

CaseStudy

FINANCIAL LITERACY AND ECONOMIC GROWTH: A CASE STUDY OF MALI AND ITS IMPLICATIONS FOR AFRICA

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ABSTRACT

This study investigates the relationship between financial literacy and economic growth, with Mali as a case study, shedding light on the broader African context. Against the backdrop of economic and political instability in many African nations, exacerbated by the COVID-19 pandemic, financial insecurity has become increasingly prevalent. Nearly 35% of Africans live on less than US\$1.90 per day, making financial literacy a critical issue. The research addresses the pressing need to understand the role of financial literacy in Africa's economic development. Financial literacy has been linked to retirement planning, wealth accumulation, and responsible financial decision-making. However, Africa lags in financial education despite expanding financial services and growing cryptocurrency adoption. Key questions explored include Africa's global financial literacy ranking, the correlation between financial literacy and economic growth in Mali, the relationship between financial literacy and macroeconomic factors, challenges hindering financial literacy improvement, strategies for promoting financial literacy, and methods for measuring financial literacy. By employing a mixed-methods approach, this study utilizes primary and secondary data sources, collaborating with official institutions and conducting surveys and interviews. Econometric tools and causal analysis methods will assess the relationship between financial literacy and economic growth. The research's significance lies in its potential to inform policies and strategies for enhancing financial literacy, reducing financial insecurity, and improving the well-being of African populations and those in the developing economic world. This study contributes to the broader discourse on financial literacy in Africa and provides valuable insights applicable to the continent's diverse economic landscapes.

Keywords: Financial Literacy, Economic Growth, African Economies, VECM, Granger Causality.

INTRODUCTION

With current economic and political turmoil, inflationary increment has become recurrent in many countries; African countries are of no exception. The crises appear to be worsening already vulnerable economic conditions on the continent, while these have always been striving for economic and financial prosperity for their people. Another important aspect as one of the many reasons why these countries are lying behind would be their low literacy rate. As the hub for international development programs for education, food, health just to mention the few, African states face complex problems that need to be approached in more adequate manners.

Current economic conditions have also created serious concerns about people's financial security. According to the Institute for Security Studies - ISS (2022) almost 35% of Africans are living on less than US\$1.90 a day; most Africans struggle with arrays of financial challenges in their daily life. The studies from the ISS also stressed that about 30 million more Africans fell into extreme poverty when COVID-19 broke out in 2020; before the pandemic struck, over 445 million people – equivalent to 34% of Africa's population – lived below the poverty line. Even then, this figure was almost nine times the average for the rest of the world. This situation is more serious for those who lack the skills and resources to withstand variations in the economy. For those with decent financial situations, making informed decisions appears to be another challenge; they eventually become financially unsecured with time.

Therefore, conducting studies on financial literacy become a need to determine its possible impact on people's life and the country as a

whole. The development in the educational sector is believed to have a positive impact on economic growth. Educated people are able to understand and analyze their countries' needs and how to satisfy them. Education also enables people to determine and develop modern solutions to existing problems; it helps people organize better their society and achieve their common goals. Africa still lies behind among the poorest countries having the lowest literacy rate. Aside general literacy, financial literacy is also a major constraint in the continent's financial and economic sustainability. Mali, with 41.03% (UNESCO, 2018) of Secondary school enrollment rate is among African countries that need to draw important policies to address the issue.

PROBLEM STATEMENT

Nowadays, with governments pushing to boost more financial services, bank accounts for credits and savings are becoming more numerous among the populace (Klapper, Lusardi and Van Oudheusden, 2022). Financial literacy has been proven to be closely tied to retirement planning and retirement wealth accumulation (Lusardi and Mitchell, 2007a, 2008a, 2009, 2011; Behrman et al. 2010). Moreover, with the creation of crypto currencies, notably that of Bitcoin in 2008, it was shown that financial literacy is prominent in people's daily life, now and for the future.

Klapper, Lusardi and Van Oudheusden (2022) state that financial ignorance is significantly expensive. Consumers who lack knowledge of compound interest will spend more on transaction fees, accumulate cumbersome debts, and incur higher interest rates on loans (Lusardi and Tufano, 2015; Lusardi and de Bassa Scheresberg, 2013). They will eventually end up borrowing more and saving less money (Stango and Zinman, 2009). The potential benefits of financial literacy are multifarious as people with strong financial skills do a

better job planning and saving for retirement (Klapper, Lusardi and Van Oudheusden, 2022; Behrman *et al.*, 2012; Lusardi and Mitchell, 2014). Financially savvy investors are more likely to edge against risk by diversifying funds across several ventures (Abreu and Mendes, 2010). According to the Standard & Poor's Ratings Services Global Financial Literacy Survey (2022), country-level financial literacy ranges from 71 percent to 13 percent, where the latter exists in the least developed countries like those in Africa. Many studies regarding financial literacy have touched Africa in very subtle ways (and sometimes not at all). It is in light of the above that studies need to be carried out in Africa to explore the matter and find tailored solutions.

RESEARCH QUESTIONS

At the end of this study, the researcher expects to be able to avail satisfactory answers to the following questions:

- Where do African countries stand in global financial literacy ranking?
- Does financial literacy positively affect economic growth in the Malian economy?
- What is the relationship between financial literacy and other macroeconomic factors?
- What are the main challenges in improving financial literacy in Mali?
- How can financial literacy be promoted in Mali?
- How can financial literacy in a country be measured?

OBJECTIVE OF THE STUDY

Financial literacy needs to be drawn important attention to in African economies. This study will be conducted to enrich research directed on that matter and the promotion towards a sustainable financial security. The specific objectives of this study are as follow:

- To define African countries' stance in global financial literacy ranking.
- To determine the relationship between financial literacy and economic growth.
- To determine the relationship between financial literacy and other macroeconomic factors
- To explore the challenges encountered in the improvement of financial literacy's.
- To establish guidelines through which financial literacy can be promoted in Mali.
- To conclude on appropriate measures for financial literacy.

SIGNIFICANCE OF THE STUDY

Financial literacy may help people determine and understand the reasons behind their financial status and make informed decisions afterwards. Expected results of this study will contribute to the creation of awareness with regard to financial literacy in Africa in general, and in Mali in particular; they will consequently contribute to enriching the pool of research on African economies. More modern and beneficial financial services could be introduced to reduce people's financial insecurity. The significance of the study is as follows:

- To help set standards and policies for financial literacy promotion.
- To understand the relationship between financial literacy and other macroeconomic factors.
- To uncover the challenges behind low financial literacy rate in Mali, and in Africa as a whole.
- To help governments and policy makers design future policies for societies' financial welfare.

RESEARCH METHODOLOGY

Research Design

This study will be based on financial literacy among the Malian populace between the years 2000-2022; this period will factor many political regimes, consequently educational programs in the last two decades. The researcher will seek collaboration with the Malian Bureau of Statistics and the Ministry of Research and Higher Education alongside with tailored questionnaires and interviews to collect data. Data on the growth rate of Mali be collected from the website of the Ministry of Finance and Economy. Consequently, both primary and secondary data will be collected in order to attain more objective results.

Study Population

The population under this study is the Malian population currently living in and outside the country.

Sampling

In this study, the researcher will undertake a non-probability sampling, precisely a purposive sampling technique. The case study being financial literacy among the Malian population, recipients will be purposively selected.

Research Instrumentation

Aside data that will be provided by the Malian Bureau of Statistics and the Ministry of Research and Higher Education, field research (with interviews and survey questionnaires) will be conducted to collect complementary data.

Data Collection

Both primary and secondary data will be collected. The researcher will attempt to gather secondary data from the above-mentioned institutions' websites or at their local headquarters in Bamako. As for primary data, the researcher will attempt to collect them at public places like markets, schools, and universities. Secondary data will be complementary to the primary data.

Data Analysis

The aim of this study is to explore the relationship between economic growth and financial literacy. Economic growth (Gross Domestic Product) will be the dependent variable and financial literacy will be the explanatory variable. Other macroeconomic factors like credit access, production index, inflation and general literacy will also be used at explanatory variables. The researcher intends to jointly use EViews program of econometric and the Statistical Package for Social Science (SPSS). The short- and long-term relationship between variables will be tested with the Vector Auto Regressive – VAR (or the Vector Error Correction Model – VECM) method will be used. The researcher also intends to conduct a Causality test among the variables to determine the nature of relationship among them.

SCOPE OF THE STUDY

This study looks mainly at a possible relationship between financial literacy and economic growth in Africa. The Malian economy is taken as the case study. Malian households are the main population; the study will also take into consideration Malian citizens living abroad

since they are an important contributor to the yearly income of the country.

LIMITATION OF THE STUDY

Results from this study will reflect all Malian populace. Unfortunately, the researcher may not be able to reach some remote areas of the country due to transportation constraints. While general literacy in rural areas is considerably low, the research will manage information from websites and archives from the mentioned institutions.

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