



Financial Capability Tanzania Baseline Survey Findings 2014



Background

The National Financial Education Framework was developed and approved by the Government of Tanzania in 2011. The Framework identified the need for conducting a National Financial Capability Baseline with the following objectives:

- **Define** financial capability in the Tanzanian context: determine indicators of financial capability (dimensions and competencies).
- **Measure** levels of financial capability of the adult population against these indicators and track changes over time.
- **Segment** the adult population based on similar levels of financial capability to enable targeted financial education interventions.
- **Identify** factors which may impact on financial behaviour and negate the effectiveness of financial education initiatives.
- **Refine** the consumer financial education component of the National Financial Education Framework.

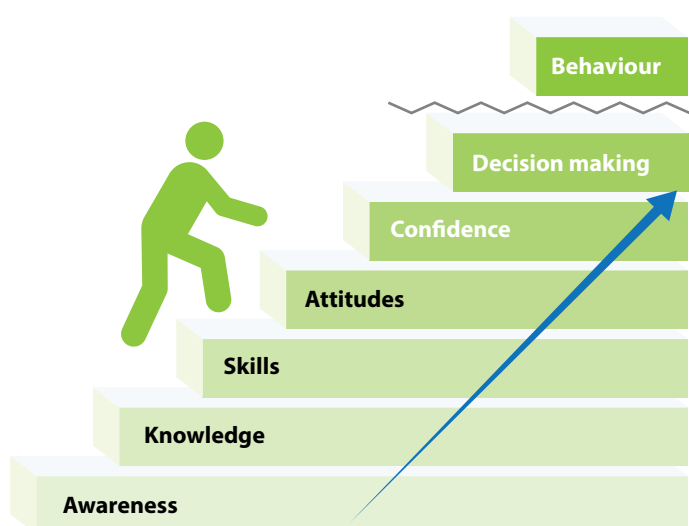
This study presents the findings of the first national financial capability baseline in Tanzania. The findings are invaluable to both the private and public sectors, as well as civil society.



Definition of financial capability

The ability of an individual to act with confidence in making optimal choices in the management of his/her money matters.

Building blocks for financial capability



Methodology

Design

- Conducted 12 focus group discussions (FGDs).
- Ran 100 in-depth-interviews (IDIs).
- The questionnaire was pre-tested, refined and piloted before the national roll-out.

Research unit

The research unit was the individual, with consideration of the individual's status within the household, the household within the community and the community within the broader national context.



The survey was purposefully designed to link with FinScope Tanzania, which allows for deeper analysis of the data.

Sample

- National stratified sample in all regions of Mainland and Zanzibar
- Sample: adults aged 16 and older
- Sample achieved: 3,320
- Weighted data: 24,043,237 adults aged 16 and above
- Fieldwork conducted: November 2012 – March 2013

Profile of respondents

| Age | Percentage |
|-------|------------|
| 16-24 | 31% |
| 25-34 | 23% |
| 35-49 | 26% |
| 50+ | 18% |

| Location | Percentage |
|----------|------------|
| Mainland | 97% |
| Zanzibar | 3% |
| Urban | 36% |
| Rural | 64% |

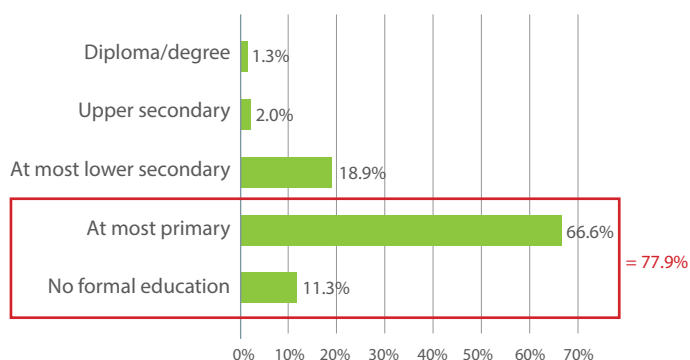
| Gender ratio | Percentage |
|--------------|------------|
| Male | 46% |
| Female | 54% |



Socio-economic indicators

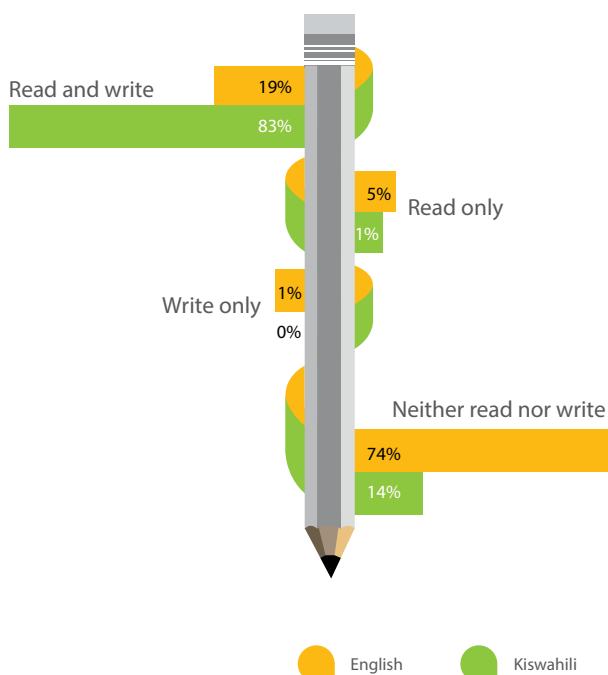
Highest level of education achieved

Educational levels are low and 77.9% of adults have no or at most (some) primary education. Only 1.3% have tertiary education.



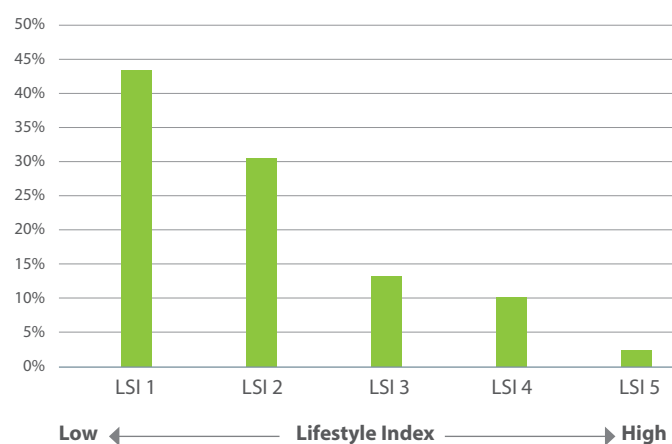
Reading and writing

- Weak English language skills - financial service providers should communicate with clients in Kiswahili/local languages.
- Low literacy levels - print as a medium for financial education should be minimised.



Population by Lifestyle Index (LSI)

An LSI was developed which categorises the population into five socio-economic levels. The population distribution is skewed to the lower LSIs with 44% of the population falling in the lowest LSI.



Financial vulnerability

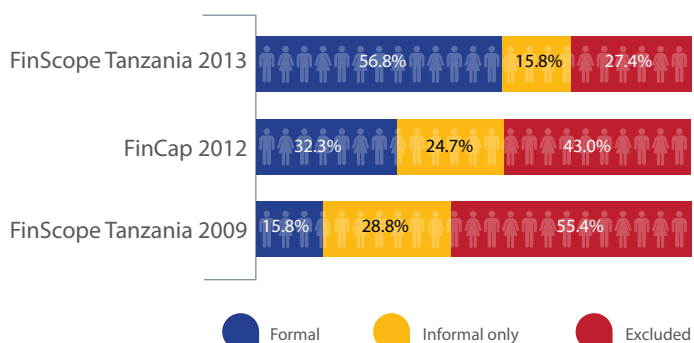
- 52% of the population sometimes/often runs short of money for necessary expenses.
- Of those that run short of money, 82% sometimes borrow to pay necessary expenses.
- 5% have serious financial problems.

Financial context

The level of financial access determines the relevant financial education messaging for various market segments; as well as the stakeholders through which the different market segments can be reached with financial education initiatives.

FinCap and FinScope Tanzania Access Strands - usage of financial products and services

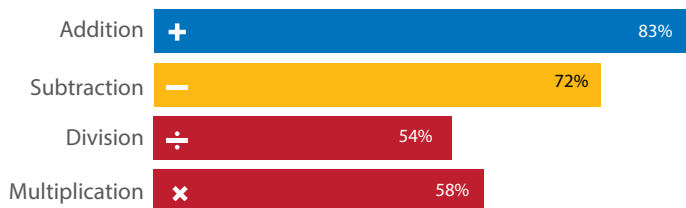
The dates below reflect dates of fieldwork.



Key financial capability indicators

Numeracy skills

Weak division and multiplication skills.



Savings and credit

More people save than borrow, but:

- They save primarily for income-smoothing, not asset-building.
- They borrow mostly for income smoothing, not productive purposes.

| | |
|-------------------------------|-----|
| Adult population with savings | 82% |
| Adult population with credit | 46% |

Attitudes to saving

- People have a positive attitude towards saving.
- However, people lack resources to save regularly.

| Positive statements | Agree/strongly agree |
|--|----------------------|
| It is important to save for old age | 96% |
| I always make provision for expected and unexpected expenses | 63% |
| When I receive income, I immediately save some | 62% |
| I save money regularly | 27% |

Attitudes towards credit

- Most people are risk averse.
- Almost a quarter do not know where or how to obtain credit.



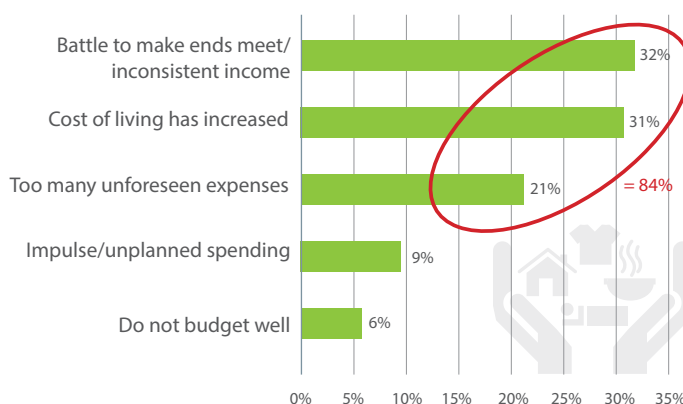
Feelings towards current debt levels

There is some indication of debt stress.

| Feelings about amount borrowed | % of adults |
|--|-------------|
| I have borrowed more than I can afford | 1.6% |
| I have borrowed to my limit and cannot afford to borrow more | 67.7% |
| I have borrowed the amount that I need | 27.8% |
| I could afford to borrow more if I wanted/needed to | 2.8% |

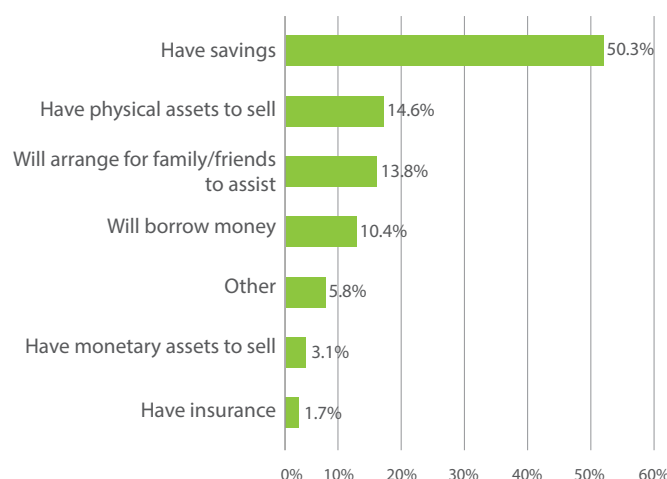
Budgeting

- 86% of adults have some kind of household budget.
- 92% always or mostly keep to budget.
- Reasons for not keeping to budget are primarily poverty related (84%).



Risk management

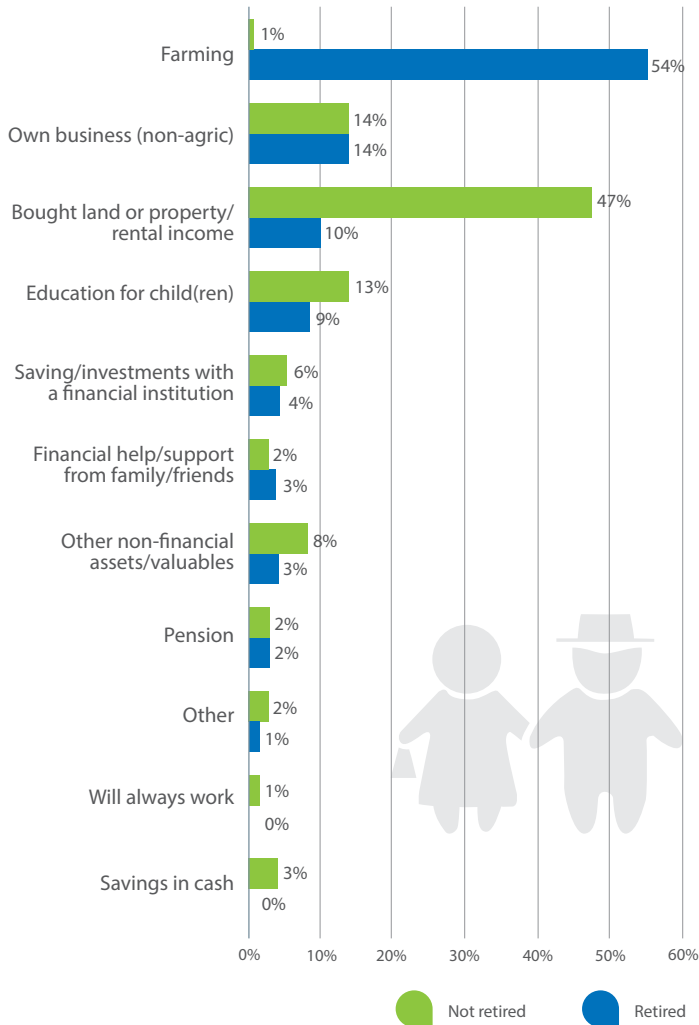
- Only 38% have a plan in place to deal with large unexpected expenses.
- Most have multiple strategies.



Planning for retirement

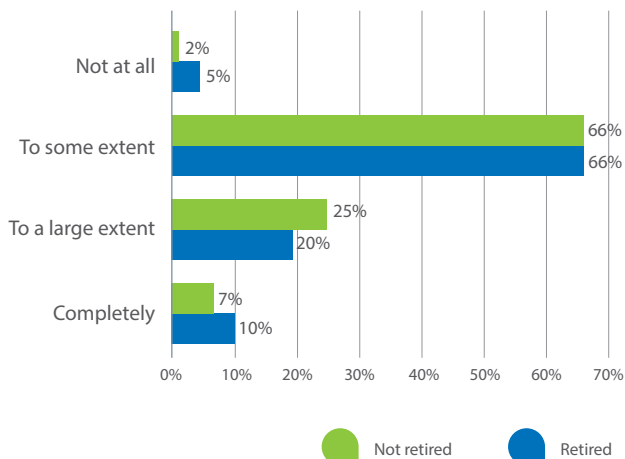
- Retirement defined as “not working or working less due to old age.”
- Most have or had strategies in place prior to retirement.

“What is your main retirement strategy?”

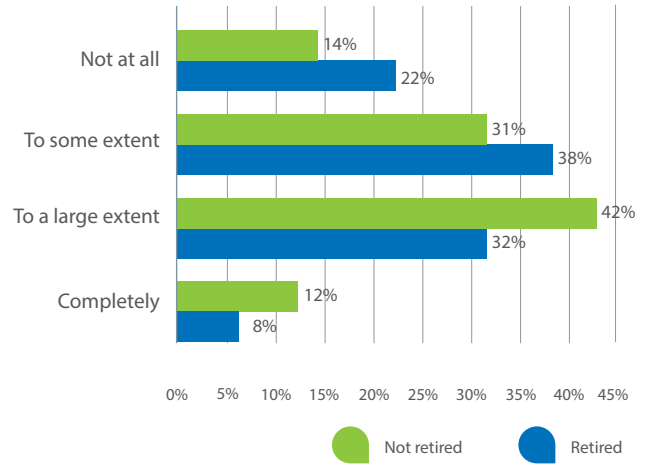


- Most people have multiple retirement strategies.
- Most strategies are informal - primarily farming or owning land.
- Less than 5% of both those retired and those still working rely on financial support from family and friends.

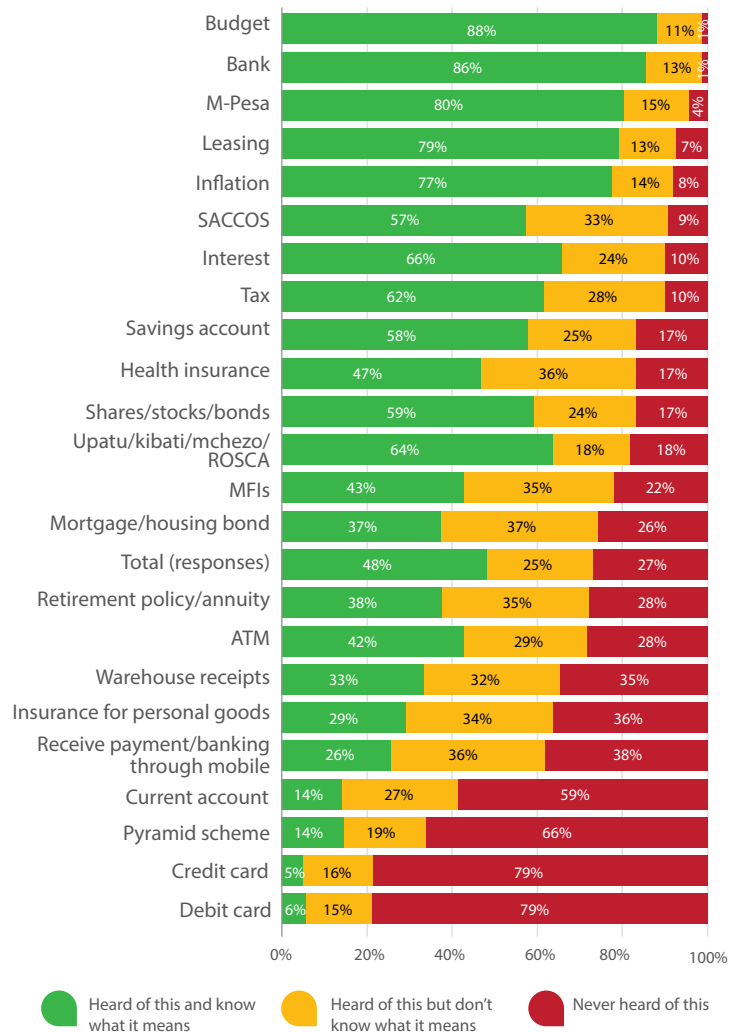
“Is your retirement strategy adequate?”



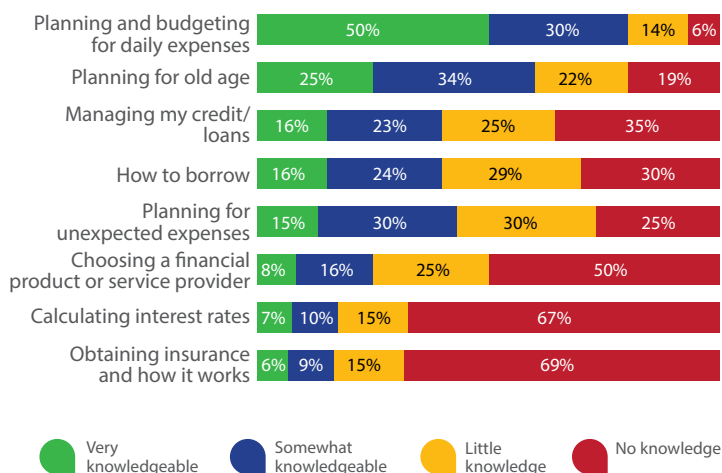
“Are you worried about covering your expenses in retirement?”



Level of knowledge and awareness of financial terms



Level of knowledge of managing personal finances



Lack of mathematical skills and low income are major challenges to budgeting accurately.



Confidence on financial matters

Confidence levels are low – particularly in dealing with financial service providers. This is the outcome of low levels of literacy, low numeracy and limited knowledge of financial products and services.

| Level of confidence | Making financial decisions | Dealing with financial service providers |
|--------------------------|----------------------------|--|
| Very confident/confident | 65% | 32% |
| Not confident at all | 35% | 68% |

Seeking advice

- Most people (52%) rarely or never seek advice on financial matters.
- Those that do seek advice, primarily do so from family and friends.

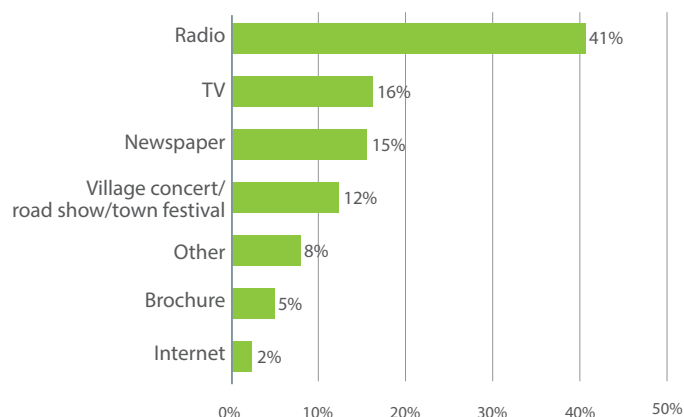
Product choice

Few people purposefully compare advantages and disadvantages of different financial products and services.

| Product choice | Savings | Loans |
|--|---------|-------|
| Searched for information on advantages and disadvantages | 41% | 48% |
| Considered many alternatives before making a decision | 53% | 59% |

Sources of financial information

- Mainly radio, but major differences across market segments – high frequency, but limited depth of information.
- TV and newspapers reach only top end of market.
- Village road shows consistent across all segments – impactful, but low frequency.



What people most want training or information on

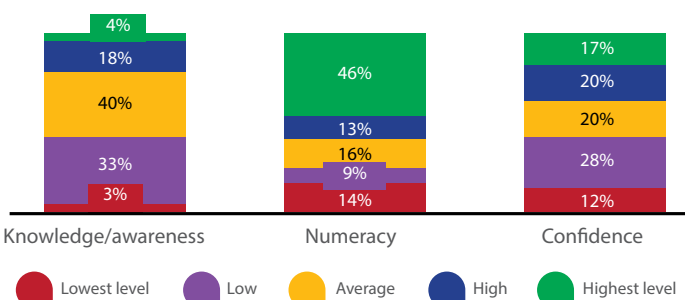
| Would like to receive information or training on: | % of adults (single mention) | Grouped |
|---|------------------------------|---|
| How to obtain life insurance and how it works | 17.1% | Risk management = 30.9% |
| Planning for unexpected expenses | 9.1% | |
| How to obtain insurance for personal goods and how it works | 4.7% | |
| Planning for old age | 8.9% | Planning = 20.7% |
| Planning and budgeting your daily expenses | 6.0% | |
| Planning for the financial security of your dependant | 5.8% | |
| How to borrow | 12.4% | Credit and loans = 16.7% |
| How to manage your credit/loans | 4.3% | |
| How to calculate interest rates | 9.6% | Mathematical skills = 9.6% |
| How to choose a financial product or service provider | 8.2% | Other financial services/products = 20% |
| How to save | 8.0% | |
| Paying with or sending money through a mobile phone | 3.8% | |

Financial capability dimensions and competencies

| Main dimensions of financial capability | Main competencies of financial capability |
|---|---|
| Knowledge/awareness <ul style="list-style-type: none"> Of financial products and services Of financial planning and concepts | Short-term planning and discipline <ul style="list-style-type: none"> Budgeting Keeping to the budget |
| Numeracy skills <ul style="list-style-type: none"> Addition Subtraction Multiplication Division | Long-term planning and discipline <ul style="list-style-type: none"> Setting financial goals Concerned about long-term financial needs Keeping to long-term strategy Review strategy against goals |
| Confidence <ul style="list-style-type: none"> In making financial decisions In engaging with financial institutions | Awareness of financial status/keeping track <ul style="list-style-type: none"> Knowledge/awareness of spending in previous week |
| | Seeking financial advice |

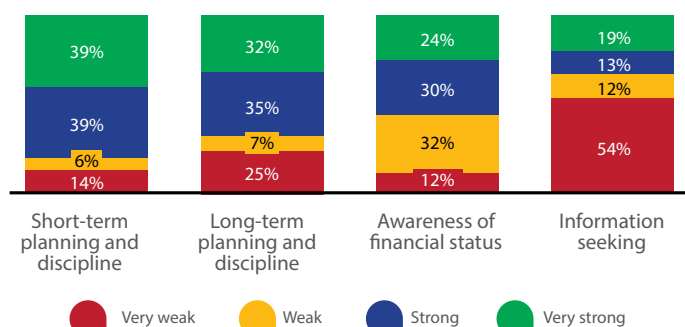
Scores on dimensions

The lowest score was achieved on levels of "knowledge and awareness," followed by "confidence" and then "numeracy."



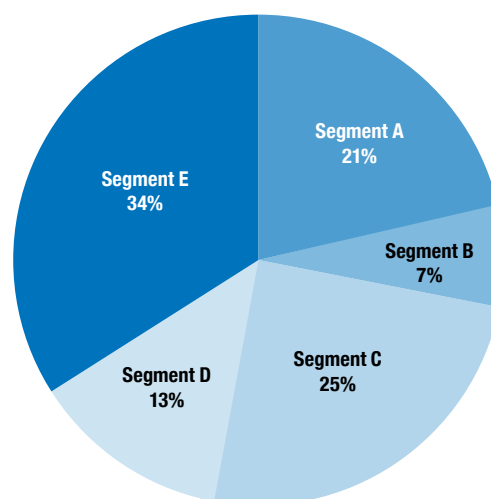
Scores on competencies

- The highest scores were achieved on short-term and long-term planning.
- The lowest scores were achieved on "information-seeking" and "long-term planning and discipline."



Financial capability market segments

Respondents were grouped into five segments according to their scores on the financial capability dimensions and competencies. The segments vary in size. Segments A and B scored consistently the highest, followed by C, D and E.



Segment A (21.4%): "Mature family – in control"



- Upper end of market, slight male bias, urban bias.
- Second on formal financial inclusion, highest credit and savings.
- Highest scores on FinCap dimensions/competencies.
- Highest newspaper and radio exposure.
- FinEd required: second tier products (insurance, calculating interest rates).

Segment B (6.6%): "Privileged young adults"



- Children of top end of A: 75% aged 16-25; highest tertiary education and formal employment, male bias.
- First on formal financial inclusion.
- Second on FinCap dimensions/competencies.
- Highest TV and internet access (5.5%).
- FinEd required: second tier products; choosing financial service providers.

Segment C (24.8%): "Female entrepreneurs and housewives"



- Spouses, widows, daughters of Segment A: 81% women, urban bias, high secondary education.
- Third on formal financial inclusion; high savings, low credit.
- Third on FinCap dimensions/competencies.
- Fourth lowest score on 'satisfaction with life.'
- Average across all media.
- FinEd required: life insurance, borrowing, choosing financial service providers, risk.

Segment D (13%): "Traditional small-scale farmers"



- 100% male, strong rural bias, most head of household and sole breadwinner, low education.
- Low formal financial inclusion; slightly above average savings, below average credit.
- Low on FinCap dimensions/competencies.
- Highest radio.
- FinEd required: borrowing (agricultural credit?)

Segment E (34%): "Rural poor/survivalist"



- Female and rural bias, subsistence farmers and agricultural trade.
- Highest financial exclusion, lowest saving and borrowing, highest financial stress.
- Lowest on FinCap dimensions/competencies.
- Lowest score on 'satisfaction with life'.
- Limited media.
- FinEd required: how to save, borrow, plan/budget.

Implications for financial education

Targeted approach

Financial education is not a one-size-fits-all: the financial capability segments demonstrate a strong relationship between an individual's level of financial capability and socio-demographic profile; and emphasise the need for a targeted approach in terms of content and delivery mechanisms. The main national priority segments are the youth, (rural) poor and women, i.e. farmers and small- and microenterprise owners as well as employees.

Messaging

The main issues to be addressed on a national level are:

- Financial numeracy.
- Budgeting and keeping track of cash flow.
- Long-term planning, including planning for retirement and dependants.
- Risk management, including death and illness.
- Financial products and services, including how to save, access to productive credit and managing credit.
- Consumers need to be made aware of their rights, responsibilities and recourse options; how credit bureaux work and the implications of credit bureaux.

The exact content of a specific financial education programme will depend on the target market.



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Delivery channels

As literacy levels are low, messaging should be kept simple, should ideally be delivered in an individual's own language and should focus on visual and auditory learning. A combination of complementary delivery channels should ideally be used to optimise frequency and exposure. This will improve learning and retention. The most suitable channels will depend on the target market profile and message/financial education content.

Role of stakeholders

Implementation will be required by both government ministries and agencies, the private sector and civil society. Strategic partnerships should be formed to optimise impact. Activities should be coordinated through the national Financial Education Secretariat to minimise duplication and harmonise messaging.

Implications for financial sector

There is a mismatch between supply of and demand for financial products and services.

- The biggest risk for Tanzanians is loss or illness of the main bread winner, or losses of/damage to crop or livestock. The market requires access to low cost life insurance, medical services and crop and livestock insurance.
- The market requires easily accessible, efficient and cost-effective savings options with a positive return. People will continue saving in cash and non-monetary instruments if formal savings products are perceived to be costly with negative real returns.
- Small-scale farmers and some small enterprise owners require access to agricultural/productive credit.

Financial capability and consumer protection is inextricably linked to market stability and financial inclusion. Improved levels of financial capability enable consumers to make improved financial decisions and identify fraudulent practitioners. However, focussing on financial capability alone is not enough, and a comprehensive financial protection and recourse framework is required; while consumers must be made aware of their rights and recourse options through financial education.

Implications on macro level

There is a strong relationship between levels of financial capability, levels of education and income, and levels of financial inclusion. The main barrier to accessing finance remains poverty. A strong financial sector and improved financial inclusion calls for more than financial education and consumer protection, and underscores the need for addressing poverty in general and education in particular.