Comparative Analysis of Money Management as a Component of Financial Capability in Transitional Countries

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The World Bank's diagnostic work on consumer financial protection and financial literacy in several middle-income countries in Europe and Central Asia revealed that the public-at-large lacks basic financial literacy and is largely unaware of their rights as financial consumers (Rutledge, 2010). The money management practices of individuals in transitional countries can vary widely due to country-level differences (in population, for example), differences in the development of their economic systems, and differences in the path and pace of development of their banking system. Despite these differences, individuals in transitional economies face common challenges: virtually all families within the last two generations have lost savings due to numerous financial shocks; many have limited trust in financial intermediaries because of negative experiences, for example, pyramid schemes; recent expansion of the retail financial services industry and consumer credit has increased the risk to the financial status of individuals; and many still have limited access to financial products and services.

Objectives of the research were (1) to construct a composite measure that describes money management practices in transitional economies using data from Azerbaijan, Romania, and Russia, (2) to identify the characteristics that intensify or weaken the relationships between individual characteristics and money management practices in these countries, and (3) to identify core challenges for financial literacy education in transitional countries**.**

The data came from Nationwide Financial Literacy Surveys conducted in 2008-2010 in Azerbaijan (The Central Bank of the Republic of Azerbaijan, 2010), Romania (Stănculescu, 2010), and Russia. The surveys used a common methodology, asked about 50 similar questions regarding respondents' understanding of basic financial concepts, awareness of financial consumer rights, and patterns of household financial management. Sample sizes were between 1,207 (in Azerbaijan) and 1,912 (in Romania). The samples were nationally representative of the countries' populations by gender, age, education, and areas of residence. Seven survey items were selected that described the respondents' money management practices**.**

It was hypothesized that individual-level and social structural variables (education, labor market participation, income, and urban/rural residence) would affect money management practices. A Money Management Index was calculated to use as the dependent variable based on seven survey items. Ordinary Least Squares (OLS) regression was used to identify variables available from the Nationwide Financial Literacy surveys that explain the variance in the Money Management Index across countries.

Results demonstrated that one item (keeping records) was not a reliable and valid indicator of money management practices within all countries and was removed. Analysis indicated a two component solution for each of the three countries; we named the two components "making ends meet" and "living with debt." Using regression scoring, a factor score was computed for each component. Each score reflects the weighting for each variable in the component and indicates the respondents' relative standing for that component. A composite Money Management Index (MMI) was calculated and then rescaled to take values from 0 to 100. Mean MMI in Azerbaijan -46.1, in Romania -43.5, and in Russia – 52.8. A significant proportion of the population in each of the three countries was at the far left of the distribution. The similar results of linear regression for Azerbaijan, Romania, and Russia were obtained. Being a single male under 30 and being a student, having above secondary school education, and having a higher income contributed significantly to higher scores. All of the aggregate variables in the regression were significant in explaining the variation in the MMI within Russia and with the exception of education and gender in Azerbaijan, and gender and urban residence in Romania**.**

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In conclusion, an MMI this low indicates that citizens of Azerbaijan, Romania, and Russia clearly experience difficulties in managing money. To ensure prosperous households and a stable national economy, the governments of these countries must take a proactive approach to their citizens' financial education. This creates new yet challenging opportunities for financial educators in those countries**.**

References

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