FSDT
FINANCIAL SECTOR DEEPENING TRUST

Financial Capability Baseline Survey Findings 2013

BANK OF TANZANIA

Introduction

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

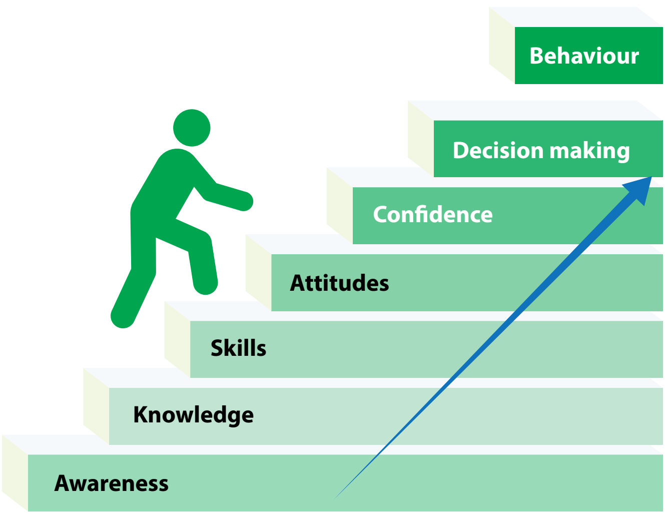
- **Refine** the Consumer Financial Education component of the National Financial Education Framework.

This study presents the initial 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 analyses of the data.

Sample

- National stratified sample in all regions of Mainland and Zanzibar
- Sample: adults aged 16 and older
- Sample achieved: 3320
- Weighted data: 24 043 237 adults aged 16 and above
- Fieldwork conducted: November 2012 – March 2013

Profile of respondents

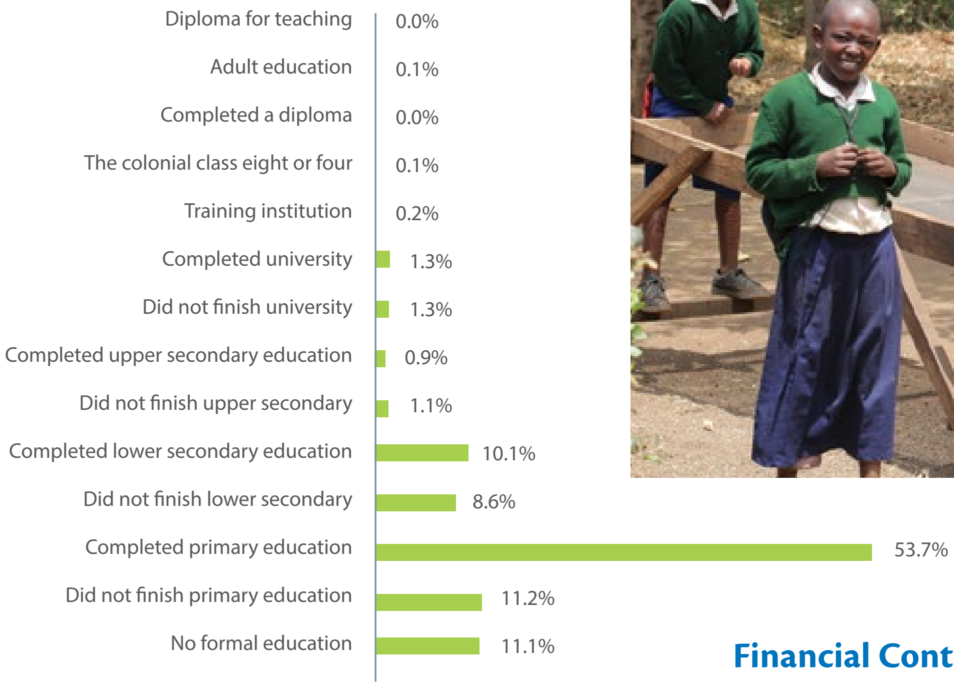
Age profile of respondents

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

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

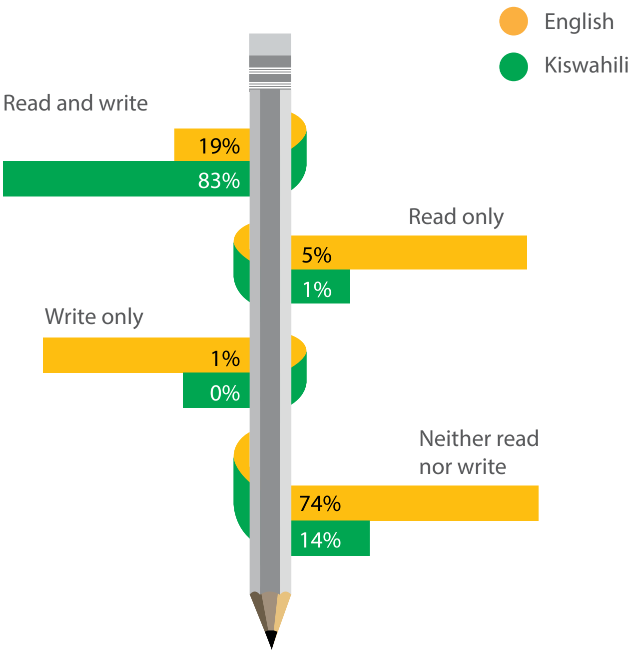
Gender Ratio	
Men	46%
Women	54%

Highest level of education achieved

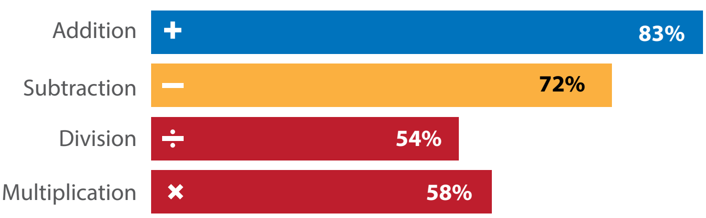


Literacy and numeracy skills

Strong reading and writing skills in Kiswahili.



Weak division and multiplication skills

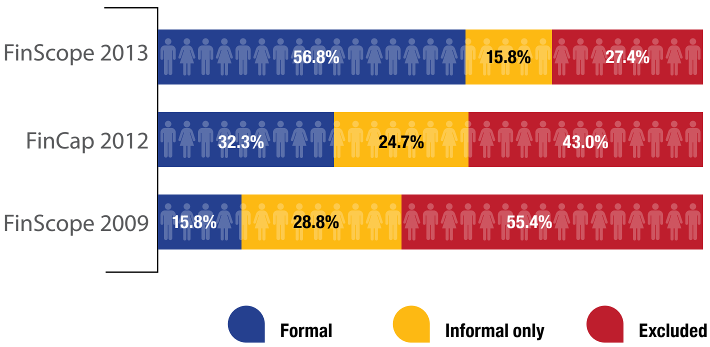


Financial Context

Access Strand

The level of financial inclusion 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 Access Strands - usage of financial products and services



Key financial capability indicators

Savings and borrowing

More people save than borrow. But:

- They save primarily for income-smoothing, not asset-building
- They borrow mostly for income-smoothing – minimal productive credit

Adult population with SAVINGS	82%
Adult population with CREDIT	46%

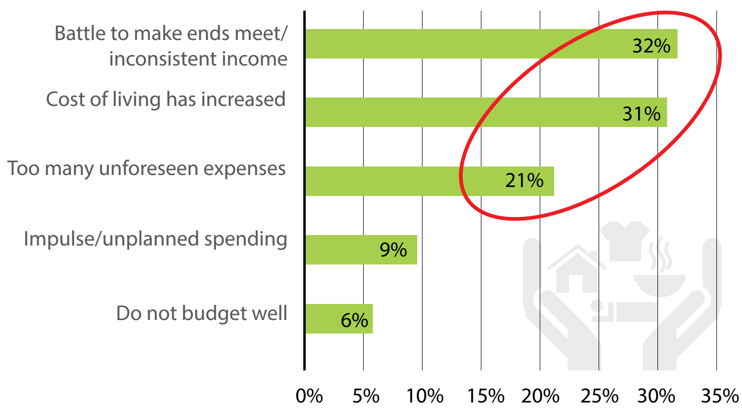
Attitude to savings

- People have a positive attitude towards saving
- However, people lack resources for regular savings

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

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%



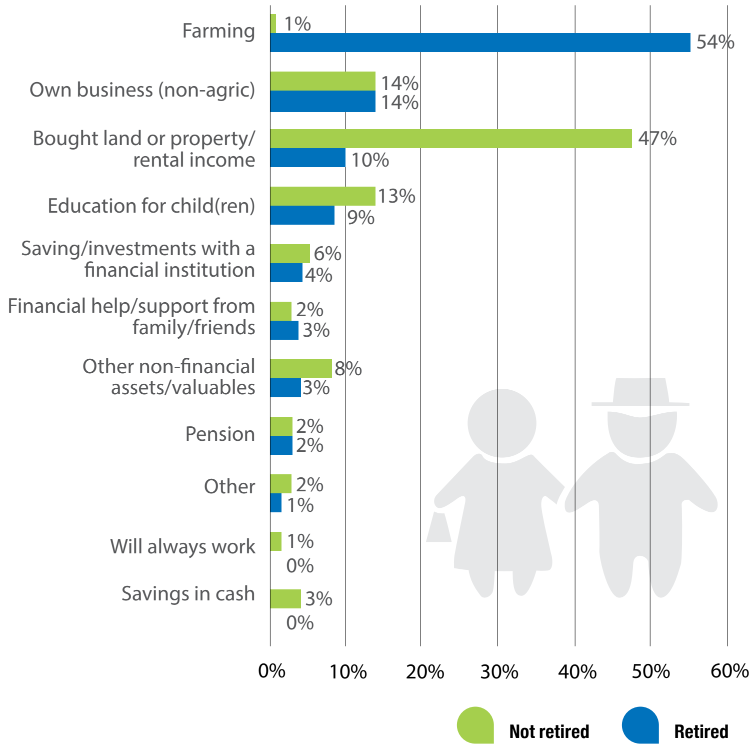
Planning for retirement

- Retirement defined as "not working/working less due to old age"
- Most have/had strategies in place prior to retirement

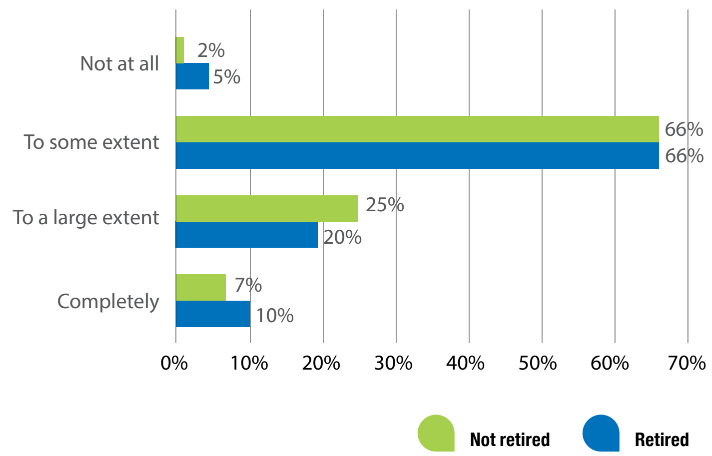
	% of respondents	Had/have strategies in place before retirement
Retired/working less due to old age	11%	72%
Not retired	89%	77%

Retirement strategies

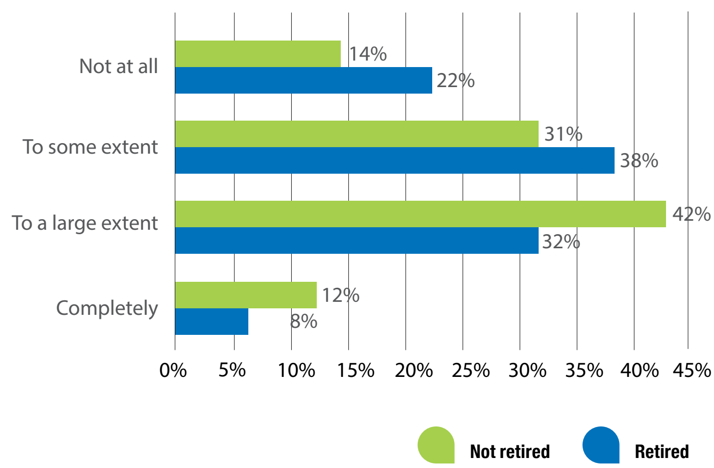
- Most people have multiple retirement strategies
- Most strategies are informal - primarily farming or owning land
- Less than 5% of both retired and those still working rely on financial support from family and friends



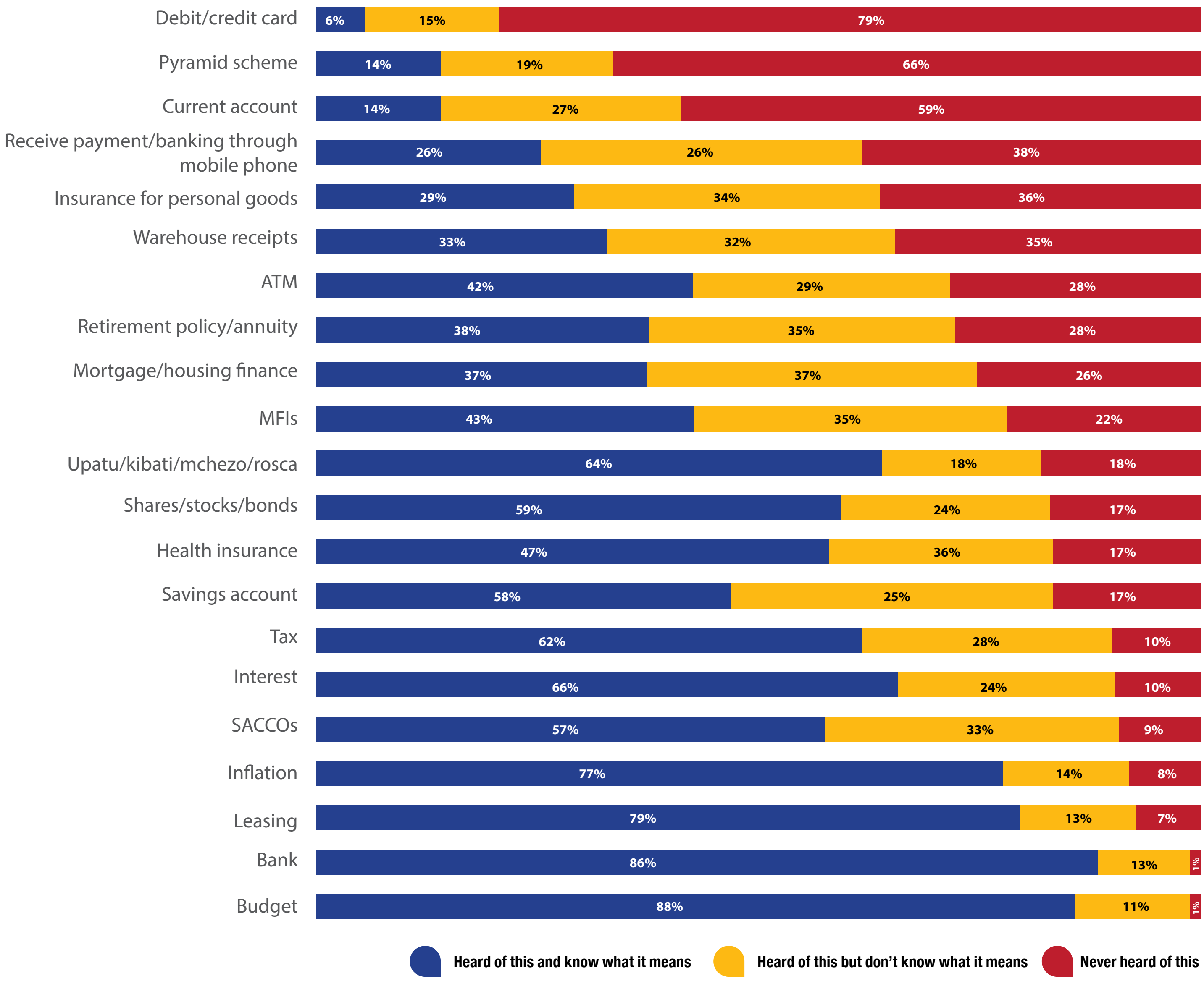
"Is your retirement strategy adequate?"



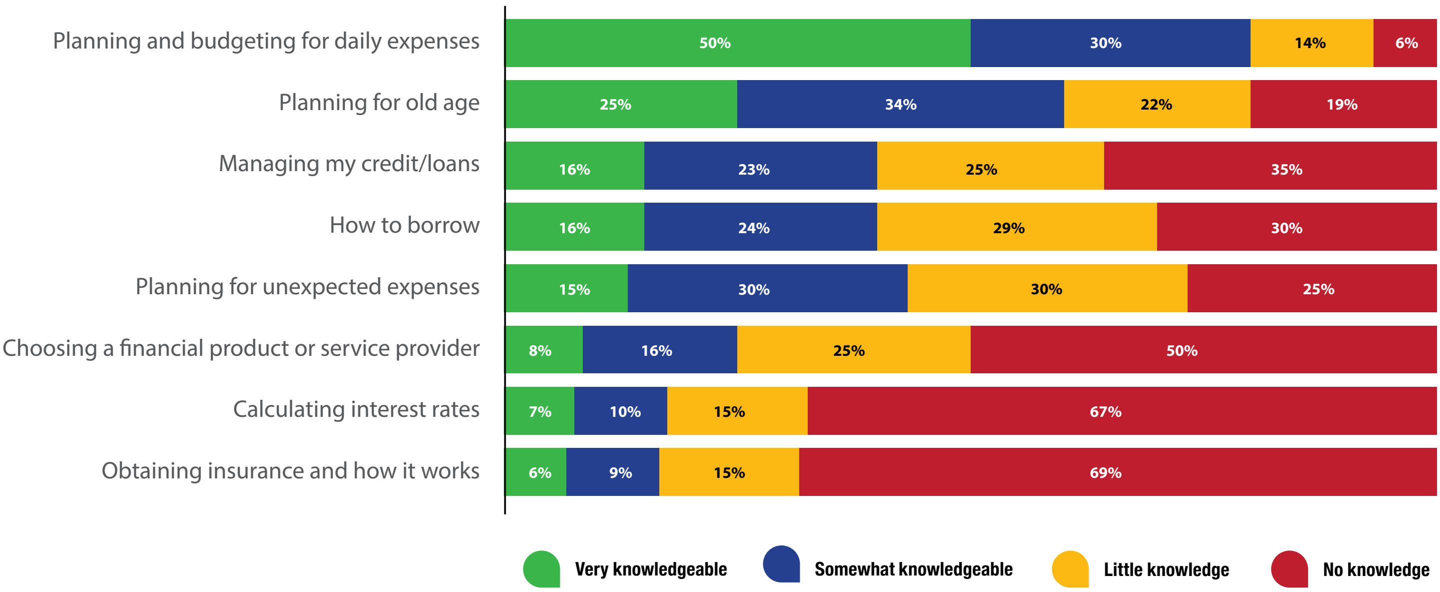
"Are you worried about covering your expenses in retirement?"



Level of knowledge and awareness of financial terms



Level of knowledge on managing personal finances



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

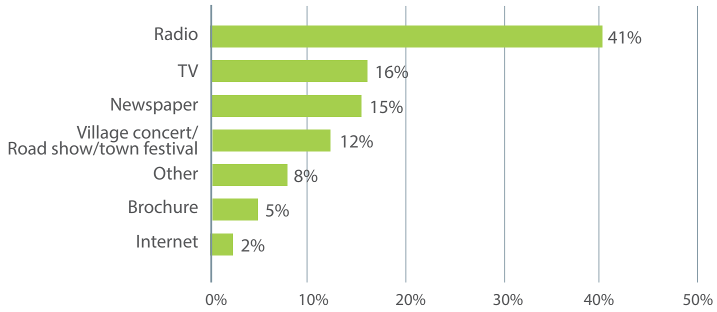
Confidence on financial matters

Low levels of confidence – particularly in dealing with financial service providers. This is the outcome of low levels of literacy, numeracy and 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%

Sources of financial information

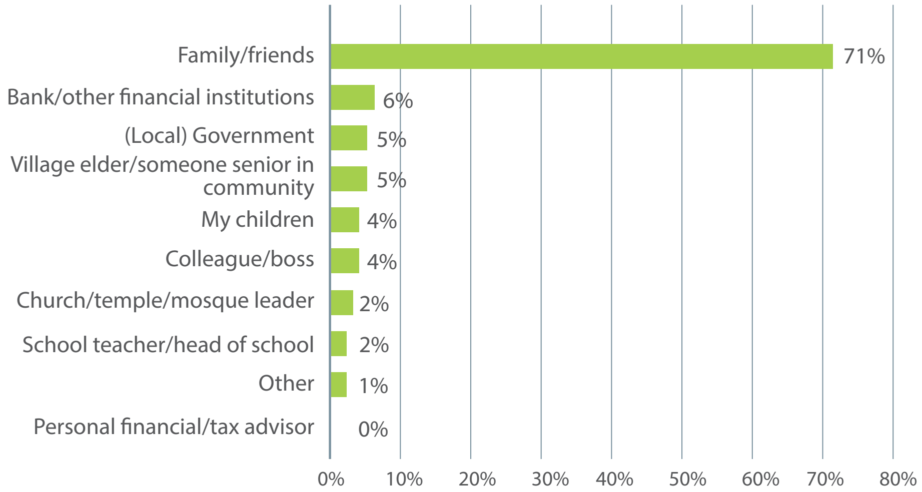
- Mainly radio, but major differences across market segments – high frequency, but limited depth of information
- TV and newspapers reach only top end of market
- Village road shows consistent across all segments - impactful, but low frequency.



Seeking advice and product choice

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

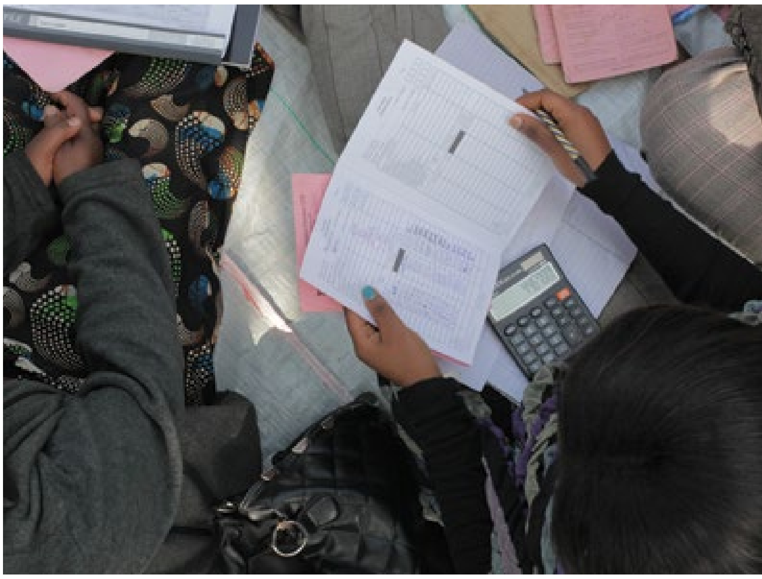
Sources of financial advice



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

Product choice and search behaviour

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



What people most want training or information on (single mention)

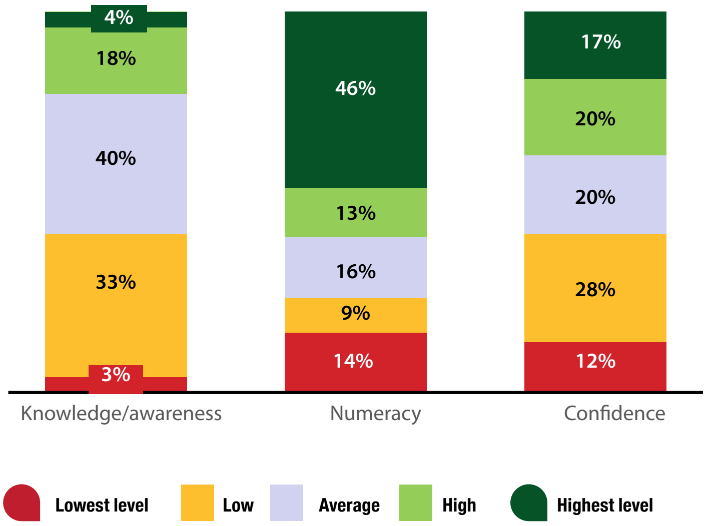
Topic matter	Percentage (single mention)
How to obtain life insurance and how it works	17%
How to obtain insurance for personal goods and how it works	5%
Planning for old age	9%
Planning for unexpected expenses	9%
Planning and budgeting for daily expenses	6%
Planning for financial security of dependents	6%
How to borrow	12%
How to manage credit/loans	4%
How to calculate interest rates	10%
How to choose a financial product or service	8%
How to save	8%
Sending and receiving money with a mobile phone	4%

Financial capability dimensions and competencies

Main dimensions	Main competencies
Knowledge/awareness: • Of financial products and services • Of financial planning and concepts	Short-term planning and discipline: • Budgeting • Keeping to the budget
Numeracy skills: • addition • subtraction • multiplication and • division	Long-term planning and discipline: • Setting financial goals • Concern about long-term financial needs • Keeping to long-term strategy • Review strategy against goals
Confidence: • In making financial decisions • In engaging with financial institutions	Awareness of financial status/keeping track – knowledge/awareness of spending in previous week
	Seeking financial advice

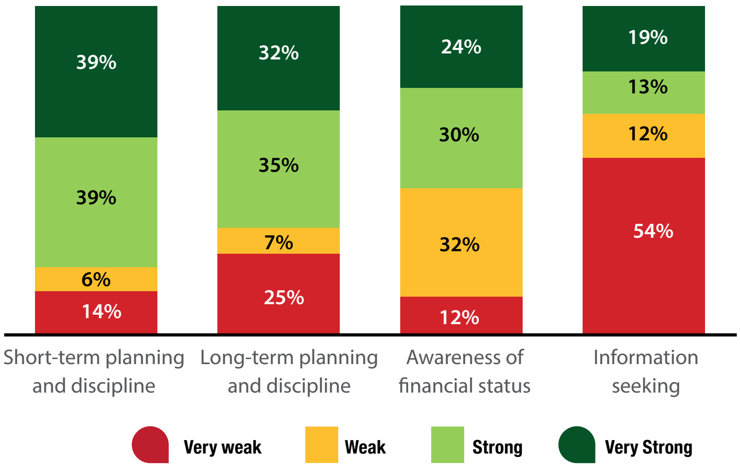
Scores on dimensions

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



Adult population 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."



Conclusion

Implications for financial education

Targeted approach
There is no doubt that financial education is a high priority for improving people's lives. Village road shows, for instance, have a high impact, but they are also quite expensive to present. Therefore, financial education requires a highly targeted approach to optimise the available resources. The financial capability market segments provide clearly defined target audiences for this purpose.

Main messages and delivery
The main focus of the financial education efforts should be on mathematical literacy with key messages that address the basics, such as adding and subtracting. Budgeting, financial planning and risk information should also be prioritised.

Since literacy levels are low, messaging should be kept simple and should be delivered through an appropriate medium, preferably face to face and verbally – although this does have cost implications.

Implications for the Financial Education Framework

This baseline study has brought new insights, which can be used to refine the National Financial Education Framework. This will allow the various stakeholders to optimise resources and outreach through a coordinated, targeted approach and strategic partnerships.

Implications for the financial sector

At the **micro level** there is a mismatch between supply and demand of financial products and services. The market requires easily accessible savings options with positive return – not a sophisticated bank account where fees exceed interest, or "eats money." People will simply not save their money in a financial institution if they perceive that it reduces their available funds.

Affordable and accessible insurance is another requirement - particularly life and medical insurance. Small-scale farmers need affordable and accessible productive credit – to buy, for instance, seed and implements so that they can grow their farming business.

Key factors at the **meso level** are consumer protection, financial education and market stability. These three elements are inextricably linked in building the wealth of a nation – educated and protected consumers make better financial decisions, which leads to greater market stability. Financially capable consumers are more difficult to exploit – therefore a weak consumer protection framework indicates the need for improved levels of financial capability.

At a **macro level**, poverty remains the main barrier for people to access finance. Poverty is also a main determinant of levels of education, literacy and financial capability. Education is therefore the foundation for lifting people out of poverty.

Partners

Implementers

Funders

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