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UCT research reveals that financial literacy is key to promoting access to finance for all South Africans

A PhD thesis from the University of Cape Town's Faculty of Commerce investigates the role of financial literacy in the use of financial services, and whether the use of formal financial services can improve one's welfare compared to using semi-formal or informal mechanisms in South Africa. This research considers the lack of financial literacy to be one of the factors that could hinder one from realising the potential benefits of using financial services.

Dr Lwanga Elizabeth Nanziri graduated with a doctoral degree in Economics in June 2016. Her thesis – which was supported by Scholarships from the Carnegie Foundation and the National Research Foundation Chair in Poverty and Inequality Research – evaluates the success of the financial access policy of post-Apartheid South Africa. This policy is aimed at reducing poverty and inequality in a country where a sophisticated formal financial sector coexists with equally sophisticated informal financial mechanisms.

Nanziri states that "without proper financial skills, the rewards of financial access cannot be realised. Post-Apartheid South Africa identified broad-based access to finance as one of the mechanisms for reducing inequality in the country. But without the knowledge to engage with the formal financial sector, that objective would not be realised."

In order to understand who had this knowledge, Nanziri used available survey data to derive a financial literacy index for South Africa. Using this index, she found that certain groups are less likely to be financially literate. "I found that women, youths, individuals with less than matric level of education and those with low incomes have below average financial literacy. Secondly, financial literacy is significant in the use of financial services."

She goes on to note that "it's like driving without understanding traffic rules and regulations. The difference here is that there is no official licence to prove one's proficiency to operate, say a bank account, yet one's management style of such an account can have either positive or negative effects on his/her welfare."

If financial literacy is important as a skill to use financial services effectively, then the lack thereof can lead to mistakes that can impact negatively on one's well-being, compared to if one had not used the services at all."

Nanziri was alerted to this issue while serving as the CEO of the South African Savings Institute during a time of global financial crisis. What became clear to her was the general lack of knowledge among South African consumers around credit repayments and budgeting, often leading to poor financial planning and management.

Nanziri is actively engaged in trying to address these issues. "I hope to share my findings with the relevant policy makers on how to make 'finance-for-poverty-reduction' initiatives work for the beneficiaries. In this regard, I have participated in a pilot study on teaching social grant recipients to manage their funds in preparation for the day they will graduate off the grants. We know, for instance, that even a child support grant will terminate when a child reaches a certain age. It requires training for one to be able to transition from such support to self-support." She hopes that her work will also be beneficial to the government's National Financial Education Strategy.

Research such as this is vital in informing both policy and practical strategies seeking to facilitate the use of financial services in ways that can improve the welfare of disadvantaged groups in South African society.

"Those with sufficient earning often make use of financial advisers and planners when they are in doubt. The rest of the populace might have to depend on hearsay or friends and family for such skills. This impacts negatively on the financial decisions of those who can least afford it, justifying the implementation of consumer financial education programmes."

ENDS

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