



# Financial Literacy in Africa

## A cross-country analysis using FinScope

Maya Mankanjee  
FinMark Trust

Promoting Financial Capability and Consumer Protection  
Accra, Ghana  
8 September 2009

**FinMark Trust**



- Background and Context
- Cross-country Analysis of Financial Literacy
- Summary of Findings
- Conclusions and Recommendations

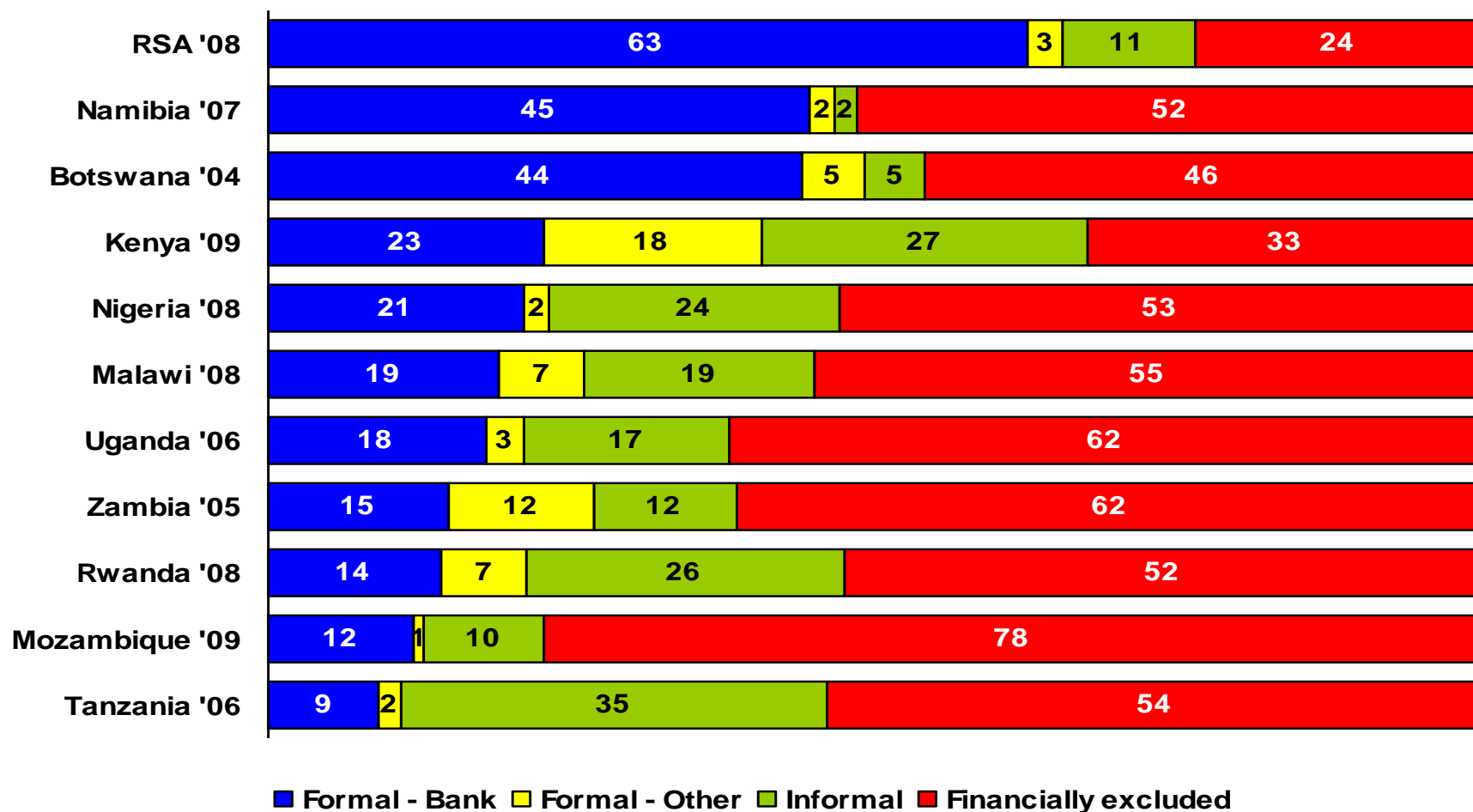


- FinMark Trust Mission: *Making Financial Markets Work for the Poor*
- Facilitating and catalysing development around access to financial services
- Premise – financial markets are either not working or not achieving their full potential
- Solution comes from *within a particular* market, not from a blueprint imported from elsewhere
  - **Information** is the key to making financial markets work for the unserved and underserved



FinScope is a comprehensive demand-side survey of consumer interaction with financial markets. It provides information about financial behaviour, attitudes, interests, financial management, usage of financial products, both formal and informal, as well as quality of life of adults in a particular country.

FinScope Africa



Although financial inclusion data varies substantially across countries, fewer stark differences are evident in financial literacy



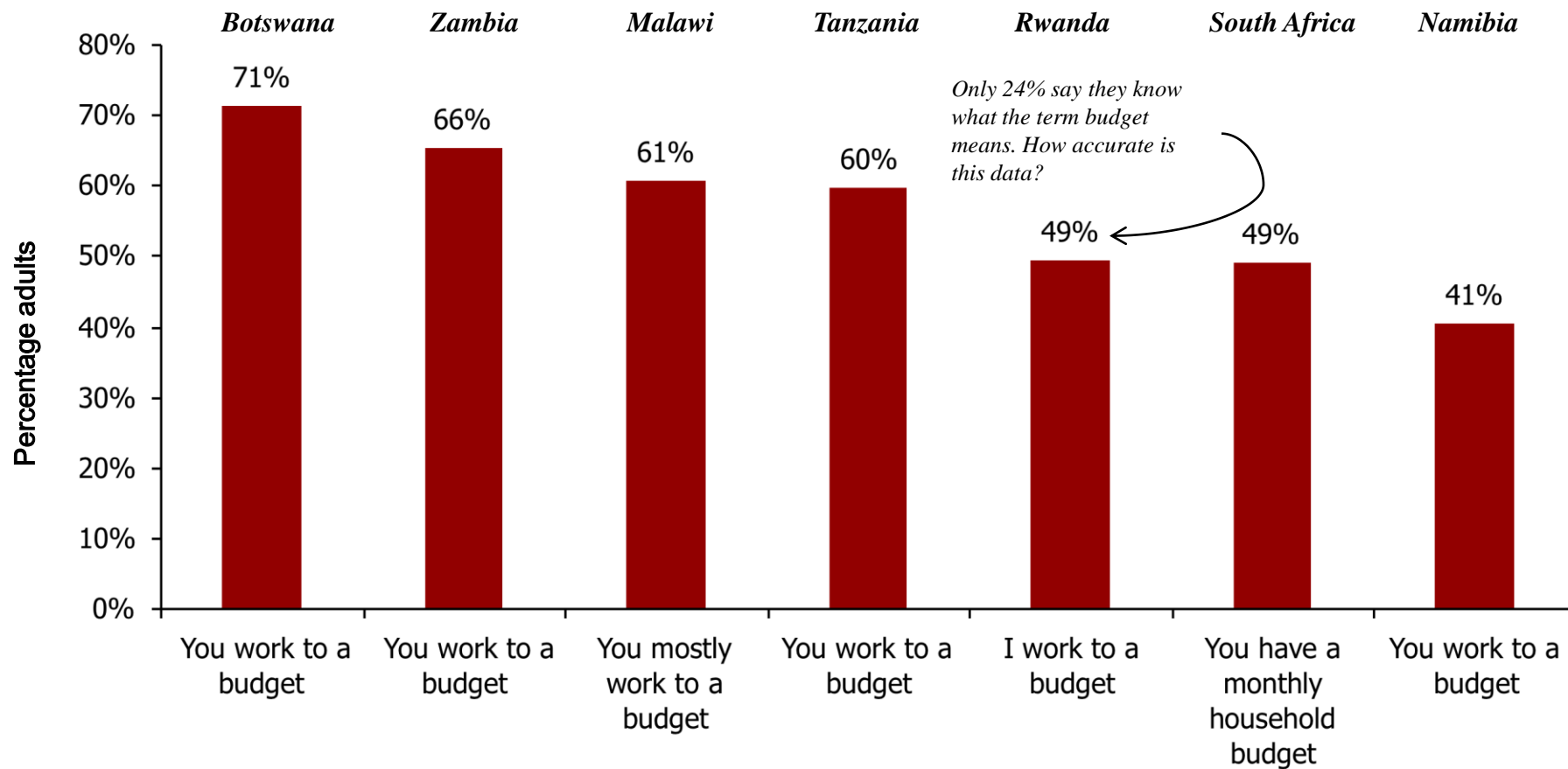
Dimension	Description
Keeping track	Manage money competently
Making ends meet	Live within means (ability to resist pressure to spend) Budget Use credit if you can afford it
Planning ahead	Provide for unexpected events Provide for expected events Long term (e.g. retirement) Short to medium term
Choosing and using financial products	Aware of products that are available Shop around for best products Select best option
Accessing and using information and advice	Make sure you are well informed Find advice if you need it Know where to turn for protection

Financial literacy is a broad concept incorporating various dimensions. Our analysis uses 5 dimensions, which are commonly used elsewhere in surveys



## Budgeting

(Adults that agree with the statement)



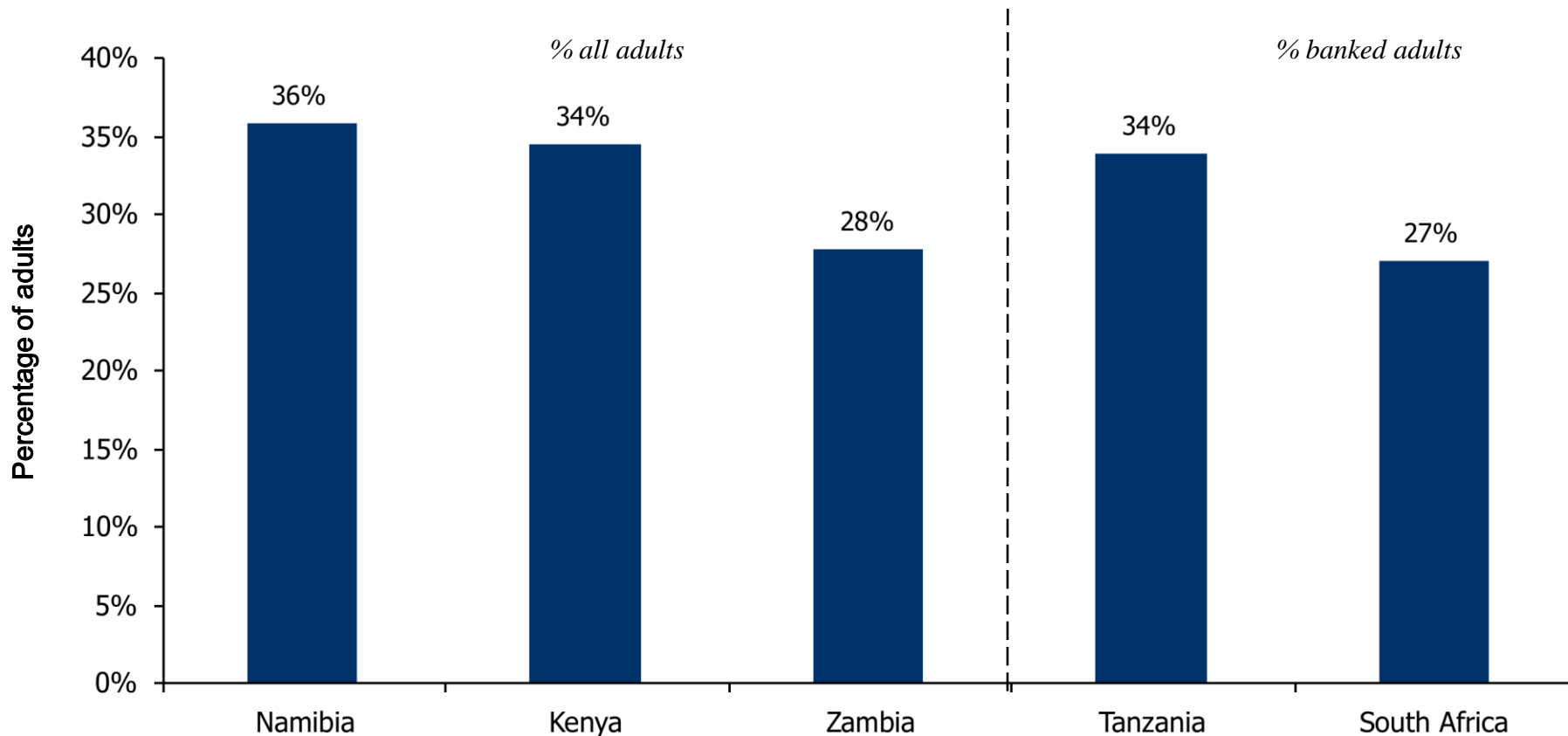
Source: FinScope Botswana 2004, Zambia 2005, Tanzania 2006, Namibia 2007, South Africa 2007, Malawi 2008, Rwanda 2008

In most countries, the majority of adults say they budget



## You often don't feel in control of your finances

*(Adults that agree with the statement)*



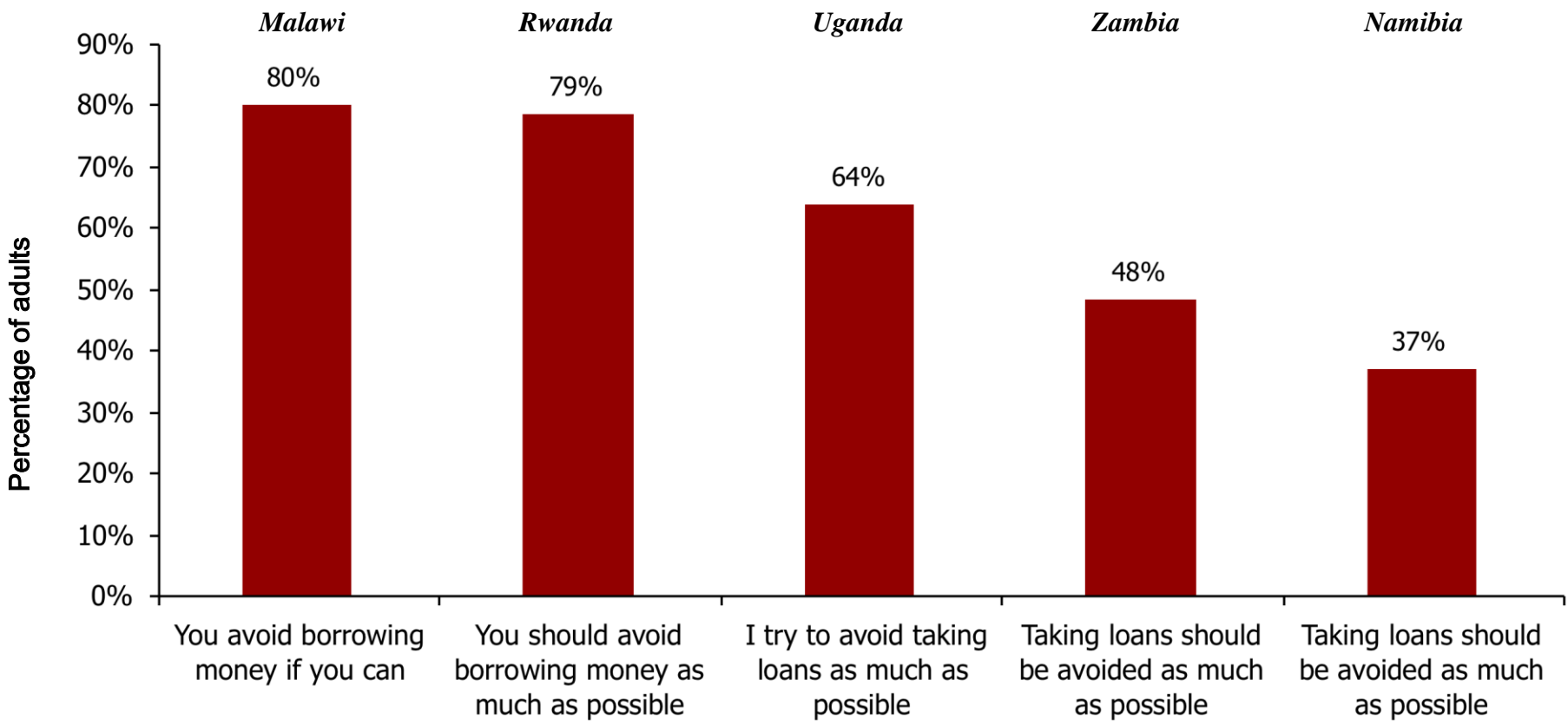
Source: FinScope Namibia 2007, Kenya 2006, Zambia 2005, Tanzania 2006, South Africa 2007

Note: Namibia was phrased using "I" instead of "You"

**Roughly one third of adults say they do not feel in control of their finances**



## Perception of using credit *(Adults that agree with the statement)*



Source: FinScope surveys

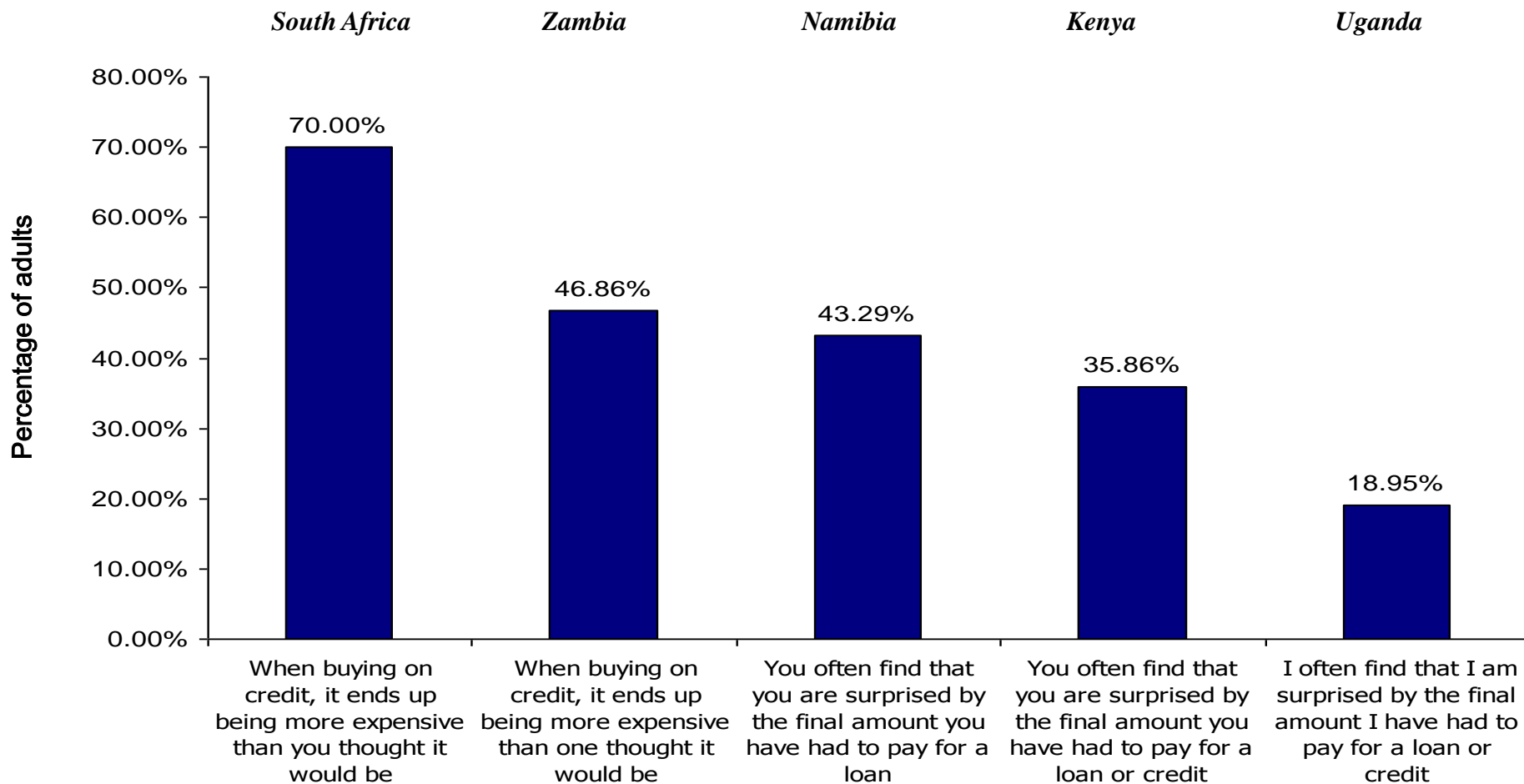
Note: Namibia was phrased as "I often don't feel in control of my finances"

Stated attitudes indicate an aversion to credit in general. This appears to be less pronounced in Namibia and Zambia



## Awareness of final loan/credit cost

*(Adults that agreed with the statement)*



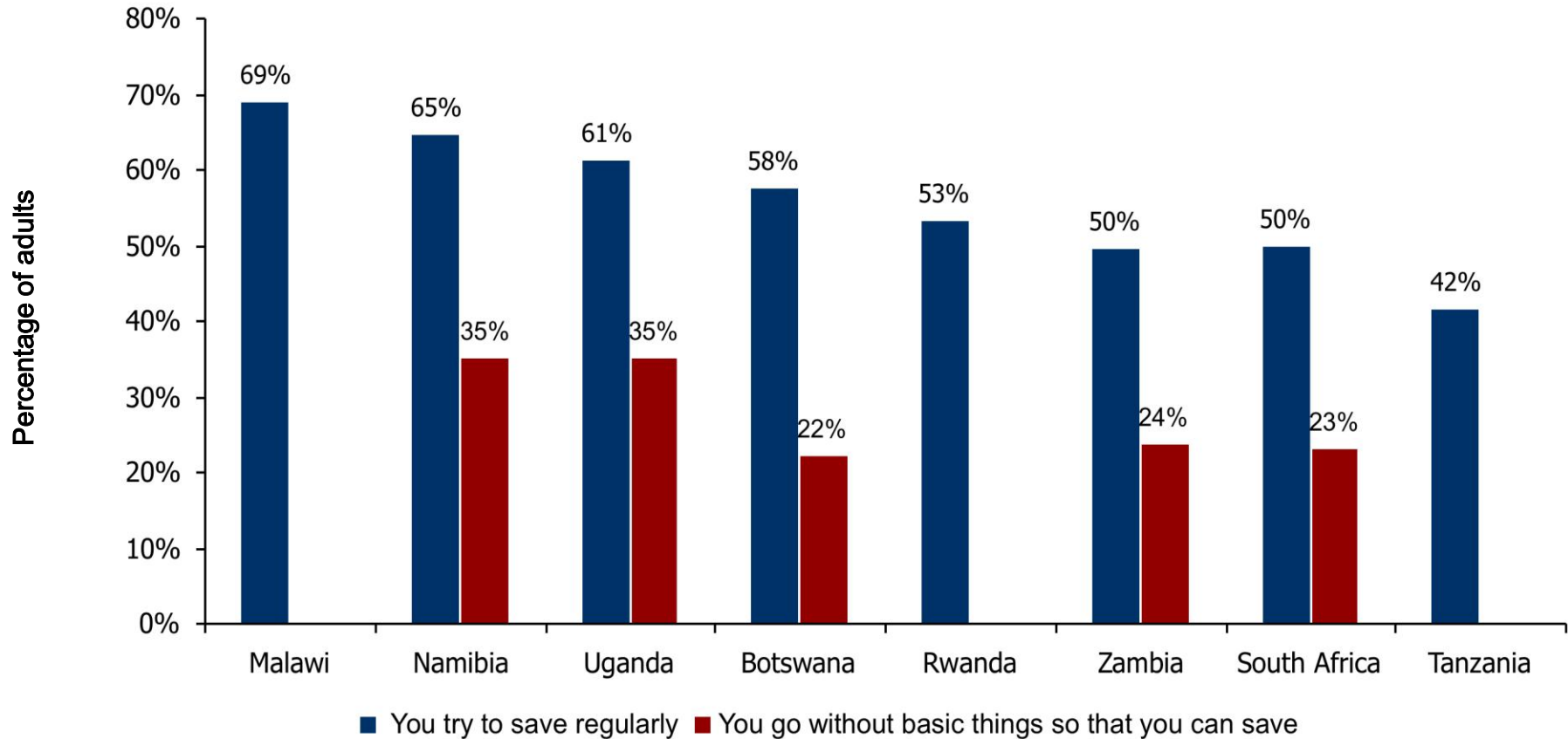
Source: FinScope Namibia 2007, Zambia 2005, Kenya 2006, Uganda 2006, South Africa 2007

Many are not aware of the true cost of credit.  
It is not clear whether this is principally because disclosure is poor or because of low literacy levels

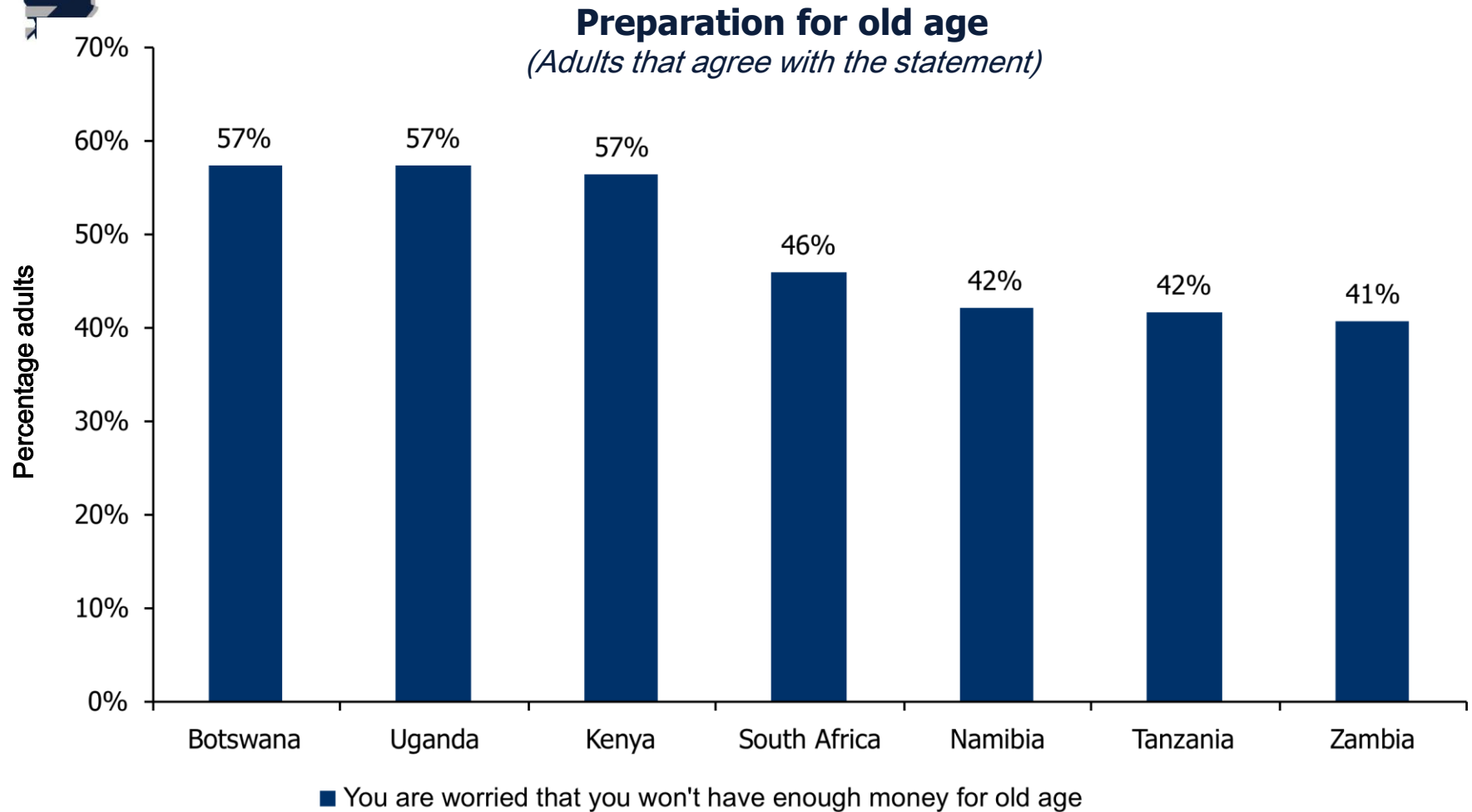


## Savings statements

*(Adults that agree with the statement)*



In most countries a majority of adults say they try to save regularly, and a sizeable percentage do so with much effort



Source: FinScope Botswana 2004, Uganda 2006, Kenya 2006, Namibia 2007, Tanzania 2006, Zambia 2005

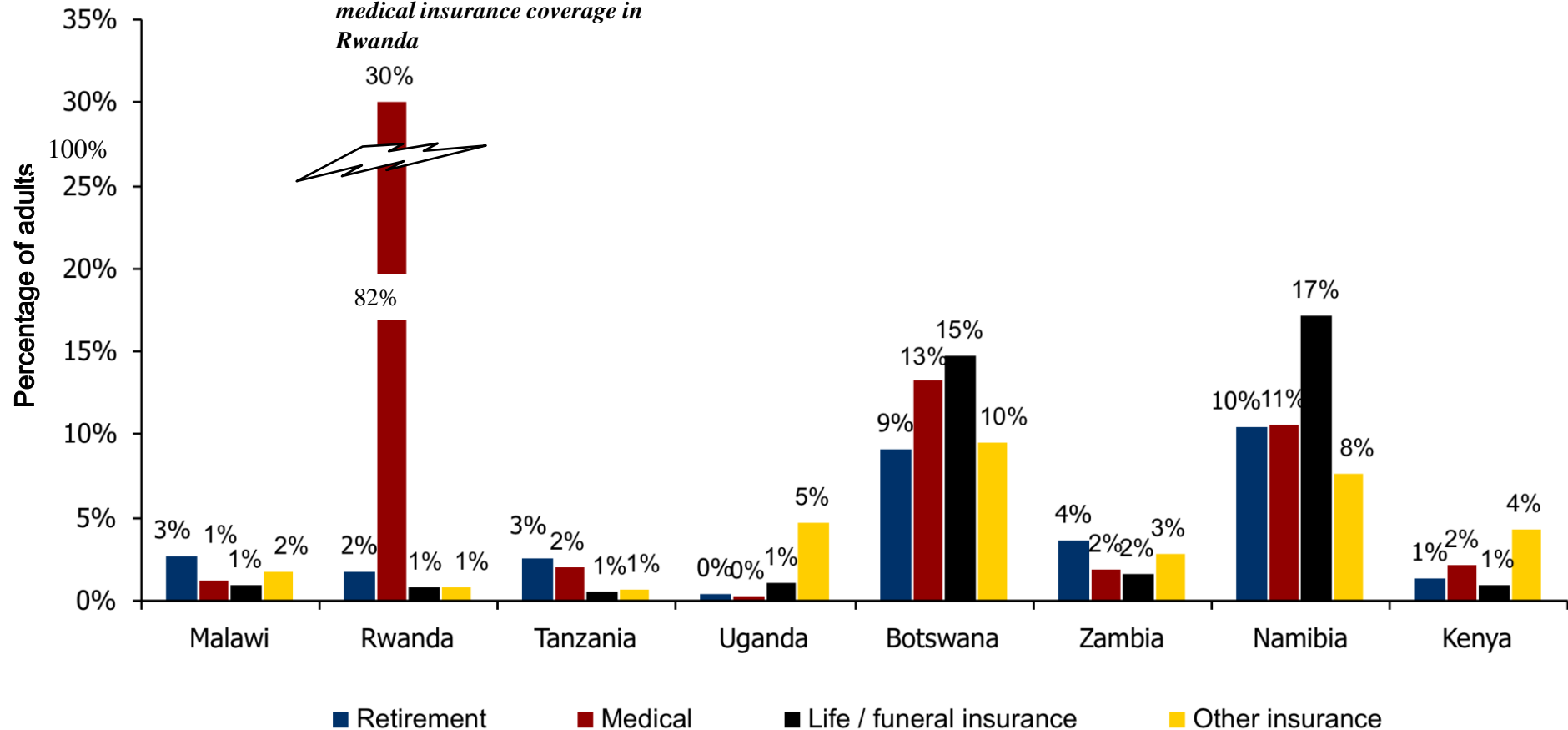
Planning for old age is a critical component of planning ahead.  
Many adults are concerned about their old age



## Financial product usage

(Adults)

*There is almost universal  
medical insurance coverage in  
Rwanda*

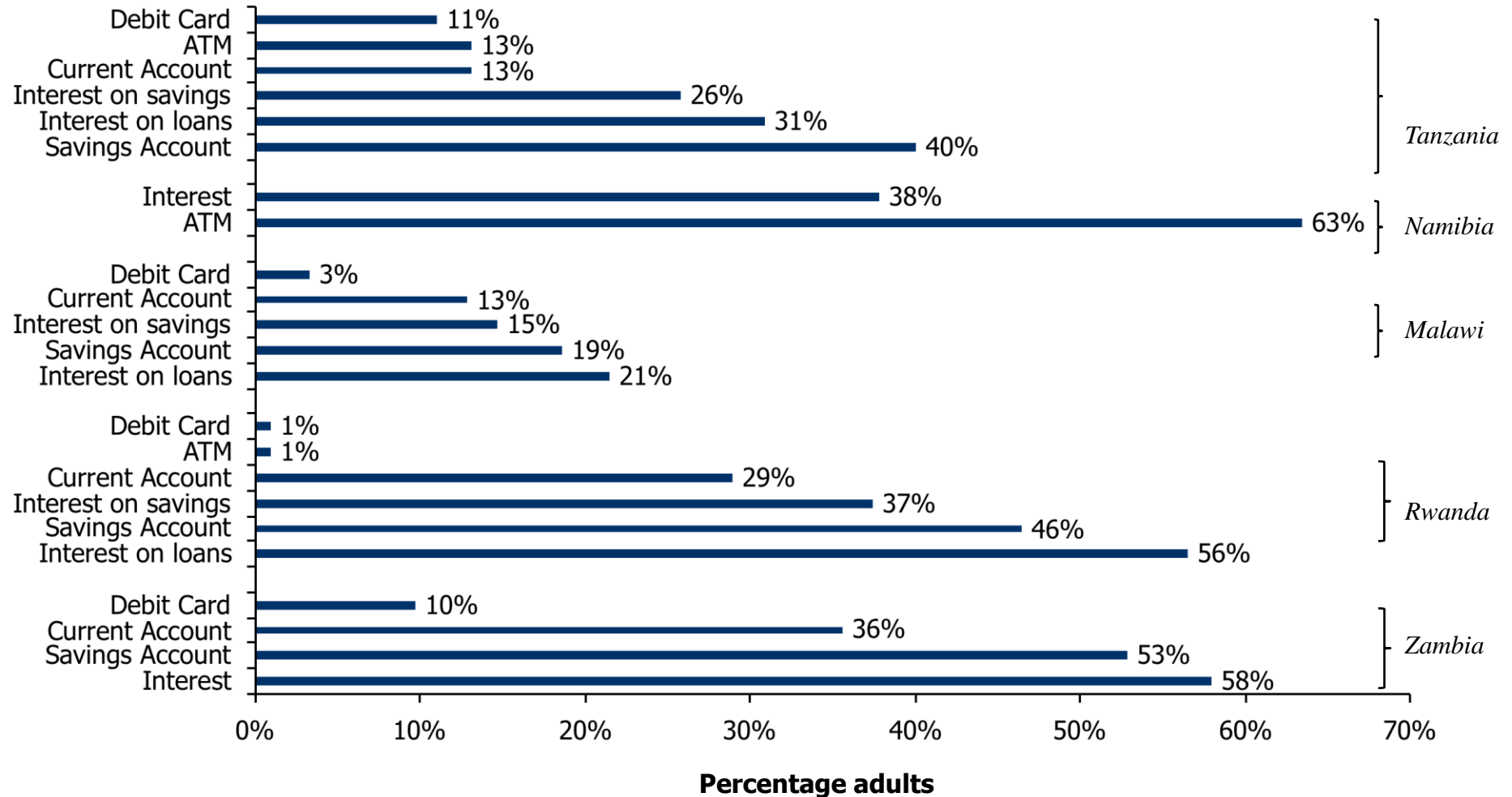


Source: FinScope Malawi 2008, Rwanda 2008, Tanzania 2006, Uganda 2006, Botswana 2004, Zambia 2005, Namibia 2007, Kenya 2006

Nevertheless, in many countries usage of long term savings and risk products is very limited

## Terms

*(Adults that have heard and understand the word)*

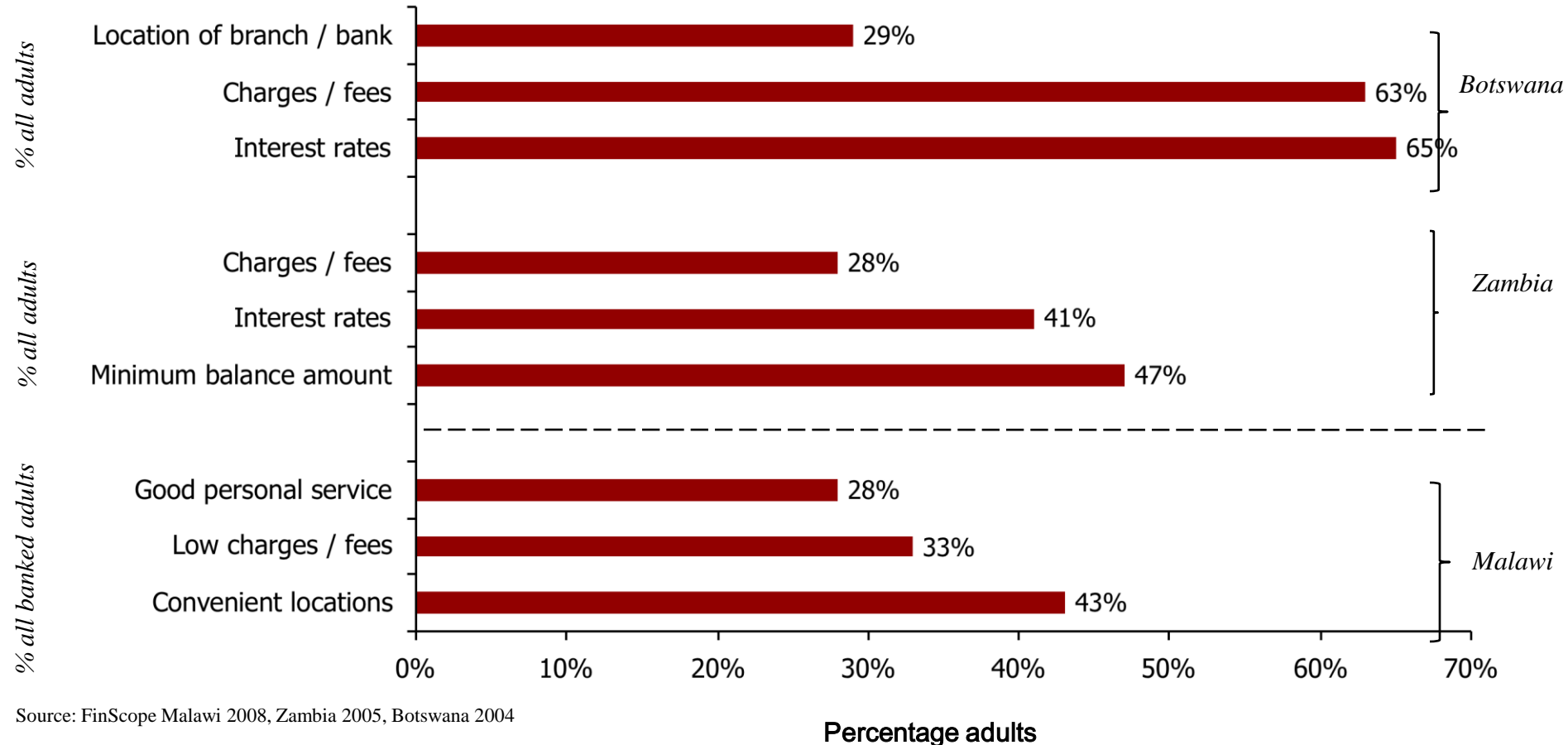


Source: FinScope Zambia 2005, Rwanda 2008, Malawi 2008, Namibia 2007, Tanzania 2006

Familiarity with terminology is in some cases very limited.  
 Note that FinScope does not verify that those who say they understand terms and phrases actually do



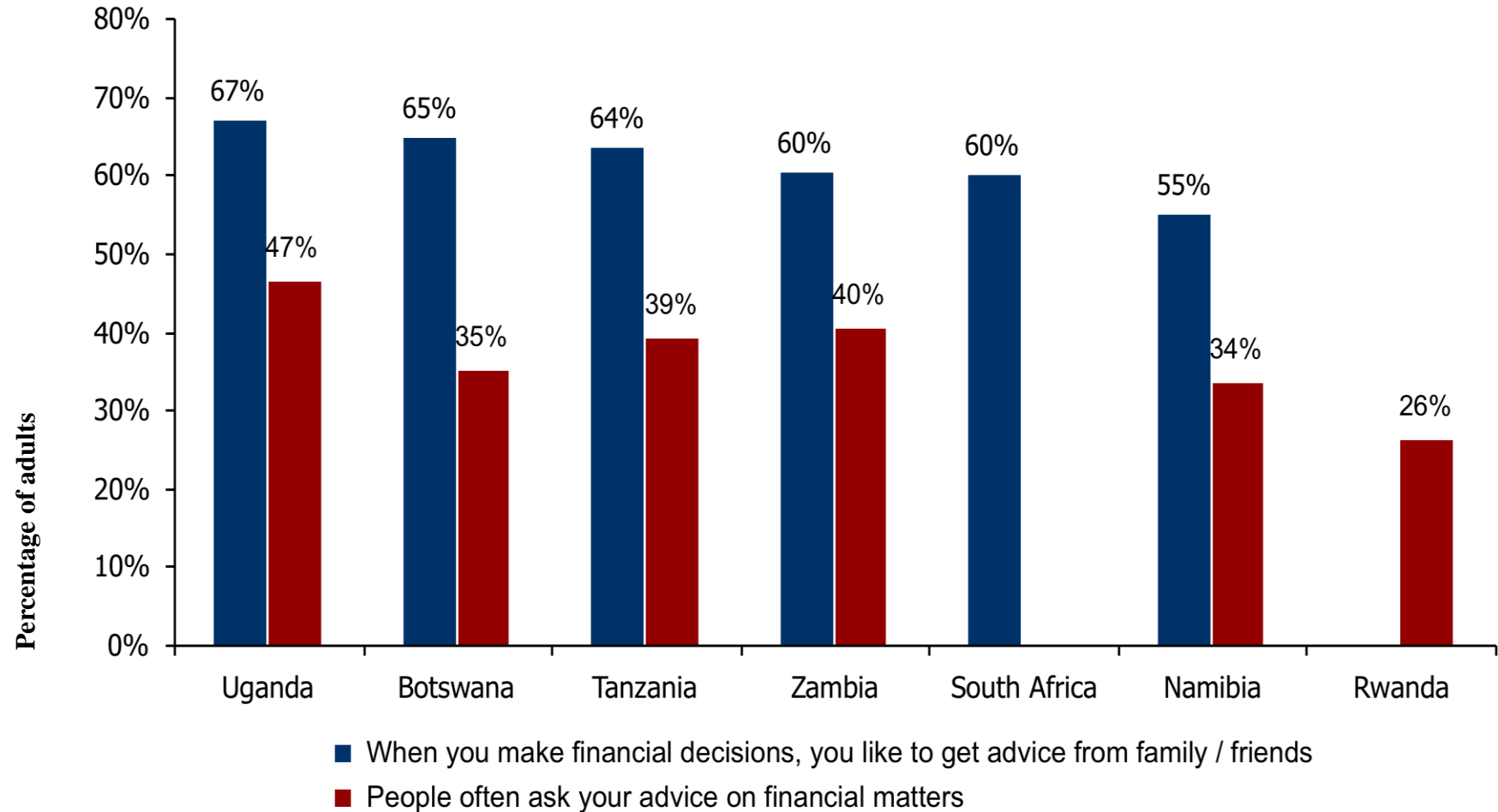
## Main factors in selecting a bank account



Various factors are considered when selecting products.  
Often factors such as location and threshold costs  
outweigh direct charges



## Sources of financial advice (Adults)



Source: FinScope Uganda 2006, Botswana 2004, Tanzania 2006, Zambia 2005, Namibia 2007, Rwanda 2008, South Africa 2007

In many cases people rely on family and friends for advice.  
It is by no means the case that these  
advisors are well placed to give it



Dimension	Findings
Keeping track	<p>In most countries, a majority say they budget</p> <p>Budgeting mechanisms might include cash budgeting as well as written budgets</p>
Making ends meet	<p>Relatively few people admit to using credit and in general people have unfavourable stated opinions of credit</p> <p>There appears to be limited understanding of the cost of credit, which may reflect literacy as well as disclosure issues</p> <p>Of those who admit to using credit, this is often used for day-to-day expenses</p> <p>A majority in most countries say they try to save, and this is often a matter of necessity</p>

## Summary of Findings



Dimension	Findings
Planning ahead	<p>Many are worried about their old age and perceive that they face key risks</p> <p>Nevertheless usage of long term savings and risk products is limited, and may reflect physical access constraints as well as low literacy</p>
Choosing and using financial products	<p>Awareness of basic terminology is limited</p> <p>Considerations relating to choice dimensions include a range of access-related issues, not only price</p>
Accessing and using information and advice	<p>Many people do not seek advice or rely on those who are likely to be poorly qualified to give it</p> <p>There is limited use of available information</p>

## Summary of Findings



- FinScope data can be useful as a baseline for financial literacy, but delivers high-level results which may not reflect the reality
- Surveys inherently limited in providing an objective assessment (versus self-assessment)
- Recommend that surveys (e.g. FinScope) should be supplemented by more in-depth focus group discussions to unpack the issues
- Inconsistency in questions across FinScope surveys make comparisons more difficult. FinMark is testing a core set of questions for financial literacy in South Africa that can be applied across the board and which could also be used for a financial literacy index. Discussions are underway with the World Bank to extend a similar process in other countries.
- Suggest that a reference group be established to develop high-level questions

## Conclusions and Recommendations



- While financial education is obviously important, what other tools do regulators have to help nudge people in the right direction?
- What are the limits of financial education?
- How do these components (rights, recourse, financial education) complement/ contradict each other currently, and how can they be better aligned?

Some broader questions