Credit Reporting & Financial Literacy:
A Pilot Project in Tanzania

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Project Purpose

The primary project objective was to assess the level of financial literacy of Tanzanian consumers who were likely to be credit active, particularly as relates to the consumers' understanding of credit information sharing. Then, based on the consumers' level of knowledge, to create awareness raising and financial educational materials to address gaps in consumers' knowledge.

The project was developed to coincide with the introduction of credit reporting in Tanzania. Two credit bureaus have been licensed in Tanzania to aggregate and share credit information and are projected to begin work in early 2013.

The activities were done in conjunction with CI's member and local project partner, the Tanzanian Consumer Advocacy Society (TCAS) which has a network of financial counseling centers available to consumers, and which had recently completed a project on financial literacy.

Activities/Project Design

The project period was particularly short. Initially the project was to run from September to December of 2012, but an additional month was added in order to utilize the educational materials with a significant sample size of consumers.

The project started with a series of interviews with financial sector stakeholders, including the project donor, regarding credit information sharing and the essential information needed by consumers about credit information sharing.

CI also conducted a review of existing literature on financial literacy levels in Tanzania, and analyzed the existing legal and regulatory frameworks related to credit information sharing, which were minimal. In fact, at the time of the project, there were no regulations in effect on credit information sharing and no data protection law. Draft regulations on the credit bureaus were reviewed, but they may have since been modified.

CI also developed a questionnaire for consumers with questions designed to assess financial literacy levels, financial behavior and consumers' actual experience with financial services.

These consumer surveys were conducted by TCAS financial services counselors with members of SACCOs, VICOBAs and small business associations. These individual surveys were followed by focus group discussions led by TCAS counsellors in order to clarify and deepen the discussions regarding consumers' financial services experience and perceptions.

The results of the questionnaires and focus group discussions were assessed, and financial educational materials and other outreach materials were developed based on the perceived financial literacy knowledge limitations.

The awareness raising materials took the form of brochures, posters and calendars, and TCAS also participated in call-in radio programs to inform the public about credit information sharing, and the fact that it would soon be starting in Tanzania. The awareness raising activities also directed consumers to sources of further information and financial counselling from TCAS.

At the culmination of the project, a one day multi-stakeholders' workshop was organized, to share the results of this baseline survey with stakeholders and to receive input on the financial education module. This workshop was also an opportunity to share experiences with others throughout the region, and a financial services consumer protection expert from Uganda also attended the event, which resulted in a highly interactive and enriching exchange amongst the participants and the key stakeholders, such as the Central Bank of Tanzania (BOT), credit bureaus and Tanzania Microfinance Institutions (TMIs).

In addition to the various outreach activities, face to face counselling continues to be done at the TCAS financial counselling centres, which are frequented by several thousand low-income consumers annually.

This project was designed as a pilot, with the interest and intent of replicating similar projects in other developing countries that are new to credit information sharing.

Summary of findings from consumer financial literacy survey

1. The percentage of Tanzanians who complete secondary education is fairly low, and similarly financial literacy levels are quite low. Knowledge of credit reporting principles is very low, and consumers' do not have much awareness of consumers' rights and responsibilities. For example, 30% of consumers did not know where to go with a complaint if they had a dispute about a financial service.

2. Women were perceived to be more likely to seek out consumer financial education because 53% of persons who volunteered to be surveyed were women, who were also members either of the Village Community Bank (VICOBAS), or the Saving and Credit Corporative Society (SACCOS).

3. The survey also showed that the credit reporting is totally a new concept for the consumers and only 57 % of the respondents understand the role of a credit bureau in the financial system.

4. From the survey, there was evidence of a general distrust of the financial system which also affected consumers' attitudes toward credit reporting. For example, of those consumers surveyed who had a dispute with a lender, 77% were dissatisfied by the way a conflict was dealt with by the loan provider.

5. Consumers have a low level of understanding of the terms in their contracts (and 72% of respondents felt they did not have enough time to read through the loan agreement before signing – but they did sign anyway); 68% felt that the loan officer did not adequately explain the terms of the agreement, and the majority of consumers (70% of the respondents) did not know how to calculate simple interest rates.

6. Respondents were particularly concerned about the security and the accuracy of the data in the credit reporting system, the lack of transparency and hidden costs within the system were also some of the concerns for the consumers. For example, 50% indicated that after signing the loan agreement, they discovered that the terms of the loan were actually different from what had been explained to them by the loan officer.

Recommendations

- With the newness of credit reporting in Tanzania, there is an urgent need to promote activities to raise awareness and outreach to inform consumers. It is important to increase the level of education and awareness on financial literacy and credit reporting, coupled with awareness of consumers' rights and responsibilities.
- Financial advocacy and face-to-face counselling centres should be supported so as to educate and protect consumers from being victims of disreputable services providers
- Having an informed consumer will develop confidence and trust between the lender and the borrower; which will also reduce the risks of consumers going to lenders which charge them exorbitant interest rates on their loans.
- Directing financial educational programs toward younger generations in schools and in the youth groups will promote a well-informed younger generation who can therefore assist their older parents and siblings in the system of lending and borrowing.
- Providing training and upgrading records system in the institutions like VICOBAS and SACCOS (which are not normally catered for by the BOT) will assist more consumers in accessing proper credits.
- Lessons learnt from implementing this project in Tanzania can be applied to and shared with other African countries facing similar challenges and opportunities.

Conclusions

In conclusion, there is an urgent need for the Bank of Tanzania to join efforts with other stakeholders to establish a comprehensive, accurate, secure and safe databank that can assist the credit reporting system to promote a safe and reliable borrowing and lending environment

There is also a need to get more accredited credit bureaus and create a redress mechanism whereby consumers can bring complaints regarding unfair or abusive financial services practices, as well as to address mistakes in credit reporting. To date, a consumer who is the victim of a financial services abuse or fraud can only complain to the provider itself, or begin a legal action.

Support is needed to increase awareness raising activities through outreach and face-to-face counselling to ensure consumers are well-informed and have confidence in the system.

There is also a need to incorporate institutions such as the VICOBAS and the SACCOS into the credit reporting system. These institutions cater to a significant number of underserved/marginalized consumers, but need assistance to use proper data management procedures so that they can share data with credit bureaus and enable low income consumers to establish a credit history.

Furthermore, the project faced time constraints in that it was only four months long and in addition was conducted during the December holiday season, when most of the stakeholders such as SACCOs and VICOBAs were not available.

The brief period also means that we were not able to properly assess the impact of the actual financial education counselling against the initial baseline.

The financial education manual produced is available in both languages Swahili and English.

The Swahili manual also has additional pictorial format to accommodate consumers who are not literate (though the financial educational materials are designed for use by, and with a financial counsellor, so it is not obligatory that a consumer be able to read).