The Impact of a Financial Literacy Program in South Africa

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Sector(s): Finance

Location: Eastern Cape, South Africa

Sample: 43 Old Mutual's burial society support plan (BSSP) groups and 36 women's development businesses (WDB) borrowing groups

Target group: Women and girls

Outcome of interest: Empowerment Household finance

Intervention type: Financial literacy Savings Training

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Partner organization(s): Old Mutual, Russia Financial Literacy and Education Trust Fund, Women's Development Business (WDB)

In recent years, innovations in financial products and service delivery have dramatically increased the availability of financial services for low-income and unbanked individuals. Yet low financial literacy may limit their ability to fully access these services. Researchers investigated whether a financial literacy program improved financial knowledge and practices, and increased financial service use among low-income individuals in South Africa. Offering a training improved knowledge about budgeting, increased self-reported savings, and reduced loan applications but the evaluation did not detect other significant improvements in financial knowledge or practices.

Policy issue

In recent years, innovations in financial products and service delivery have dramatically increased financial access for the low-income and unbanked individuals. Yet in low- middle-income countries 59 percent of adults and 75 percent of the poorest income quintile do not have a bank account at a formal financial institution. Low financial literacy may limit their ability to fully access these services. Moreover, low financial literacy is correlated with poorer financial decisions about cash, asset, and debt management. In response, policymakers, and financial institutions around the world have invested in training programs that aim to improve financial knowledge and skills among low-income individuals and those with low financial literacy. Such training could potentially allow these individuals to benefit from the available financial services, and in turn boost their economic opportunities. However, there is limited evidence on whether financial education increases financial knowledge, and the extent to which it is effective for improving financial outcomes.

Context of the evaluation

To improve financial literacy and access to financial services, the South African government adopted the Financial Sector Charter in 2004, which requires all financial services institutions to contribute 0.2 percent of their annual profits to financial education programs. In 2011, only 54 percent of adults in South Africa and 35 percent of the poorest income quintile had a bank account at a formal financial institution. Financial literacy levels also remain low.

Old Mutual, a leading financial services provider in South Africa offers a financial literacy program to people in both rural and urban areas, which reached nearly 36,000 people in 2011. The objective of the program is to improve people's financial skills, help them make sound financial decisions, and encourage saving. This randomized evaluation was conducted to help Old Mutual understand its program's effectiveness and improve the current curriculum.

The participants in this study were primarily women (89 percent). They were poorer than the median South African, who made ZAR 1,850 per month, with median monthly incomes of ZAR 1,050 among Burial Society Support Plan (BSSP) members and ZAR 1,260 among Women's Development Businesses (WDB) members. They were also more likely to be self-employed and have slightly fewer years of education than the average South African.



Women attending a presentation in South Africa.

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Details of the intervention

Researchers conducted a randomized evaluation to investigate the impact of Old Mutual's financial education program on financial behaviors. The sample consisted of members of 43 Old Mutual's Burial Society Support Plan (BSSP) groups and 36

Women's Development Businesses (WDB) groups in Eastern Cape and KwaZulu-Natal provinces. The WDB group members consisted of women who borrow from WDB, while BSSP members belonged to burial societies—popular community organizations that provide members with funeral insurance— that subscribed to Old Mutual's funeral cover plan. Researchers created group-level pairs among the BSSP and WDB groups, and within each pair, one group was randomly chosen to receive Old Mutual's On the Money financial literacy program while the other served as a comparison group.

The one-day financial education course comprised five modules designed to improve participants' financial knowledge and skills, target common misconceptions about money management and financial institutions, and improve participants' ability to understand financial concepts. The modules covered savings, financial planning, budgeting, debt management, and investing, and were delivered in the native language of the group using slides and educational videos. The curriculum was complemented by various individual and group activities, such as creating a budget and a financial plan for the future.

The baseline survey was conducted between July–November 2011 and the financial literacy trainings were run between September–December 2011. The follow-up survey was conducted approximately six months after groups received training.

Results and policy lessons

Offering a one-day financial training improved knowledge about budgeting, increased self-reported savings, and reduced loan applications but the evaluation did not detect significant improvements in other types of financial knowledge or practices. Of the 589 individuals offered the training, 71 percent attended the training. The results below describe the average effect of offering a financial education program to a given population, and not the impact of the training on only those who attended.

Effects on financial awareness and attitudes: The offer of financial training increased knowledge about budgeting, for which initial awareness was low, but it did not improve awareness about savings accounts, loans, insurance, or the importance of separating business and household accounts. Awareness about different aspects of budgeting was 6.1 percentage points higher among individuals offered the program at 53.2 percent compared to the comparison group at 47.1 percent. This increase was driven by individuals with less education. Individuals with low education levels who were invited to the course showed increased awareness of savings accounts and purchasing on credit relative to individuals with low education levels in the comparison group.

The impact on financial attitudes and perceptions towards financial institutions and products was mixed. For example, within the BSSP sample, people invited to the training were significantly less likely to be nervous about going into a bank, but they displayed a lower recognition of the importance of saving early for children's education relative to the comparison group. While BSSP members invited to the course displayed improved attitudes toward financial institutions and products, the WDB members showed a slight decline overall. These results were not driven by different education levels.

Effects on savings and borrowing behavior: Offering the financial training had a positive impact on financial behavior related to savings, borrowings, and money management. For people offered the financial training program, savings-related outcomes improved significantly, both in terms of the number of people who reported saving and the average amount of savings. This was true for people belonging to both BSSP and WDB groups, as well as with different education levels. Among the group of people offered the program, there was a 12.9 percentage point increase in saving in any form from a base of 73.3 percent. However, financial education had no impact on ownership of a bank account.

People offered the training also showed an improvement in their debt management-related practices relative to the comparison group. Fewer of these individuals had applied for loans in the past six months. They were also more likely to save than gamble, and had a higher risk-tolerance level. However, these individuals showed no change in their financial planning behavior, in terms of being financially prepared for an emergency or having a retirement plan in place.

Cole, Shawn, Bilal Zia, Martin Abel, Lucas Crowley, Christian Salas Pauliac, and Veronica Postal. "Evaluation of Old Mutual's On the Money Program: Financial Literacy in South Africa." In Enhancing Financial Capability and Behavior in Low- and Middle-Income Countries, edited by Mattias Lundberg and Florentina Mulaj, 451-494. Washington, D.C.: The World Bank, 2014.