Snapshot of Financial Literacy in Africa

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Financial literacy can play an important role in reducing economic inequalities as well as empowering citizens. Africa is known to have the lowest rates for financial literacy across the continent. Out of the fifty two countries on the continent, four have rates of over 40%. The data on financial literacy is not available in most African countries. There is indeed a problem when it comes to reliable data. Lack of baseline data about the financial level of people in different demographic and socio economic characteristics makes it difficult to formulate and implement efficient and effective financial literacy policy. Governments fail to provide sufficient and adequate data, which has negative implications. When data is unavailable, it becomes a challenge to assess the vulnerability of African economies to risks and the strengths of their governance structures and institutions. Transparent and accurate data may have prevented a series of bad decisions.

Financial knowledge is an essential financial tool to development. Its role in poverty reduction, financial inclusion, and financial sector stability has received attention from researchers and policymakers alike. Chibba (2009), construed "financial inclusion within the broader context of inclusive development, is viewed as an important means to tackle poverty and inequality, and to address the millennium development goals". Financial literacy has the ability to affect financial behaviour and attitudes, playing an important role in reducing economic inequalities as well as empowering citizens.

Strong research evidence suggests that inadequate or lack of formal education is the main root cause of financial illiteracy in Africa. Financial education is not included in the current education system. However, initiatives are under way to facilitate more effective financial education, by designing curriculum structure and tools for university courses and building the capacity of university academics to provide higher quality teacher education in most countries. (Willenberg, 2018) Measuring the levels of financial literacy in the population is an important component of an effective national strategy for education. (OECD, n.d.) This enables policy makers to recognise gaps and develop appropriate responses.

Insufficient knowledge is not the only factor in Africa's low financial literacy rate. African citizens lack of awareness, budget and perceived high costs are some of the reasons for not opening accounts or not saving. (Noble, 2020) Most Africans do not understand how money works. New emerging financial systems across the continent, worsen the situation and limit the capacity of people making decisions.

Data suggests that most individuals lack access to formal financial services in developing countries, contributing to persistent poverty. (Refera, et al., 2016) As part of the solution to reducing poverty in developing countries, improving access to financial services has thus become a global and national public policy issues. Covid-19 has resulted in apparent financial instability. A lack of financial literacy has hampered people in coping with the pandemic.

Botswana has the highest levels of financial literacy. Being the only country with over 50%, with a rate of 52%. Financial literacy programmes were introduced by government and private sector to address the alarming levels of household debt. These programs teach households and small businesses how to manage money and encourage them to have saving buffers that make up for almost around 6-12 months of their financial commitments. Financial education is used to empower individuals with a set of skills and advise that allows them to make informed and effective financial decisions.

South Africa is a unique case. Although the financial literacy rate is only 42%, the gender gap is absent in the figures. South African men and women display the same level of financial literacy, even within households. There is no statistically significant difference between men and women. This could be attributed to the fact that South Africa has a higher share of female headed households, due partly to the Aids pandemic. It is a unique case given that most countries show large differences and there is no obvious reason why South Africa would be different.

South Africa is one of the few African countries that have a highly sophisticated financial sector, comparable to developed countries. Although, this does not imply economic prosperity, it does show that its citizens are accustomed to money management.

Kenya is another African country which has done much for improving the level of financial literacy in the country. The Kenyan government, alongside non-governmental organisation have launched a series of campaigns to promote financial literacy. Providing students with laptops is one of the results of these programs. The aim is to provide a framework detailing Kenya's development plan, transforming the nation into a middle-income country that will improve its people's overall financial literacy level by 2030. (National Financial Educators Council, 2019)

Somalia demonstrates the lowest rates in financial literacy in Africa. Decades of violent conflict and economic recession in addition to low levels of formal education have resulted the countries low financial literacy rates. The limited and non-existent exposure to financial literacy have left Somalia with a low rate of 15%. Access to banks is also limited, especially to women. Although access to formal banking structures is not available in Somalia, mobile money solutions is widespread. Millions of Africans maintain their finances through mobile money solutions. Mobile money is utilized in 36 out of the 47 countries in Sub-Saharan Africa. (Kerstein, 2015) Mobile financial services have become widespread for many reasons across the continent, especially throughout East Africa. According to a study in Report Africa, mobile money systems have facilitated easier cash flow across borders between family members in times of crisis. This is one of the major motivations for mobile money, alongside the easy management of money.

The state of development of financial education initiatives is quite heterogenous across African countries. Many African countries have shown interest in financial literacy at a national policy level. However, these policies and strategies are not common across the region. Promoting financial literacy education across the continent could have a potential impact on poverty reduction and economic growth.

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