. Refugees arrive after painstakingly long and difficult journeys, escaping violence, and often suffer from varying degrees of post-traumatic stress. This along with their lack of language skills, limited social networks, differences in culture, and limited experience from home countries makes it difficult for them to navigate through the knowledge they need to perform various financial tasks in Germany. As they arrive and settle, they may not be thinking about “money” but still need to deal with it on a day-to-day basis – paying for food, utilities, rent, and so on. A low level of financial knowledge and the psycho-social context of refugees have a significant impact on their financial competencies, behaviour, and in the end their financial inclusion.

## **Understanding financial literacy in the context of refugees**

While financial literacy is the end objective, its effectiveness depends on the design of the process i.e. financial education. Research has shown that standard financial education programmes are not effective to achieve the desired financial behaviour and outcomes. Interventions must consider the local context of the target population (World Bank, 2014, p. 13). This means not only adapting to language, content, but also to what it means to be financially capable for this population. This requires an understanding of the context of refugees (social, cultural, economic), financial tasks they need to perform, their goals and aspirations for financial well-being, challenges faced, coping mechanisms used, and behavioural constraints. While personal attributes are important determinants of behaviour, situational determinants are found to play an even bigger role and could explain 70 percent of human behaviour (Ross & Nisbett, 2011). A review of the financial education initiatives in the Arab region also found that upfront research – on the target segments’ traditions, social norms, gender roles, religions, mentors, role models, learning behaviours with family – was essential to develop effective initiatives (Attia & Engelhardt, 2016).

Looking at the macro context in Germany, as of end of 2018, there were 1,781,750 refugees in the country, with Syria, Afghanistan and Iraq being the top three countries of origin (Destatis, 2019). This population is highly diverse and heterogenous not only in



terms of their origin, but also education, skills, economic and professional backgrounds. Data on refugees that arrived in Germany between 2013 and 2016 shows that 17% of newly arrived refugees had attended higher education in their home countries and only 7% had attended a formal vocational apprenticeship (Brücker et al., 2019, p. 9). However, aspirations to continue education in Germany are high where more than two thirds of the respondents expressed the strong intention to take up university studies or a vocational training (*Ausbildung*) (ibid.). The IAB-BAMF-SOEP refugees survey also shows that 75 percent of male and

37 percent of female refugees have previous work experience from their home countries, almost equally distributed as either laborers (30 percent), self-employed (30 percent) and employees (33 percent), out of whom 10 percent were working in leading positions (Brücker et al., 2019, p. 12). Though all these factors might have a significant influence on their financial capability, this alone does not determine how well they are able to make decisions that impact their economic and financial outcomes. The psychological dimensions are equally, if not more, important to fully understand their decision-making process.

The following sub-sections illustrates the findings from the qualitative research on the financial lives of refugees in Germany, while identifying the determinants of their financial behaviour.

## **Displacement has caused a major change in the financial lives of refugees**

The respondents of this research come from a diverse background, however, one thing they have in common is how much their financial lives have changed post displacement. In their home countries, all of them lived in houses owned by them or their family and were not used to paying rent. In many cases, even paying for utilities was not their responsibility, especially for younger respondents and women. Family life was extremely important, and their networks of family, friends, and business partners were the key financial safety net. They had a comfortable middle-class life. Many came from families

### FINANCIAL SERVICES USED BY RESPONDENTS:

The financial portfolios of refugees interviewed remain limited. This is partly due to the lack of access to a broader range of financial services for this population.

Formal – Bank account (mainly Sparkasse or Volksbank), ATM machine and debit card, credit card (from private companies), government insurance, international remittances, digital bank account (MONI)

Informal – Borrowing, informal savings groups (Savings Buddies)



with their own businesses. Others worked in respected professions such as academics or government services. The younger ones studied and were supported by their families. Though each respondent had a unique story, there were many examples of skilled savers and successful businesspersons. They had built assets such as their own house, land, car and jewelry.

In contrast, in Germany they lived in camp-like conditions, their families have been scattered across continents, they have lost most of their savings and assets, and have limited financial resources at their disposal. They are overwhelmed by the complex financial choices that they must make, which is exacerbated by their limited language skills. They must navigate through the highly formal economy of Germany which is very different from their home countries where the economic system was largely informal and cash based.

Upon arrival, all refugees stay at state sponsored shelters. Once granted the refugee status, moving into their own housing is an important milestone towards building a “normal life”. However, this also means that they must manage their lives independently and deal with the complex contracts, different utilities, and their payments. Most respondents found this extremely intimidating. For some, such as younger refugees and single women, this brings a significant change in their financial responsibilities compared to their home country. As refugees take on these responsibilities, they are at risk of making mistakes and increasing their financial liabilities.

Moreover, the slow integration into the labour market has a significant impact on their economic position. Until they find jobs or are under training, they are supported by the German welfare system. While the financial assistance safeguards a basic standard of living, it also creates financial dependence and loss of dignity for the refugees. All respondents of the study said that they wanted to work and earn an income to regain their previous standard of living and reclaim financial control of their lives. This is also because the state support is often lower than what they required to sustain the same living standards that they had in their home countries. In fact, the state support provides refugees with a net income of less than 60 percent of the average German income (Bierbach, 2017). The deterioration of their financial situation is even more pronounced for asylum seekers who have not yet been accepted in Germany as they remain in a limbo – not allowed to work, confined to government shelters, and dependent on financial assistance from the state.



## Financial “firsts” put refugees at risk of making mistakes and increasing liabilities

As refugees arrive the initial focus is on meeting their basic needs of food, shelter, and medical services. They receive humanitarian assistance coordinated by international NGOs and government authorities. As they stay on in the host country this focus shifts to improving housing, starting work or business, and starting or continuing education and training (Hansen, 2016, p. 5). The table below describes the various stages of displacement that refugees in Germany experience, the financial tasks that they need to perform at each stage, and the ensuing financial stress points and financial needs.<sup>8</sup>

Table 2: Financial Tasks and Stress Points at Different Phases of Integration (Dhawan, 2018, p. 10)

Phase	What is happening?	What financial tasks are performed?
<b>Journey and Arrival</b>	<ul style="list-style-type: none"> <li>Travelling from home country to transit country</li> <li>Arrival and registration at German border or the reception facility</li> </ul>	<ul style="list-style-type: none"> <li>Finance the journey (pay smugglers and expenses during the journey)</li> <li>Work and earn income in transit country</li> <li>Finance immediate needs like food, clothing, medical supplies (provided by the government)</li> <li>Buy groceries, personal care supplies</li> </ul>
<b>Initial Displacement and Asylum Application (0-3 months)</b>	<ul style="list-style-type: none"> <li>Apply for asylum and wait for the decision (should take six months, but could be much longer)</li> <li>Those with good prospects of being accepted could start with the integration course</li> <li>Stay in designated shelter and receive cash assistance from the government</li> </ul>	<ul style="list-style-type: none"> <li>Open and operate bank account to receive asylum seekers benefits</li> <li>Pay for lawyers, translators</li> <li>Enter into contracts for mobile phone, internet, gym</li> <li>Send remittances to support family</li> <li>Purchase transport tickets</li> <li>Repay loan for financing journey</li> </ul>
<b>Stable/ Protracted Displacement (3-36 months)</b>	<p><b>Negative Asylum Decision or Tolerated Status</b></p> <ul style="list-style-type: none"> <li>If rejected, the asylum seeker can re-appeal.</li> <li>Depending on the country of origin, they receive a ban on deportation or tolerated status.<sup>8</sup></li> <li>Stay at refugee shelters and continue to receive welfare support from government</li> </ul>	<ul style="list-style-type: none"> <li>Pay lawyers to appeal against the decision</li> <li>Send remittances to support family</li> <li>Purchase transport tickets</li> <li>Manage day-to-day expenses with the asylum seekers benefits (payment for food, groceries, clothing, medicines, etc.)</li> <li>Repay loan for financing journey</li> <li>Purchase necessary consumer durables (e.g. phone, laptop)</li> </ul>

<sup>8</sup> Asylum applicants that do not qualify for protection (asylum, refugee protection, subsidiary protection) can still be issued a deportation ban if they face a “concrete danger to life” upon their return to the destination country (BAMF, National ban on deportation, 2018b). Asylum seekers whose applications were rejected are generally obliged to leave Germany. For those who cannot return to their home countries - e.g. because of missing identity documents – a temporary suspension of deportation (Duldung) is issued (BAMF, Termination of residence, 2018c).

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	<p><b>Positive Asylum Decision</b></p> <ul style="list-style-type: none"> <li>• Move out of the shelter to own housing</li> <li>• Learn German, have educational qualifications verified, identify need for training/education, decide on career path – critical and difficult decision which impacts their financial outcomes</li> <li>• Pursue education, vocational training, part-time jobs, or full-time jobs</li> <li>• Apply for family reunification</li> </ul>	<ul style="list-style-type: none"> <li>• Enter into rent contracts</li> <li>• Purchase furniture (allowance provided by government)</li> <li>• Understand different insurances</li> <li>• Purchase necessary consumer durables (phone, laptop, car, driver's license)</li> <li>• Manage day-to-day expenses with the asylum seekers benefits (payment for food, groceries, clothing, medicines, etc.)</li> <li>• Send remittances to family</li> <li>• Start business and raise capital</li> <li>• Arrange for education loans, grants, funding</li> <li>• Repay loan for financing journey</li> <li>• Preparing funds for family reunification</li> </ul>
<p><b>Permanence (36 months +)</b></p>	<ul style="list-style-type: none"> <li>• After spending 3 to 5 years and attaining proficiency in German, they can apply for permanent residency</li> <li>• Full integration into the labour market through stable jobs</li> <li>• Increasing income</li> </ul>	<ul style="list-style-type: none"> <li>• Prepare funds for family reunification</li> <li>• Access credit and build credit history</li> <li>• Send remittances to family</li> <li>• Informal borrowings</li> <li>• Saving</li> <li>• Banking and payments – making online payments</li> </ul>

As refugees perform the necessary financial tasks, they experience many 'firsts' – such as buying groceries, entering into contract for mobile phones, opening a bank account, paying for public transport, renting an apartment, paying for utilities, buying insurances, buying consumer durables (e.g. electronics, furniture, cars), applying for credit cards, starting a business, and filing taxes. Many of these are intimidating even for Germans, and for refugees these are even more challenging due to their limited German language skills and low understanding of the local rules and procedures.



## RESPONDENT JOURNEY: FINANCIAL “FIRSTS” AND ITS CHALLENGES

Reem and Tarek<sup>9</sup> live in Berlin with their two children. Moving out of the camp to live in their own apartment was a major milestone for them. While this was exciting, it also led to a significant increase in their expenses, some of which they realise was not handled well. Within a year they had significantly increased their liabilities and already affected their credit (Schufa) scores as they made a series of mistakes. First, they overlooked a letter received by the electricity company asking them to pay a bill of 250 Euros which was an annual charge. Since the letter was in German they did not understand it and kept it aside. However, their dues kept increasing. Finally, unable to pay the big amount, the electricity company agreed to let them pay in monthly instalments. Second, they bought furniture for their new apartment online thinking that they can pay for it later. However, it turned out that they had bought the furniture on monthly instalments which further increased their liabilities. Thirdly, and more worryingly Tarek came across a credit card online and applied for the same without realizing the high costs involved. Later when he cancelled the card, he had to still pay 300 Euros.

“Germany is a difficult country. When we came here at first, we thought it will be easy to live here until we faced a lot of problems with payments. Now by learning from our mistakes and after my husband found a job, we are back at zero level. Earlier we had gone below. We were in negative.”

All these setbacks deteriorated their financial situation and further added to their existing liabilities. Reem was part of a savings group with some Syrians and Germans. She took a loan from the group to repay some of the loans. This helped them reduce some of their financial worries. Tarek had also found a job which increased their confidence.

Such experiences were common across the respondents. For instance, another Syrian male respondent shared how he lost money buying electronics online. He bought a laptop but realised that it was not suitable for him, however, he found that it was non-returnable. He did not fully understand the return policy of the seller. He had never bought goods online in Syria. Others shared how during the initial weeks in Germany they had little knowledge of where to buy cheaper groceries. They were not aware of the market rates and the currency and ended up buying from some expensive stores. Furthermore, representatives of NGOs counselling refugees also mentioned that they

<sup>9</sup> All respondents have been given pseudonyms to protect their privacy.





are often sold wrong insurances by door-to-door agents, overcharged by real estate agents for apartment lease, and targeted by loan sharks giving credit at exorbitant interest rates.

When faced by such financial challenges, refugees seek support from their friends and sometimes from their networks of Germans. They also seek support from NGOs such as Caritas and German Red Cross who have counsellors, but they are often not trained on handling financial issues like these and learn as they go. Refugees living in shelters were being supported by the shelter staff. Each municipality also has a Consumer Protection Office or Debt Counselling Centre and refugees could be advised by them as needed. While a lot of high-quality support is available, it is more of the reactive kind. Thus, by the time refugees access it they often have already increased their financial vulnerability.

### **Unable to find a financial footing, many are losing the confidence that they will “make it”**

All respondents interviewed during the research had one common goal i.e. to lead a ‘normal life’. This entails moving out of the shelter to live in a house with their family, finding a suitable job that gives them a stable income, and finally regaining control over their financial lives. There are several steps to reaching this goal, each of them requiring lot of time – for most this has taken two to five years. Before entering the labour market, refugees must acquire German language skills, have their qualifications verified, improve their skills or gain new skills through training and further education, and then find apprenticeships, mini-jobs<sup>10</sup> or full-time jobs.

The experience of moving through this path vastly differs based on age and past work experience. The younger respondents have more clarity of the steps they need to take – learn German language (which they do much quicker compared to older respondents), finish their education or vocational training and then enter the labour market through apprenticeships or internships. On the other hand, older refugees (more than 35 years) take much longer to learn German. It is also more difficult for them to make a career decision if doing what they did in their home country requires significant investment in re-education (e.g. teacher or doctor) or starting up a business (which is subject to time consuming approvals and bureaucratic procedures). Most of the study respondents in this age category had been in Germany since three to five years and had not yet found

<sup>10</sup> ‘Mini-job’ is a type of part-time employment that limits the maximum monthly income to 450 Euros according to current legislation. In return, income from mini-jobs are exempted from income tax.



a stable career, lowering their confidence that they will “make it” in the Germany system. However, there were exceptions as well. Single women and families with children, despite financial hardships reported high levels of confidence showing their motivation of making a good life for their families in Germany.

Until refugees find jobs, they remain dependent on the financial support from jobcentres. While this is enough to cover their basic expenses of rent, food, transport and clothes, it is not enough to be able to save for the future. Of the respondents who were working, some had mini-jobs with low pay and some had temporary contractual or volunteering jobs. For most it is taking longer than expected to find a suitable job or start a business and till that time they remain financially unstable and dependent – something that is not dignified in their culture. This has a significant influence on their psychological health and motivation, and eventually on their economic and financial decisions.

## RESPONDENT JOURNEY: A LONG JOURNEY TO FINANCIAL SUCCESS

Burhan is from Homs in Syria where he had a successful manufacturing business employing 60 people. With the war, his factory was destroyed, and he moved to Turkey with his wife. Unable to find their place in Turkey, they decided to move to Germany. Even after three years of being here, Burhan has not been able to find a stable job or decide which career path he should take. A veterinary doctor by education, he thinks he is too old (33 years) to study again for five years to gain the license he needs to practice in Germany. He had worked with some not-for-profits on temporary contracts but was with the job centre<sup>11</sup> last time he was interviewed. Asking for money from someone else and being financially dependent has made a huge dent on his motivation. Due to the continuous stress, the relationship with his wife had been deteriorating. Slowly, he is losing perspective on where his life is headed, and he is starting to doubt his decision to come to Germany.

“Had I been in Turkey, I might have already established my own business. I am in deep trouble. At my age, I should already be earning and be able to provide for myself. Look at me. I have to go to the Job Centre to get money every month.”

<sup>11</sup> The refugees who have been accepted (including those with tolerated status) are supported by the ‘jobcenters’ which are under the Federal Employment Agency, under Ministry of Labour and Social Affairs. They are the centres usually responsible to support long-term unemployed Germans. The jobcenter also provides financial support for training and to start a business (even approves business plans).



Burhan is bewildered by his German friends' lack of preference for setting up a business. He thinks he is a good salesperson and could do very well if he starts his own business or joins a marketing job. However, starting a business in Germany is not easy and a marketing job might not lead to the imagined future. He is advised by his German friends to go back to study or do an "Ausbildung" (training), both of which are challenging for him.

Burhan speaks very good English but has limited German language skills. He also has a very good network of friends, especially German friends who always advise him. Nevertheless, with all the stress at the professional, financial, and personal front he is not able to make optimal decisions for his future. The path seems long and treacherous, and the outcomes uncertain. This makes him impatient and frustrated, worried that he is losing time.

### **Inability to establish long-term goals (and just living for the day) influences financial behaviour**

The presence of financial goal-setting is an important indicator of long-term financial planning. Research has shown that those who have longer-term financial goals such as paying university fees, buying a car, or becoming debt free, have significantly higher financial knowledge scores, compared to those who do not have such goals (OECD, 2017, p. 34). This was also observed among the research respondents, where those with goals such as to repay loans or to finish university education, were more organised with their money, often conducting careful budgeting of their expenses.

However, at the same time various factors were seen to have a negative effect on the respondents' ability to think long term. These factors included inability to find stable or suitable jobs, long wait for family reunification or a decision on their asylum application, uncertain legal status (due to short term visas that refugees receive), increasing financial liabilities, and high level of psychological stress. Due to these reasons, they are frequently overwhelmed by feelings of lack of control, low confidence, and uncertainty and anxiousness about the future. This often results in short term thinking (what economists call "tunnelling") and leads to increased impulsiveness and sometimes sub-optimal financial decisions. For instance, respondents who were unable to re-establish their careers or those who were waiting for decision on their asylum status (majority of the Afghani respondents) found it difficult to have any long-term goals and were just



living by the day. Some of the other respondents mentioned the inability to plan their expenses and restrict purchases. Even when they want to save, they end up making impulse purchases to overcome emotional voids and stress.

## RESPONDENT JOURNEY: WHEN LIFE DOES NOT GO AS PLANNED, IT IS DIFFICULT TO PLAN LONG-TERM

Sara is 34 years old and comes from a middle-class family which still lives in a small town in north-east Syria. Sara and her sister were the lucky ones who came to Germany through the UN resettlement process. For Sara, her luck ended sometime after she arrived in Germany. The last three years have been a struggle at personal and financial end.

After arriving in Germany, she was assigned to go to a small town in Bavaria. She instead went to Berlin with her husband who was already in Germany. She tried to shift her papers to Berlin, but the authorities asked her to move to Bavaria. She did not register with the job centre in Bavaria as she did not want to complicate her case and applied to be shifted to Berlin, only to receive a negative response after one year. She did not receive any financial assistance from the job centre during this time. She used her savings and the money sent by her husband to meet her living costs. They even had to borrow money from friends in Berlin. The financial pressures led to many arguments between the couple and eventually they separated.

Sara finally registered with the job centre in Bavaria and opened a bank account. Even after that, due to some mistake at their end, she did not receive her payment for another five months. She had no money to pay for rent or buy food – so she had to borrow from her flat mate and accept help from an NGO.

Feeling alone and exhausted, she finally moved to Berlin without the agreement from the Bavarian state. She wanted to be close to her sister and people from her own country. Since she is not registered with the job centre in Berlin, she does not receive any social assistance. She receives a small salary of 990 Euros every month in her part-time job as a cook. She barely gets by – with rent, food expenses, and loan repayments. Even then she helps friends with small loans, from her little savings. Surprisingly in the month of May-June 2018 she lent to her friends seven times!



*“I cannot say no to people who are in a problem. Many times, they do not pay me back also. I am not able to ask. After all, I was also in the same situation.”*



A look at her monthly budgets shows the proportionately high amount of money spent on eating out and drinks as she is trying to make new friends. She admits that she is not able to control her expenses and that she must start saving. Recently she joined the language course, which she has to pay herself because she is not registered with the job centre. She is still figuring out what she wants to do. She had plans of staying with her husband and having children. The separation and financial challenges have left her drained. She does not want to push herself right now and finally enjoy being in Berlin, the city she wanted to live in for so long.

*“I cannot live the life I had dreamt of. For now, I want to rediscover my aspirations small steps at a time. I want to make friends and get to know the city.”*

However, here as well there are exceptions – young adults (18 to 25 years), women with children, and those with concrete entrepreneurial plans were more likely to have long-term goals. The younger ones, as discussed earlier, are usually able to identify a clear career path in terms of finishing education and starting apprenticeships. They are also less likely to have dependents and large financial responsibilities. Most are quick to learn the language which facilitates social interaction. They also have greater opportunities to build wider social networks through university and through organisations that link them with German mentors.

Women with children, especially single women, interviewed during the research were determined to ensure a good education and up-bringing for their children. They were observed to be more financial prudent in their expenses and tried to save even if little. However, the increased financial and administrative responsibilities, in addition to care-taking has over-burdened their cognitive bandwidth. Still they were seen to be driven to earn a livelihood and had a positive attitude towards the future. Even existing research<sup>12</sup> points in this direction (OECD, 2017, p. 41). Those who were trying to start a business were also observed to plan considering the long-term. They were more confident, were able to seek out right information, and were much more organised with their finances.

<sup>12</sup> This research was conducted in G20 countries.



## **Social networks have significant influence on decision-making**

The networks of friends and family from home country residing in close physical proximity in Germany, play an important role in shaping the decisions, confidence levels and emotional well-being of respondents. This is evident from the experience of Sara who moved to Berlin as she wanted to be closer to other Syrians she knew, even if that meant that she will no longer be financially supported by the job centre. The same was observed for other respondents who moved to the city just to be closer to their networks, though this meant an increase in the living costs.

For others, the social networks are an important source of financial confidence. They count on them in case of any financial emergencies and often borrow and lend small amounts of money. Refugees are seen to financially support each other despite having small incomes, like the case of Sara. This reciprocity of financial help is not only an important component of their culture but also an important coping mechanism. Syrian respondents also have stronger trans-national networks with family and friends in Europe and the Middle East. These networks play an important role when mobilising capital to set up businesses in Germany.

While this bonding capital (i.e. the networks between fellow nationals) is important, the bridging capital (i.e. the networks with host population) is also observed to be a key enabling factor for refugees. Several civil society organisations and private institutions support programmes that enable interaction between refugees and the host population. This provides them access to information and mentoring to navigate through the complex bureaucratic and labour market systems in Germany. Though financial support is limited, refugees report that they received kind support from their German acquaintances when needed.

Some of the respondents are part of savings groups mobilised by a Berlin based NGO called SavingBuddies. These groups are a mix of Syrians and Germans. The members can save in the group and take loans against their savings. They also discuss financial management topics during their meetings, where they can learn from other members, especially the Germans. For instance, one of the respondents is using an excel based budgeting template shared by a German member, to track income and expenses. This has helped her to better manage her finances.

The non-Syrian respondents, in contrast, reported much weaker bridging capital. Even though a lot of networking platforms are not targeted to refugees from any specific nationalities, most of the non-Syrian respondents and especially asylum seekers did not feel comfortable participating as these platforms are dominated by Syrians.



## **Financial coping strategies remain reactionary rather than planned**

Refugees were observed to have adapted to a “survival mode” way of thinking due to their experience of war, violence, and flight. The uncertainty of their situation in their home country, during the journey, and on arrival in Germany meant that the coping strategies used to overcome challenges had to respond to unknown situations. This has continued during their integration journey in Germany. While past experience is a major reason for this behaviour, it is further exacerbated by an uncertain future in Germany and limited financial coping mechanisms.

For instance, most respondents showed low preparedness in handling unplanned expenditures. Though many had not faced any big unplanned expenditures that could not be handled outside of their monthly income, yet, when probed on how they might handle such a situation, they said they will think of solution when they are confronted by such a challenge. Even then the coping mechanisms remain limited, mainly borrowing from their social networks (who are in an equally vulnerable situation). The coping strategies are reactionary rather than planned, focused on survival. This was seen in the case of Sara, and Reem and Tarek. Interestingly, the single mothers interviewed showed a high confidence in handling such financial challenges even when they did not have any pre-existing situation in mind. This might be because they have already overcome many other challenges themselves, showing high levels of resilience.

## **Usage of bank account to save or make payments remains low**

As also noted by other studies on financial practices of refugees in Germany, the usage of bank accounts remains low or limited for the respondents of this research (Arnold et al., 2018, p. 24; Grohmann, 2018). The majority use their account only to receive the welfare payments or salaries, but not to make merchant payments (at stores) or online banking. There are two main reasons for this. Firstly, most respondents were used to cash-based economies back home and did not own a bank account. This is also noted by Grohmann in her study with Syrian refugees. Those who had a bank account back home worked in professions that required one (e.g. government services such as teacher or police services, or own business). These respondents were relatively more confident in using the account to save, make point of sale merchant payments, and use ATMs. However, even then the level of education and age were important additional determinants. For instance, educated, young, respondents with no previous experience of banking were more comfortable in using different features of the account, vis-à-vis





those with previous experience but older and with lower education. One reason for this is that the young refugees have better German language skills and are more tech-savvy. All respondents were comfortable using ATMs, though they had an initial learning curve where their friends, or staff at the bank or refugee shelter supported them. In her study, Grohmann also found refugees to be frequently using their bank accounts (up to three times a week). In our research, respondents were mainly seen to withdraw cash from ATMs and then used it to make payments. Some respondents were apprehensive about the fee structure where they were being charged per transaction (ATM withdrawal and point of sale payment), hence limiting their usage.

## RESPONDENT JOURNEY: LACK OF KNOWLEDGE ABOUT BANKING

Mohammad is 30 years old and a student studying at the university in Bonn. He lives alone and his family is back in Syria. He has a bank account at the Sparkasse and receives financial assistance for his education. On being asked about the reason he said,

*"I used to withdraw multiple times from the ATM. I also used to sometimes pay at the supermarket with my card. But once I looked at my bank account statement and found that I was charged each time. It was about six or seven Euros in a month. That's a big amount for me."*

*"I just withdraw the whole amount as soon as I receive the money. I leave it to zero. I keep the cash at home and use it when needed."*

Most of the respondents were not convinced of the benefits of using a bank account. They were not aware of credit scores and how building a banking history might help them improve their scores for the future. The proposition is further weakened by their inability to have a long-term perspective in financial planning.

The second important inhibiting factor is the fear of surveillance of their financial transactions by the authorities. Those who are still assisted by the job centre, are required to submit their bank statements on a regular basis. They fear that if their financial transactions are visible, then they risk losing part of their monthly financial assistance. They also want to avoid unnecessary questioning from the authorities. Hence, they prefer



to make all transactions in cash and not leave any money in the account by the end of month. They choose to remain 'invisible'. While part of this fear is reasonable (as they need to submit bank statements), part of this is perceived due to misinformation about how financial assistance is calculated. The 'disincentives' of using the bank account (of losing assistance, being questioned) are far more than the 'incentives' (or at least the understanding of it such as the benefits of building credit score).

## RESPONDENT JOURNEY: FEAR OF SURVEILLANCE OF FINANCIAL TRANSACTIONS

Abdul is 26 years old and lives in a refugee shelter in Bonn. He does not have refugee status, but cannot be deported back to his home country, Afghanistan.



*"I used to pay sometimes with my card. But then I stopped when the job centre employee asked me why I spent 100 Euros on a new pair of jogging shoes. They check the account all the time and ask questions. I am worried they will cut my assistance money"*

Again, there are exceptions to this behaviour. Those who have stable jobs and are no longer dependent on financial assistance were observed to be less worried about the fear of surveillance.

## Conclusion and Recommendations

It is evident that displacement causes a significant impact on the financial capabilities of refugees. The highly formal financial systems in Germany are new for most of them. Language creates greater barriers and increases their vulnerability. Most refugees struggle to navigate through the complex rules and processes of the administrative and financial systems. This is distressing, especially when their financial circumstances in the long term depend on the choices they make during the early phases of integration. Though support is available, in form of several free counselling services by NGOs and local state authorities, many might not reach out to credible sources of information. They fear negative consequences from disclosing their financial data especially to the



government authorities. In such situations, they depend on information from other refugees in their community, which might not always be accurate. This could result in financial choices with negative implications for their immediate and long-term financial outcomes.

It is also important to acknowledge the impact of their psychological situation on their financial behaviour. Simply providing financial knowledge and skills, does not mean that rational decisions will follow. Many refugees are confronted by feeling of uncertainty, anxiousness, and fear, which strains their mental bandwidth. Some feel lost in the system and others feel unstable as they are separated from their families. They are half in this new country and half back home. All of this often leads to short-term thinking and impulsive behaviour. As a result, their financial strategies are reactionary in the event of a financial demand and not planned. Such passive rather than active oversight of their financial lives does not support financial control and resilience, which many aspire to achieve.

Hence, there is a need to not only bridge knowledge gaps, but also improve skills, and over a longer term influence behaviour to ultimately improve financial competencies. It is also essential to consider that this group is heterogenous and the financial behaviour is quite varied depending on their previous experience, skills, family situation, status of labour market integration, age, and asylum decision.

The following section provides some recommendations which could help identify and design more effective financial literacy interventions for the new arrivals, based on an improved understanding of their context and circumstances.

## **1. Offer financial education at teachable moments**

Evaluation of financial education programmes shows that its impact on financial behaviour increases if it is offered at a teachable moment (Kaiser & Menkhoff, 2016). This means offering education when people can put the financial knowledge or skills to action. When the information provided cannot be used immediately, the participants are likely to lose interest, making such general financial education programmes ineffective. It is also seen that mandatory financial education without an intrinsic motivation to attend from the participants' side is not effective (Collins, 2013). People are likely to be motivated to seek information when they have to make specific financial decisions such as opening an account, buying insurance, buying a car, purchasing consumer durables, renting a house, applying for university, sending a remittance, filing for taxes, taking a credit, or starting a job or business.

# UNDERSTANDING FINANCIAL LITERACY AMONG REFUGEES IN GERMANY



The table below has tried to map these financial decisions along the integration journey of refugees. It summarises the various financial tasks to be performed in different phases and the required information and financial skills. The periods during which the financial task is relevant is highlighted. The teachable moment for these financial skills will be right at the start of these periods of relevance. It can be seen here that many of the gaps in knowledge about the financial systems arise in later stages of integration. Providing all this information together at the start with integration courses will not be effective and providing it later than when it is most needed will not yield desired results. Therefore, offering training “just in time” when refugees need it will be most effective.

Table 3: Mapping teachable moments for key financial information and skills (Zollmann, Faiz-Qaisary, Azouz, Wilson, & Rajkotia, 2019, p. 13)

Financial tasks	Information and skills required	Phase of Integration			
		Arrival (0-3 months)	Waiting for asylum decision (3-6 months)	Upskilling/ labour market integration (6-36 months)	Permanence (36 months+)
<b>Receive income</b>	Understand welfare benefits, open bank account, use an ATM				
<b>Make payments</b>	Understand different payment channels (debit card, online) and costs				
<b>Buy mobile connection</b>	Understand prepaid and postpaid options, sign contract, pay for connection, set up regular payments				
<b>Buy groceries</b>	Understand different retail options and find shops with good deals, use debit card, budgeting				
<b>Move into own housing</b>	Find apartment, deal with brokers, understand contract terms, set up rent payments, budgeting				
<b>Buy consumer durables</b>	Find good deals, use debit card, understand instalment plans, budgeting				
<b>Online purchases</b>	Find good deals, making payments, understand return policy, understand instalment plans				
<b>Buy insurance</b>	Understand different kinds of insurance, coverage, and costs, set up regular payments				

# UNDERSTANDING FINANCIAL LITERACY AMONG REFUGEES IN GERMANY



<b>Start or change jobs</b>	Budget for change in income, negotiate salary				
<b>Pay for training/ education</b>	Understand funding options, saving, planning for reduced income period				
<b>Take/ Repay credit</b>	Understand costs and repayment terms, use credit cards, understand credit scores, budgeting to repay on time				
<b>Deal with shocks (health, childbirth, death)</b>	Use insurance, understand how welfare benefits work, saving, borrowing				
<b>File for taxes</b>	Complete paperwork, calculation of taxes, budget for tax amount in advance				
<b>Start a business</b>	Raise capital, set up business bank account, pay suppliers and collect revenues, accounting				
<b>Support family back home</b>	Understand formal remittance options, costs involved (fees and exchange rates), remit funds, budgeting				
<b>Family re-unification</b>	Save or borrow to pay for costs, move to bigger house, budgeting				

## 2. Complement with psychosocial training to improve financial behaviour

As already seen, the financial capability behaviour of individuals cannot be affected by transfer of knowledge and skills alone. It also needs to gradually shift attitudes based on an understanding of their psychological context. Research shows that an individual's optimism, non-impulsiveness, goal orientation, and ability to have an internal locus of control has a positive effect on their financial behaviour (Shephard et al., 2017). As already established in the previous sections under the respondents' journey, their financial behaviour is significantly affected by these factors. Trainings focused on helping them overcome their feelings of trauma, anxiety, uncertainty and supporting them to set goals for the future, could provide a strong foundation to improve finan-



cial behaviour. Such programmes could be especially effective for refugee youth and ensure positive outcomes for their financial situation, education and employment.

### **3. Bundle one-to-one financial counselling with classroom training**

While classroom training is essential to cover a wider range of topics, it is critical to supplement it with one-to-one counselling to address the unique financial challenges faced by participants. Also, refugees might not be comfortable sharing their personal challenges in a group format, especially if it includes participants from different nationalities.

Such counselling sessions can be used to provide hands-on support to refugees, help them set short and long-term goals and develop plans to achieve them. This can help them undertake active financial planning instead of using reactionary coping strategies when faced by a task or challenge. Such support will require repeated intensive interaction with the refugees, where the coach could emphasise the positive financial behaviours required to achieve the set goals. Such complementary interventions of goal setting and financial counselling are also seen to have a positive effect on take-up of formal financial products (Kaiser & Menkhoff, 2016, p. 85).

The International Rescue Committee has implemented individual coaching for refugees as a core component of their financial capability approach in the United States. They found that refugees often take support from such individual financial coach for immediate, transactional support in a financial emergency. The goal-based client-led coaching with a future orientation has been more difficult to achieve. Yet such immediate support in a crisis situation has helped the coach build a relationship, and help refugees avoid financial crisis allowing them to have the confidence and space to think about future financial goals (IRC, 2017, pp. 16-17).

An individualised financial coaching programme certainly has higher costs. If such funding is not available, the financial education trainer could offer to be informally available after classroom trainings if participants need immediate financial advice. Another approach could be to have a financial coach available along with consultations at the job centre which are focused on job market integration. The job centre employees, who are over-burdened by their administrative responsibilities might not always be best placed to offer the kind of financial coaching required for refugees. Hence, such counselling is best offered by a third party who has expertise in financial coaching.



## 4. Acknowledge cultural differences in money management

As evident from the findings of the research, the financial practices of refugees are culturally diverse and differ from those of the host population. For instance, borrowing from friends and family is not common in developed countries. Research found that less than 10 percent of Germans turned to friends and family for money. However, in the cultures where the refugees belong, their social networks are an important safety net. Many prefer to arrange resources through these networks rather than accessing formal credit. The feature of reciprocity – the exchange of financial support between networks – is an important financial coping mechanism for this population.

Besides this, it is important to take second look at the questions used to measure financial literacy to ensure they are culturally appropriate. For instance, refugees practising Islamic traditions may not be completely aware of the standard interest rate concepts and calculations.

### QUESTIONS USED BY THE S&P GLOBAL FINLIT SURVEY 2014

*(Klapper, Lusardi, & Oudheusden, 2015, p. 6)*

The following questions have been used by the Standard & Poor's Ratings Services Global Financial Literacy Survey. Two of these four questions are based on interest which might not be culturally relevant for refugees coming from Islamic countries.

➔ **Risk Diversification:** Suppose you have some money. Is it safer to put your money into one business or investment, or to put your money into multiple businesses or investments? *[one business or investment; multiple businesses or investments; don't know; refused to answer]*

➔ **Inflation:** Suppose over the next 10 years the prices of the things you buy double. If your income also doubles, will you be able to buy less than you can buy today, the same as you can buy today, or more than you can buy today? *[less; the same; more; don't know; refused to answer]*

➔ **Numeracy (Interest):** Suppose you need to borrow 100 US dollars. Which is the lower amount to pay back: 105 US dollars or 100 US dollars plus three percent? *[105 US dollars; 100 US dollars plus three percent; don't know; refused to answer]*

➔ **Compound Interest:** Suppose you put money in the bank for two years and the bank agrees to add 15 percent per year to your account. Will the bank add more money to your account the second year than it did the first year, or will it add the same amount of money both years? *[more; the same; don't know; refused to answer]*





## 5. Speak their language to ease access to information

When it comes to money and related tasks, respondents preferred to use a language which they fully understand. For instance, those who had prior knowledge in English always used it to on the ATM machine, even when they had sufficient German language skills. Speaking the refugee's language in classroom or one-to-one coaching could be more effective and ensure better understanding of complex financial subjects, participants feeling more comfortable, and improved trust in the trainer/coach. Also, different participants in a group training format might have varying levels of German, making it difficult to achieve a cohesive transfer of knowledge.

Such approach would require participants to be grouped as per nationality and most likely a trainer with migration background (or an interpreter)<sup>13</sup>. A trainer/coach who themselves have experienced migration and have gone through integration processes in Germany might be able to better empathise with refugees and pre-empt the financial challenges they might face.

## 6. Clarify apprehensions about privacy of financial transactions

It is critical to address the "fear of surveillance" of financial activities among refugees to ensure that they use their bank accounts and other formal financial products more actively. They must be made aware about the extent to which their financial transactions data is being monitored and utilised to determine their cash assistance. Moreover, they should also have a complete understanding of their rights to privacy of their data under consumer protection regulations.

Moreover, pro-active communication to address any questions about calculation of welfare payments could help to further gain trust and avoid any miscommunication. This could include, among others, information on the maximum amount of savings allowed in bank accounts for those who are under unemployment benefits, legitimacy of sending or receiving funds in the bank accounts, and impact on benefits in case of self-employment or part time jobs.

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<sup>13</sup> In an interview with a Belgium based microfinance institution called microStart, they shared how of employing staff with migration background to recruit and assess credit clients has been extremely effective.



## 7. Increase peer network effects to reinforce financial knowledge and behaviour

Previous research shows that financial training that involves families is more effective in improving financial behaviour. The study of a financial education programme at a secondary school in Brazil found that when parents of students participating in the programme also attended the financial literacy workshops, there was a greater increase in household savings compared to when the parents were not included (Bruhn et al., 2013). Another study found that when both the migrant sending the remittances and the family receiving participated in the training, there was an improvement in the ability to use newly acquired financial knowledge (Doi, McKenzie, & Bilal, 2012).

The design of such workshops will have to consider the household management practices of refugees such as the cultural norm of the eldest male being the key decision maker and the role of women in financial decisions. Such trainings might be especially useful given that many respondents in the study reported deterioration of family relations due to the financial pressures they face.

It is also important to increase outreach of financial education trainings to allow peer networks to reinforce the desired messages. If more people in their social networks are financially literate, then it increases the chances of them sharing their experiences of using financial services. It will be useful to identify the gatekeepers of their formal and informal networks which filter and channel information received by them. These could be physical or digital gatekeepers. The former could include certain well networked refugees and influential (those who are regarded as knowledgeable possessing the right information), counselling services of NGOs such as Caritas and German Red Cross, and business start-up incubators. Digital channels could include social media platforms such as Facebook or existing websites such as InfoMigrants<sup>14</sup>. While the trust in social media, especially Facebook, to provide verified and reliable information is low, existing active groups (such as of Syrisches Haus Deutschland<sup>15</sup>) could be considered or a new group could be created specifically offering practical financial capability advice for refugees.

<sup>14</sup> InfoMigrants (<https://www.infomigrants.net/en/about>) is a news and information site for migrants to counter misinformation at every point of their journey: in their country of origin, along the route, or in the places where they hope to start a new life. InfoMigrants is available in five languages: French, Arabic, English, Dari and Pashto.

<sup>15</sup> The group (see here <https://bit.ly/2QUyJAa>) has 255,773 members as of 30th March 2020 and is administered by Syrians. As documented in a news article by Deutsche Welle (read here <https://bit.ly/2WS8oXr>), the group is actively supporting Syrian refugees with their everyday challenges such as translating work permits issued in German by the foreign office or sharing other important practical information.



Refugees remain a dynamic population, motivated to invest their skills and resources in their new country of residence. They arrive with varied skills and assets – social, financial, and physical – but are equally determined to climb up towards financial prosperity. Early and repeated interventions to help them navigate through the complex financial systems of Germany will improve their confidence and achieve better financial outcomes.

This research has attempted to answer some of the key questions regarding the financial challenges of refugees, which could better inform financial education programmes targeted to them. However, it is important to consider the heterogeneity of this group. This research did not fully explore the financial needs and challenges of certain groups such as unaccompanied minors, youth, and asylum-seekers from other countries of origin especially African countries. Moreover, the research had a small sample with a focus on qualitative insights. Further research on this topic with a wider and bigger sample is needed to help strengthen the current knowledge base.

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