Chapter 9

FINANCIAL LITERACY LITERATURE ON EMERGING ECONOMIES

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Introduction

There is a heavy price in terms of the significant cost of financial ignorance. Research on financial literacy has indicated a general lack of requisite financial abilities leading to consistent poor financial decisions among certain pockets of the population which in turn portends an enormous social problem. Women, the less wealthy, the uneducated are among those habitually tied to poor financial decisions. Decisions regarding investment, retirement planning and general household savings are the main areas that have received repeated reviews with the conclusion remaining dire in most contexts. To remedy this, several studies have instituted and investigated the variety of ways through which courses on finance and economics could be handled to improve financial awareness of the masses. However, some still proffer that it is a lost cause since none of the training is capable of providing value for its money. They indicate that financial ability is a factor of cognitive and numerical abilities (Willis, 2009, p. 222), hence even the best-designed training may not achieve much.

As the study on Financial literacy gained momentum, it was established early that the developing world is financially illiterate. According to the results by most studies on the topic (Lusardi and Mitchell, 2007ab, 2008, 2011a), the following remain true; The whites, males, the well-educated and the wealthy are more financially sophisticated, and by this account, developing countries have been largely neglected in the study of FL. This is according to the following account from the review of 53 studies on the topic conducted between 2007 and 2017 and based on their reach as determined by the number of citations they have garnered. The impact of FL on financial decisions like retirement planning, wealth accumulation and participation in the stock market has been extensively covered especially with respect to the developed world with America appearing 28 times.

Financial literacy became a key component of academic research and a vital area of concern for policymakers in the dying years of the 20th century. The 1990s saw an influx of research in the area, mostly driven by the structural economic changes rising from the ongoing global economic liberalizations, the inundation of new widely available and complex financial products, the anticipation of the retirement

Bulte and Lensink, (2016, p. 1586) also found financial knowledge to positively influence the behavior of individuals through engagement in income-generating activities and saving more. These results echo those found in an American setting by Lusardi (2008) that lack of information and general financial ignorance hinders savings and retirement planning by individuals.

Summary and Conclusion

The financial literacy literature is determined in proving the ills of ignorance and benefits of awareness. Planning for retirement proves to be the most important factor for most researchers as they seek to account for the amount of wealth that individuals accumulate in anticipation of old age. Investment and how individuals handle the stock market has also received a fair share of focus. Others include financial literacy education and general attitude and perception of consumers depending on their financial behavior. The financial narrative in most developing countries is still focused on access and awareness of the financial products. The other concepts indicated like retirement planning and stock market participation haven't taken root in these economies, at least, as far as the literature. Most developing countries lack national surveys on FL that are available in many of their developed peers. There is also a lack of a common, easily comparable instrument that could be used to evaluate the financial literacy level while being cognizant of the cultural and idiosyncratic differences of the various economies.

The studies in this review have pervasively considered various aspects of household financial behaviors and financial literacy. However, there is a clear lack of presentation of the developing world with regard to financial literacy despite so much going on in these countries regarding the topic. It is our belief that the situation in the emerging economies has not been understood well enough due to lack of exposure in research work. As indicated in this review, despite the lack of active participation in the formal financial systems, developing countries have their own complex idiosyncratic financial formats like savings, credits and even insurance that meet their financial needs. Hopefully, researchers will take up the challenge and exploit the role of financial literacy in building the financial systems of these countries.

Our study may have been limited by our search criteria that relied on Google Scholar and the number of citations to limit impact of the studies considered.

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