**Financial Literacy in KwaZulu-Natal - a Case of Umkhanyakude District Municipality**

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**Abstract:**

This paper highlights the levels of financial illiteracy among households in uMkhanyakude District Municipality[2]. In order to initiate and implement programmes to assist improve financial literacy and inform current and potential users of financial products and services, there is a need for a deeper understanding of financial literacy among the people of a region.

This paper compiles valuable information on the extent to which inhabitants of KZN, particularly in Umkhanyakude District Municipality are knowledgeable and have an understanding of financial literacy and the systems which aid in financial management and the improvement of financial literacy levels. The focus is on the four pillars of financial literacy; namely: money management, financial planning, choosing appropriate products as well financial knowledge and understanding.

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[2] uMkhanyakude is one of the eleven district municipalities in KwaZulu-Natal Province in South Africa.

## I. Introduction

Similar to all provinces across South Africa (SA), KwaZulu-Natal (KZN) faces three distinctive challenges of unemployment, poverty and inequality. These challenges are faced in a period of the global uncertainty and sluggish economic growth. An economic environment of this nature makes it hard for ordinary individuals to make ends meet. This also limits freedom of choice, especially when it comes to choosing financial products and services (Struwig *et al.,* 2013). In order to initiate and implement programmes to help improve financial literacy and inform current and potential users of financial products and services, there is a need for a deeper understanding of financial literacy among the KZN population.

As correctly pointed out by Atkinson and Messy (2012), financial literacy is a combination of skills, actions, and attitudes required for an individual to make good financial decisions and in due course attain personal financial well-being. This argument was earlier echoed by ECI-Africa (2004) in Eighty 20 (2009), thereby describing financial literacy as the ability to make knowledgeable decisions and take suitable actions on issues affecting one's financial wealth and well-being.

Struwig *et al.* (2013) took the discussion further by maintaining that financial illiteracy means that individuals are short of the working knowledge of financial concepts and do not possess the necessary skills which are essential in making economically enhancing decisions. The authors further argued that financial illiteracy has an adverse effect on both short and long term horizons such as current savings and retirement plans.

Atkinson *et al*. (2006) conducted a Financial Literacy study in the United Kingdom (UK) and found that 40% of the people that had investments in the form of stocks or shares in a stocks and shares Individual Savings Accounts were unaware of their exposure to stock market risk. This implied that these investors were uneducated on the pros and cons of investing in the stock market and most importantly, the strategies to go out when maximising the former and minimizing the latter.

Applying a simple principle of not placing your "*eggs in one basket",* goes a long way when active in the stock market, formally termed diversification. The survey also indicated that people in the UK had poor financial future planning skills. This was clearly evident from the outcome of 70% of individuals surveyed indicating that they had no provision whatsoever for an unexpected decline in income. Over 80%, of respondents were of the view that government funds in the form of pension would be insufficient for comfortable retirement, yet 37% of this group had not made any additional provision for any anticipated shortfall in their retirement needs.

A study by Lusardi and Mitchell (2007) on retirement planning on the 50 years and older persons in the United State of America (US) found that approximately 30% of the respondents had no measures in place for retirement purposes. These results are no different from those found by Lusardi (1999), whereby it was estimated that close to a third of the respondents had not prioritized retirement needs by any means.

Results of these studies are further supported by Employee Benefits Research Institute (2001), which highlighted that the portion of non-planners had not changed much in the fullness of time. Lusardi (2008); Lusardi, Mitchell and Curto (2010) and Lusardi and Mitchell ( 2011) further maintain that this behavior is more prevalent among African-Americans, Hispanics, women, young people and people with low education as these have been found to have a lesser degree of financial literacy in the US.

With the above backdrop in mind, this paper highlights the levels of financial illiteracy among households in uMkhanyakude District Municipality (UDM). UMkhanyakude is one of the eleven provincial district municipalities in KZN. The district is located in the north-eastern part of KZN and comprises of five local municipalities, namely Umhlabuyalingana, Jozini, The Big 5 False Bay, Hlabisa and Mtubatuba.

As indicated in KZN Provincial Treasury (2015), the estimated population size of the district is at 642 821, constituting 6.1% of the provincial population. With the official unemployment rate of above 30 per cent, uMkhanyakude is one of the poorest district municipalities in KZN. The district is currently contributing a paucity of an estimated 2.5% of the provincial regional gross domestic product (GDP-R) in real terms (KZN Treasury, 2015).

The report by KZN Provincial Treasury also reveals that the district is characterised of poor development, represented by the Human Development Index (HDI) of 0.48. The Gini Coefficient, which measures the degree of income inequality in a region is estimated at 0.58. Following these undesirable socio-economic indicators in the district, this paper therefore, identifies gaps in the financial knowledge and understanding in uMkhanyakude. The paper further provides valuable information on the extent to which inhabitants of the district are knowledgeable and have an understanding of financial literacy and the systems which aid in financial management and the improvement of financial literacy levels.

The paper contributes immensely in the motivation of the development of initiatives which assist in the development of financial literacy amongst KZN people. It provides support for the development of more comprehensive and aggressive programmes of financial consumer education which are closely aligned to the needs of the KZN region, and programmes which deal effectively with the more deficient pillars of financial literacy in the province.

This paper, follows the 2013 financial literacy toolkit developed by the Organisation for Economic Co-operation and Development (OECD). The updated version of the toolkit, which was first piloted in 2010, enables robust data gathering on the financial knowledge, attitudes, behaviour and wellbeing of the adult population. The toolkit provides a questionnaire, which is designed to collect internationally comparable information (OECD, 2014). The updated version of the questionnaire was also applied by Struwig *et al*. (2011, 2012 & 2013) when conducting financial literacy in South Africa (SA).

The structure of the paper is as follows, section II provides a brief overview of the need for financial literacy study in KZN. This done by focusing on literature from both global and national levels. The dire socio-economic indicators in uMkhanyakude are used to demonstrate the need to select the district to conduct pilot study on financial literacy in the province of KwaZulu-Natal. Research methodology applied in the paper is presented in section III. The approach utilised focuses on the four pillars of financial literacy namely money or financial management, financial planning, choosing appropriate products as well as financial knowledge and understanding.

Section IV presents the analysis of results based on the four pillars of financial literacy. The section commences by assessing money management skills based on how respondents make ends meet, manage their limited funds as well as developing household's budgets. It then proceeds by assessing the issue of financial planning, focusing primarily on making good financial decisions when it comes to saving behavior, reserving funds for financial emergencies as well as planning ahead. The section concludes by assessing households' behaviour on both choosing appropriate products as well as financial knowledge and understanding. These results show an immense evidence of financial illiteracy in uMkhanyakude. The discussion of findings and conclusion, summary as well as recommendations are outlined in sections V, VI and VII respectively. The last section presents recommendations, limitations as well as the need for further research.

## II. Why Financial Literacy

Gale and Levine (2015) provide ample literature showing that financial education in schools, workplaces and business improves financial behaviour. They further provide an enormous amount of evidence indicating that financial education positively affects knowledge and intended behavioural change. Results by Bernheim *et al*. (2001) make a contribution to the growing body of evidence suggesting that education has positive effects in augmenting personal saving.

Unsurprisingly, Bernheim (1998) presented unprecedented evidence showing illiterate individuals find it ambiguous to address basic financial issues. These findings are corroborated by a sizable amount of literature including investigation by Lusardi and Mitchell (2008) who found that women in *en masse*, particularly in US are possessed with lower levels of financial literacy. Their findings further indicate that a sizable amount of women have not done retirement planning calculations.

The most celebrated financial literacy studies in SA were conducted by Roberts *et al.* (2012 & 2013), using a representative sample of 2972 randomly selected across nine provinces in the country. Akin to global trend, their key findings indicate that financial literacy is generally low amongst women, young people between the ages of 16 and 29, and amongst black Africans and colored people.

Respondents with no schooling, primary or some secondary education recorded the lowest financial literacy levels, with financial literacy increasing with attainment of education. The authors further found that Individuals living in rural farms, traditional areas and informal settlements were more financially illiterate, with the living standard of participants found to have a positive relationship with financial literacy. Residing in a more formal or urban area was found to impact the level of financial literacy positively.

In line with the global evidence, the final expenditure on consumption by private households in South Africa (SA) accounts for an estimated 61.2% of the national real gross domestic product (GDP).[3] This is however in stark contrast with data from the South African Reserve Bank (SARB, 2015) which shows that the national savings ratio in the country is 16.2%, with households contributing a mere 0.2% in the first quarter of 2015. Disturbingly, the household-debt-to-income ratio is around 78%, implying that consumption is financed through debts and KwaZulu-Natal (KZN) and uMkhanyakude District Municipality (UDM) are no exception.

With this backdrop in mind, KZN Financial Literacy Association (KZN FLA) [4] has placed more emphasis on financial education in the province. The purpose of this study - the first of its kind to be undertaken by a province is to generate information on the levels of awareness, knowledge and understanding of financial literacy and systems in KZN.

**III. Methodology**

The questionnaires were administered to a randomly selected representative sample size of 521 households across the five local municipalities in the district. The target population for the pilot study was individuals aged 16 and over who lived in UDM, specifically comprising people living in households within the remote rural areas of the district covering all wards in the five local municipalities.

When weighted, the sample size represents a total of 108 576 households in Umkhanyakude. The total number of households was obtained using 2014 estimated demographic data by Global Insight (2015)[5]. A total of 26 Community Development Workers (CDWs) from the district were contacted as data collectors or field workers. Each CDW was allocated a set of 20 questionnaires to conduct face-to-face interviews to one household member who was 16 or older.

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[3] According to Trading Economics (2015). *Household final consumption expenditure - etc. (% of GDP) in South Africa,* available from http://www.tradingeconomics.com/south-africa/household-final-consumption-expenditure-etc-percent-of-gdp-wb-data, accessed on 10 August 2015

[4] KZN FLA is non-profit public and private entity with a mission to reduce poverty through empowering people to make informed financial decisions in their personal and professional lives. The organisation seeks to leveraging government structures and a network of financial and academic institutions, business, NGOs and regulatory bodies. In its current structure, the association on children in school, out of school youth, women and vulnerable groups, traditional leaders, small businesses and government employees (http://www.finlitsa.co.za/home).

[5] IHS Global Insight Southern Africa is one of the global economics consultancy in the world. It specialises in economic analysis and forecasting and provides in-depth coverage of over 200 countries and 170 industries, worldwide. See Global Insight website available from http://www.ihsglobalinsight.co.za/About, accessed on 9 June 2015

A one-day training programme of data collectors was conducted in mid October 2014 and data collection process commenced on 30 October 2014 and ended on 30 March 2015. The field workers were guided in the process of filling the questionnaire in order to clarify questions and eliminate any ambiguity that may have arisen. These field workers were closely monitored for quality assurance purposes. Data was captured using SPSS[6] while Chronbach's Alpha[7] was applied to ascertain validity and reliability of the results from the pilot survey.The questions are divided into in four sections focusing on the four pillars of financial literacy; namely: *money management, financial planning, choosing appropriate products as well as financial knowledge and understanding.*

## IV. Analysis of Results

As indicated in section III of this paper, financial literacy is assessed in terms of skills in money management, financial planning, choosing appropriate financial products as well as financial knowledge and understanding.

### 1. Money or Financial Management

Money management includes the extent to which individuals*"work to budgets, stick to budgets, save regularly and whether they keep records of their spending"* (Roberts *et al.,* 2012, *pp 40*). The extent of money management further focuses on the mediums through which people survive, how often they experience a shortfall in money, and their alternatives in such cases. As indicated by Stănculescu (2010), Money management involves budgeting and control of one's financial resources. It is also the awareness of individual's financial commitments, being able to meet these, and resisting the pressure to spend as well as the temptation to borrow.

FINRA (2012) revealed that 19% of U.S individuals had expenditure greater than their income; this was excluding the purchase of any large items such as property and vehicles. Furthermore, 26% of the participants were found to have overdue medical bills. The deficit meant that one in five US citizens was financing their expenditure using debt and therefore could not save any of their income. Even more so, these individuals were struggling to make ends meet and this was a consequence of their inability to make proper money management decisions.

[6] SPSS is a statistical data analysis software used in solving research problems.
[7] Chronbach's alpha is a scientific measure of reliability or internal consistency indicating how closely related a set of items.

Approximately two-thirds of the Romanian population finds it hard to manage its day-to-day finances (Stănculescu, 2010). Only 23% of the participants in the study reported to know exactly how much they spent on a monthly basis through keeping records of expenditure. A vast majority claimed to have a good idea of their expenditure even though this was not in writing. The low income group was more likely to have no income and expenditure plan in comparison to the middle income group. The author maintains that this is because low-income is associated with irregular income from unstable informal work which makes it difficult to have any sort of budget.

Using data from the University of Michigan's Health and Retirement Study, Lusardi (2002) conducted a study examining the effect of participation in retirement seminars on savings as opposed to their mere availability. She found that involvement in financial education programmes increased total and financial wealth for savers at the 25th percentile of the saving distribution i.e. for low-saving individuals; on the other hand, she failed to find corresponding results for the overall sample. For the purpose of this paper, the assessment of financial management skills by the people of uMkhanyakude is conducted through indicators on the ability to make ends meet as well as the degree to which they monitor their finances.

***Making ends meet***

In the case of uMkhanyakude, households were asked whether in the 12 months prior to being interviewed they had personally experienced a situation whereby their income did not always cover their living costs. Close to two thirds than two-fifths (64 per cent) responded positively, with a mere 17.5% indicating that this had not happened to them. A handful share of 9.7% did not know how to respond while a small proportion of 2.8% or refused to provide response.

A follow-up question on coping with financial difficulties to those who were unable to live within their means indicated that the most common response was to cut back on spending at about 70 per cent. This was followed by asking for food or borrowing money from family or friends at 56 per cent. A behavioural pattern of this nature may be attributed to the high level of informal, family and community networking practices which is common among poor communities in uMkhanyakude, particularly during difficult economic circumstances. Other frequently mentioned strategies adopted by the respondents included loans from saving and loan clubs, late payment of bills, borrowing from micro-lenders commonly known as Mashonisa.[8]

***Money Management***

Respondents were asked whether they do consider affordability before buying something. Of those interviewed, a staggering 62.9% indicated that they don't consider affordability at all, 30.7% agreed with the statement. This is therefore, an indication that close to two-thirds of those interviewed do not carefully consider affordability before buying something. This is daunting, particularly when taking into consideration the high levels of unemployment rate, poverty and job opportunities in this municipality.

***Household Budgets***

Budget planning is an indication of financial discipline and control, which is an awareness of how much can be afforded to spend on goods and services. As correctly pointed out by OECD (2006), it is essential for the average family trying to decide how to balance its budget, buy a home, fund the children's education and ensure an income when the parents retire. The reporting of the existence of a household budget was relatively common at 53.6 per cent, with 32.2% suggesting otherwise and 8.3% uncertain or refusing to answer. It would be interesting to know whether respondents are able to stick to their budget or not. Lusardi (2008), found that in US, about 18% of respondents were able to develop a saving plan and stick to it.

### *2.* Financial Planning

Financial planning is the most important way in the course of which a person can allocate his or her current income to secure his or her future (Joshi, 2011). Federal, Provincial and Territorial Ministers Responsible for Seniors Forum (2010) describes financial planning as the plan that looks at where you are now and where you want to be in the future, and lays out a plan to help you to get there. It is a method that helps a person finding out different traditions through which he can accomplish his defined and desired goals by gathering appropriate information about his current financial position and implementing suitable strategies to deal with known and unknown financial events in the future.

Struwig et al. (2013) argue that planning for the future is a significant aspect of everyday decision making mostly when finances are involved. They further maintain that financial planning guarantees that a person

[8] The word "Mashonisa" is an informal word for a person or company that provides loans to consumers.

has the right amount of money at the right times as and when financial need arises in the future. Cohen and Sebstad (2003) believe that financial planning will assist individuals not only to meet future financial needs but also involves protection of self and family against any future unforeseen event.

***Saving Behavior***

As argued by Struwig et al. (2013), it is fair to assume that those proficient in money management would try and make suitable provisions for their future. Interestingly, a vast majority (68.5%) of the respondents in uMkhanyakude have bank accounts. However when asked about personal savings in the year prior to being interviewed, saving in stokvels was predominant at 63.6% of the respondents. An estimated 54.6% of the respondents agreed on paying money into a savings account to provide for future needs. In addition, 54.6% stated that they try and build up a balance of money in their bank accounts. One of the most popular forms of saving is by informally saving cash at home or carrying it in wallets. More than half of the respondents (56.7%) declared that they are saving money in this way. About a third (33.4%) gives money to their families as a form of saving.

The Financial Planning Standards Board (FPSB, 2010) maintains that financial planning is the process of developing standards to assist clients in managing their financial affairs to meet life goals. The board further indicated that the financial planning involves reviewing all relevant aspects of a client's situation across a large breadth of financial planning activities, including inter-relationships among often conflicting objectives. In line with these sentiments by the FPSB, close to four out of ten respondents (36.3%) buy financial investment products other than pension funds.

***Financial Emergencies***

One of the critical aspects of financial literacy is for the Individuals to be in charge of their own financial needs for emergency purposes. Well-equipped individual in dealing with unforeseen circumstance becomes one of the priorities in making saving decisions. As correctly indicated by *Roberts et al* (2011), it is vitally important to assess the extent to which provisions for financial shocks or emergencies by individuals is adequate without compromising daily needs and continue making ends meet.

Since the future is inherently uncertain, families need to make provisions to safeguard themselves against financial shocks. There are several life events that families need to plan for, such as retirement and children's education. A study conducted by Lusardi (2011) examining Americans financial capability revealed that making a decision about how much to save in order to afford a comfortable retirement requires collecting information about several important variables and doing some, even basic calculations. The study indicated that the majority of Americans do not plan for predictable events such as retirement and children's education.

The study further outlined that, when asked whether they have ever tried to figure out how much they need to save for retirement, only 42% of respondents who are retired said they did. The key findings in this study were that people do not seem to be well informed and knowledgeable about their terms of borrowing. Consistent with the preceding finding, the majority of Americans lack basic numeracy and knowledge of fundamental economic principles such as the workings of inflation, interest rates and money management.

It is in line with the above mentioned circumstances, households were asked, "*If you lost your main source of income, how long could you continue to cover your living expenses for, without borrowing any money or moving house?"* Disturbingly, two out of ten respondents (22.8%) had no idea as to how will they survive in case they lose income. An estimated 13.3% indicated that they would not be able to manage for even a week, 14.7% thought they could last between a week and a month. Similar to the national observation by Roberts *et al.* (2011) of the largest group (23%) felt they could manage between one and three months. Around 14% of the respondents felt they could last "between three and six months".

A paucity of approximately 7% of those interviewed thought that they could survive for more than six months. These results suggest that an *in masse* number of the people for uMkhanyakude have little reserves that they would be able to utilise in case of unexpected loss of income before they could be forced to rely on other means of income.

These results are however not significantly different from those at the national level. Struwig *et al.* (2013) suggest that South Africans implement a mixture of strategies in order to save and reduce the shock of unexpected events and emergencies. Paying money into a bank account appears to be one of the trendiest forms of saving among South Africans. The majority of individuals state that they try and put up a balance of money in their bank accounts. One of the most accepted forms of saving is by informally saving cash at home or carrying it in wallets.

The authors further indicated that only 4% of South Africans invest in trusts, stocks, shares, livestock or property as a form of saving. It is also evident that males tend to use savings accounts and bank accounts more than females. Struwig *et al.* (2011) also indicated that several South Africans find it difficult to save; hence they implemented a no saving strategy. This according to the authors was explained by the increasing unemployment rate as well as the country's high cost of living. Their results also indicate that people in SA are sensitive in terms of high bank charges and the spatial inaccessibility of formal financial institutions. This then led some of them into giving money to their families as a form of a saving strategy.

Findings by Struwig *et al.* (2011) are consistent with those by Mishi et al. (2012) who conducted a study on the positive association between educational attainment and the recent use of more formal savings products. The authors indicated that less educated people, also living in rural areas tend to rely more on informal ways of saving money such as saving money at home or giving it to a family member. This is an indication that those with no formal education are also much less certain or willing to disclose whether they are saving money relative to those with higher education levels.

Failure to reserve funds for unexpected events is however not only the South African problem, Poll (2014) found that only 16% of the respondents in US were able to save for rainy days. This is however in stark contrast with the findings by Atkinson *et al*. (2006) who discovered that about 49% of the respondents in United Kingdom (UK) had some sort of savings arrangement which ensured that in the occasion of job loss or extended illness, these individuals would have sufficient funds to sustain them and their families for at least a period of three months.

***Planning Ahead***

De Beer and Coetzee (2003) argue that financial planning must be a life-long pursuit that enables consumers of all ages and economic positions to stay attuned to changes in their financial needs and circumstances and to take advantage of products and services that best meet their goals. They maintain that when making a financial plan, individuals need to think about long-term needs and kinds of things that might happen to them in the future. This is one of the ways of taking charge of individual financial future. They further indicate that a financial plan helps to understand individuals' choices and reach life goals. They thus conclude by warning that financial planning should be a tool for everyone and as individuals get older and face changes such as retirement, it is important to have as much information as they can about your financial future.

Following this argument, the questionnaire contained a set of questions related to financial planning capturing attitudes toward financial planning by the people of uMkhanyakude. Close to a third of the respondents (32.6%) agreed with the statement that, they get satisfied by spending money than saving it for the long term, while (47%) disagreed and 20.3% were unsure. In terms of setting long term financial planning respondents were provided with a statement, "*I set long-term financial goals and work hard to achieve them",* and were asked if they agreed or disagreed with the statement. Attitude displaced show that less than half (44%) are concerned about future financial planning. It is however worrying that majority of the respondents are either disagreeing (41%) or unsure (22%).

Similarly, buying of financial investment products other than pension funds is also low at 36.% compared to 63.5% of respondents who stated that they never bought any financial investment products. This observation is indeed a cause for concern, particularly in SA whereby National Treasury is quoted stating that only 6% of the population will have enough money to retire comfortably, without having to change their standard of living.[9]

### 3. Choosing appropriate products

One of the four pillars of financial literacy is to choose appropriate products (Kempson (2009). Monique and Candace (2011) regard financial education as an important tool to address this imbalance and help consumers to both accept and use the products to which they increasingly have access. It is therefore essential for individuals to be able to choose and use the services available to them.

In 2008, an Australian financial literacy survey revealed that only 52% of the respondents indicated that they would not take to an investment option promising investors a return above market rates but no risk whatsoever (Australia and New Zealand Banking Group, 2008). This shows that a large number of individuals are unaware of the relationship between risk and return, also regarded as the mean-variance rule in corporate finance, which renders such an investment option unrealistic.

[9] http://www.fin24.com/Money/Retirement/What-you-need-to-know-about-retirement-20150728

An estimated 66% of the participants understood that good investments can also be expected to experience short term fluctuations in market value and about half of the respondents regarded diversification when investing imperative. Findings further showed that people failed to utilize information available, or that provided, to them. A quarter of survey participants relayed that they either did not receive, or failed to read statements from their retirement. However, of those who did engage with the statements, almost a third of them found the statements challenging to understand.

In order to more accurately understand financial behaviour in uMkhanyakude, it is necessary to investigate knowledge and usage of financial products by the people residing in this district municipality. The four primary financial product areas are banking, credit and loan, investment and savings, and insurance. An assessment of knowledge on these focus areas, will assist in understanding which financial products people from uMkhanyakude have acquired and were currently using.

Responded in uMkhanyakude were provided with a list of 20 financial product which included a pension fund, mortgage bond or home loan account, bank loan secured on property, unsecured bank loan, credit card, microfinance loan, insurance and others. These products were read out by the interviewer and the respondents were requested to say which of them they had heard of before. Banking account, credit card and post bank were the most common financial product that respondents were aware of. Generally, products like internet banking, mortgage loans and unsecured bank loans were less known.

Financial advisers provide services to assist individuals, trusts and businesses to make sound financial decisions on investments, loans, credit and debt reduction, retirement planning, insurance and other services. In a case of uMkhanyakude, about 36% of the respondents have trouble in getting good relevant financial advice, 10.7% didn't know and 20.5% found the question to be irrelevant. Startlingly, 58.9% of the respondents did not know where to look for advice, while 11.3% did not understand the advice that was given to them.

**4. Financial Knowledge and Understanding**

The final component of financial literacy relates to the extent to which consumers are updated when it comes to financial matters, their understanding of financial concepts as well as new and existing financial products and services. Financial literacy is thus contingent on some knowledge and understanding of fundamental elements of the financial world, including key financial concepts as well as the purpose and basic features of financial products (PISA, 2012). This also includes risks that may threaten financial well-being as well as insurance policies and pensions.

Financial knowledge and understanding further deals with how consumers are informed about their rights and responsibilities when it comes to the financial products and services available to them. This includes the awareness of consumers pertaining to institutions or individuals such as the National Credit Regulator and Ombudsman. These institutions highlight the extent to which consumers can take recourse in case of non-satisfactory products and services.

The extend of financial knowledge is clearly demonstrated in the US study conducted by FINRA Investor Education Foundation (2009). The foundation found that the use of financial information, provided to aid in financial decision making was minimal. About 66% of respondents indicated that they were receiving Social Security statements on an annual basis, but a majority of them were not using these to inform them in their plans for the future, especially regarding retirement or the claiming of benefits.

Only 43% of the respondents to a study by Gustman and Steinmeier (2004) reported to have any idea of their expected social security benefits and a few knew the rules governing social security. In its investigation of employees' behavior in the US, the Employee Benefit Research Institute (2007), found that only 18% of employees which participated in the survey had an idea of the exact age at which they would be at liberty to receive full social security benefits.

The general impression from the international arena is that financial illiteracy is greater among the uneducated, women, Africans, Hispanics, the young and the very old (51 years and older). It is observable that people are short term oriented, that is, they live day by day and pay little attention to the future. People do not allocate time to find information on financial options and to deal with financial matters such as those concerning retirements and other investments. Those who do, are however not fully informed about the benefits and costs of doing so and will therefore not get the most out of their financial management initiatives. There is a significant amount of people who are unaware that abnormal financial returns come with risks, this usually leads to a number of these people falling prey to unscrupulous money making schemes which promise high returns at absolutely no risk; these tend to surface in South Africa.

***Financial Literacy Quiz***

In uMkhanyakude, the analysis of financial knowledge and understanding commenced with the question testing the understanding of basic arithmetic. The households were provided with the following *quiz,* among others *; "Imagine that five family members are given a gift of R1, 000. If the family members have to share the money equally how much does each one get?"* Disturbingly, only a third (33.3%) of respondents were able to provide the correct numerical answer to the quiz, involving mathematical manipulation. Given low literacy rate of 68.7% in uMkhanyakude, compared to the national average of 82.9% and KZN (80%)[10], this is therefore not surprising. Other quizzes included their levels of understating on concepts like inflation and interest rates. Once again results were also not favourable, indicating that the district as a whole has a low level of financial understanding.

***Understanding of Financial Products or Services***

The questionnaire, (copy of which is available on request) also contained a set of questions on the understanding of financial products and services in uMkhanyakude. One of these questions was for the responded to indicate, *"How much do you agree or disagree with the following statements: "I've got a clear idea of the sorts of financial products or services that I need without consulting a financial adviser."*

Respondents were thus asked whether they totally agree, agree, totally disagree or disagree. Results indicated that more than half (56.3%) of the respondents either totally agreed or agreed. Though these results are encouraging, it is however worrying that close to four out of ten respondents have no clear idea of the sorts of financial products or services that they need without consulting a financial adviser.

Respondents were also asked, "*How confident are you that you know how to make an effective complaint against a bank or financial institution?"* A mere 25% of the respondents were very confident, while 13.6% was fairly confident. The total remaining proportion of around 27.6% was not confident. This is an indication that people from this district are not fully exposed to section nine institutions such as the public protector nor the consumer councils. It is therefore apparent that majority of the people from UMkhanyakude District Municipality either lack knowledge or are not exposed to the roles played by public institutions that are designed to protect consumers or the public at large.

[10] Source: Own calculations using data from Global Insight, 2015.

## V. Discussion of Findings and Conclusion

Generally, results indicate that financial literacy is low in uMkhanyakude compared to the result at the national level. The first critical issue about the findings of this pilot study is the fact that this is the first survey conducted at the provincial level in SA. This therefore made it practically impossible to compare findings with the rest of the provinces in the country. However, though there are no statistical calculations conducted yet, the findings seem to be comparing well with the national studies by Ludwig *et. al* (2011, 2013 and 2013). Since this is work in progress, attempt will be made to improve the paper by comparing results by race, gender and age category. Further, methodology applied by OECD, which was also used by Ludwig *et. al* (2011, 2013 and 2013) will also be adopted to calculate financial scores in uMkhanyakude and ultimately across districts in KZN.

## VI. Summary

This paper attempted to make contribution to the massive global literature on financial literacy by conducting a pilot study in uMkhanyakude, one of the poorest district municipalities in the province of KwaZulu-Natal. The study was conducted qualitatively using the globally renowned questionnaire as developed by the OECD. However, constrained by both financial and human capital resources, the study was only conducted in one district municipality in KZN, using CDWs employed by KZN Department of Cooperate Governance and Traditional Affairs (COGTA) as data collectors. Results suggest that financial literacy level is very low in uMkhanyakude compared to findings from both the overall South African and global findings.

Similar to global standards, this paper focused on the four financial literacy pillars; namely: money management, financial planning, choosing appropriate products as well as financial knowledge and understanding. Empirical investigations mainly from developed countries provide evidence linking financial literacy to the ability to make knowledgeable decisions and take suitable actions on issues affecting one's financial wealth and well-being (ECI-Africa (2004) in Eighty 20 (2009).

In South Africa, Struwig *et al.* (2013) maintained that financial illiteracy means that individuals are short of the working knowledge of financial concepts and do not possess the necessary skills which are essential in making economically enhancing decisions. Thus financial illiteracy has an adverse effect on both short and long term period such as current savings and retirement plans.

Following the globally adopted qualitative method, the paper assessed financial literacy levels in KZN, using uMkhanyakude as a case study. The primary data collected, indicates that financial literacy levels in terms of making ends meet, money management, household budgets, saving behavior, financial emergencies, planning ahead as well as understanding of financial products or services are low compared to results from studies conducted in SA and across the globe.

## VII. Policy and Recommendations

The South African government developed and approved the National Consumer Financial Education Strategy in 2013 (National Treasury, 2013). The main aim of the strategy is to empower the entire population on issues related to financial management, particularly those that are vulnerable and marginalised, including school-going children. As observed in section IV above, financial literacy enable individual to better manage their financial affairs, deal with their day-to-day financial decisions and make good choices about allocating their incomes from school-going age, during working age and through to retirement. Thus, in order to benefit the whole country, including uMkhanyakude District Musicality; full implementation of the strategy should be made one of the South Africa's top priorities.

There is therefore, a need for extensive collaborative efforts to involve all stakeholders[11] in ensuring that the strategy is implemented to its fullest potential. Non-profit organisations such as KwaZulu-Natal Financial Literacy Association (KZN FLA) should be accorded the support they need to spread their wings to penetrate rural and less affluent areas such as uMkhanyakude District Municipality. Perhaps, each of the remaining provinces needs to be encouraged to establish their own respective financial associations.

## VIII. Limitations of the Study and Further Research

The following is noted as a major limitation of the study which warrants further investigation:

Due to financial and human capital resources constraints, it became a challenge to conduct statistical analysis such as the calculations of mean values, variance, mean and others, thus the analysis of variance was not conducted. This challenge also made it impossible to develop financial literacy scores using methodology applied by OECD when conducting financial literacy studies in more than 30 countries,

[11] Stake holders such Government Departments (national and provincial), municipalities, commercial banks, state agencies, financial institutions such as insurance companies, non government orgaisations, business organisations and others.

globally. Subsequently, results from this study cannot be compared to those at national and international levels.

Finally, in order to identify gaps get and get a full understanding of the extend of the financial literacy levels in KZN, there is a need to conduct provincial baseline study in each of the other ten district municipalities, including eThekwini Metro. It must be noted that these district municipalities are not unique and have different levels of development and economic performance. Thus, a one size fits all strategy might pose a challenge in implementing programmes aimed at enhancing financial literacy.

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