

FINANCIAL CAPABILITIES INDEX

MALAWI

REPORT & QUESTIONNAIRE

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I. OVERVIEW

Between January and March 2010, MFO's methodology for the development of Financial Capabilities Indices (FCI) was applied in central Malawi. The goal was to gather and analyze data with two objectives: 1) to add to the base of data feeding into the generic FCI; and 2) to provide the basis for the creation of the first country-specific index, tailored to Malawi, for use in the Citi III Financial Diaries project.

The report presents results primarily related to the second objective. It was an experiment of sorts, in that past efforts focused more on abstraction of key concepts in order to create a tool widely applicable across cultures and regions. For the Malawi index, we maintained a focus on a particular context, and attempted to create a tool with the maximum level of local resonance.

In Malawi, in accordance with established protocol, data was gathered via nine focus groups carried out by the Centre for Development Management in three locations across the central region. Guy Stuart and Mike Ferguson analyzed and coded the resulting data in the U.S. From that, we generated the questionnaire that appears as Section IV of this document.

II. KEY FINDINGS

The goal with the Malawi index was to maintain relevance to the core principles of financial education, as expressed in MFO's modules. At the same time, we aimed to refract these principles through the local context and translate them into a localized idiom.

The data from which we drew these conclusions are in Appendix A, in the form of Pile Statement and General Statement scores and rankings. The maximum score for a pile statement was 100, and in this exercise the lowest score a statement got was 22. The statement the participants most often repeated was mentioned a total of 32 times.

The research revealed a number of key issues/findings that guided the creation of the questionnaire. They were as follows:

1. Food security as a yardstick – in central Malawi, the lion's share of financial issues are expressed vis-a-vis food security, with food insecurity or starvation as the ever-present consequence of poor money management. Participants in the FCI exercises mentioned food shortage a total of 43 times, 11 times stating that households did not have a food shortage, giving this a score of 97, and 32 times stating that they did have a shortage, giving this a score of 44.
2. Fertilizer & planning/stability – planning/stability issues most often centered on the purchase and use of fertilizer. Shortfalls or failures in this area were seen as leading directly to food insecurity. Participants mentioned fertilizer 26 times, 8 times relating to the purchase of enough fertilizer or its purchase in advance, and 18 times relating to the purchase and use of insufficient fertilizer.
3. Funerals/weddings & risk management – funerals and to a lesser extent weddings are the benchmark lump-sum expenses through which risk-management strategies are

- weighed. In the general discussion of poverty almost all examples participants gave regarding lump-sum expenses mentioned either one of these two events.
4. Vice & spending– the only significant divergence from consumption spending and other “good” spending habits came in the area of vice, e.g. beer drinking, gambling, prostitution. (Our theory: the margins for subsistence in Malawi are so thin that most people spend foolishly only when they cannot control themselves.) Participants mentioned spending too much money on beer 14 times, giving this behavior a score of 32. There were no mentions of needless purchases on clothes, household goods, electronic equipment etc.
 5. Definition of investment – the local concept of investment was defined clearly in terms of livestock, businesses, houses, and land.
 6. Formal vs. informal financial services – there was strong consensus on formal financial services as correlated with good money management. However, the use of informal sources skewed negative only when relied upon for consumption or funerals/weddings. Participants mentioned saving money in a bank account 17 times, and gave that a score of 87; while they mentioned not saving in a bank account 19 times and gave that a score of 49.
 7. Personal character & financial acumen – unlike other areas where the FCI methodology has been applied, there was no mention of personal character or personal characteristics as a factor in the ranking of financial capabilities.
 8. Spousal budget collaboration – we found near-universal consensus that proper budgeting could be done only when the husband and wife collaborated on it; the results were the same for male and female focus groups. Participants mentioned husbands and wives budgeting together 17 times, and gave that behavior a score of 87; while they mentioned not budgeting together 10 times and gave that behavior a score of 54. These results are very similar to those regarding bank accounts.
 9. Casual labor reliance – reliance on casual labor as a source of income skewed highly negative across the groups; engaging in it from time-to-time to supplement income was seen as OK. The participants mentioned this nine (9) times and gave it a score of 44.

In addition, the views on livestock represent a special case in terms of value to the study:

10. Livestock as savings/investment – investment in and possession of livestock was seen as a key indicator of wealth and financial acumen. Malawians favor livestock as both a savings and an investment vehicle, and it ranked higher than formal financial services (e.g. bank accounts) as a measure of good money practices. This perspective on the value of livestock vs. banks departs sharply from conventional wisdom on the topic in the microfinance industry and in the development economics literature, namely that saving in livestock is not a good idea. We can take advantage of this divergence in perspective, by posing questions that get at this perspective in our baseline and endline administrations of the survey, to determine the true efficacy of the financial education intervention. If we find that respondents no longer save through livestock, we will know that the education has altered both knowledge and behavior on an issue where ingrained cultural practice supports a diametrically opposed view. (See “Flag Questions” #5, #6, and #9 in the questionnaire.)

III. The Concept Table - How people in Malawi define financial literacy¹

Category	Concepts we are trying to capture in the index
Does not go hungry	Someone who grows enough food for the whole year. Someone who uses enough fertilizer to generate an adequate harvest.
Budgets	Someone who budgets. Someone who budgets jointly with spouse.
Avoids spending on unnecessary items	Someone who avoids spending on vices like beer, prostitutes, or gambling.
Has adequate income	Someone who has a business. Someone who has multiple sources of income. Someone who does not rely on casual labor for income.
Plans ahead	Someone who buys fertilizer in advance of the planting season. Someone who sets money aside for future funerals, weddings, or school fees.
Makes investments	Someone who invests in livestock. Someone who invests in business. Someone who invests in housing or land.
Has a bank account	Someone who has at least one account at a bank, credit union, or other financial institution. Someone who uses a bank account regularly [curriculum-driven]
Saves	Someone who has a savings account in a bank, credit union, or formal financial institution. Someone who has savings. Someone who understands the differences between a bank account and informal savings [curriculum-driven]. Someone who understands the basic concept of interest [curriculum-driven].
Borrows responsibly	Someone who pays back loans on time Someone who understands terms and conditions of loans before taking them [curriculum-driven].
Is self-sufficient	Someone who does not depend on others to meet basic needs. Someone who does not depend on others to pay for lump-sum expenses like funerals and weddings.

¹ Compare to Concept Table for generic index in Appendix B

IV. Questionnaire²

	Question	Response		Score
1	I will experience a food shortage if I don't apply enough fertilizer to my garden.	a. True b. False	a=1 b=0	
2	If I don't buy fertilizer in advance of planting, I am more likely to experience a food shortage.	a. True b. False	a=1 b=0	
3	A budget helps you keep track of how much money you spend.	a. True b. False	a=1 b=0	
4	It's not necessary to plan your budget with your spouse.	a. True b. False	a=0 b=1	
5	Think about a big, unexpected expense that you had this past year such as a funeral or a weddings. How did you pay for the expense? <i>[more than one response is OK]</i> [Flag Question]	a. Used savings b. Borrowed money c. Used insurance d. Got money from friends or relatives e. Other f. Sold livestock g. did not have a big unexpected expense	a=1 b=0 c=1 d=0 e=0 f=flag	
6	Let us assume that you have a big, unexpected expense such as a funeral. Assuming you have all these options, which options would be the best one to pay for this unexpected expense? [Flag Question]	a. Used savings b. Borrowed money c. Used insurance d. Got money from friends or relatives e. Other f. Sold livestock g. did not have a big unexpected expense	a=1 b=0 c=1 d=0 e=0 f=flag	
7	Do you have at least one account of any kind at a bank or formal financial institution?	a. Yes b. No	a=1 b=0	
8	Do you have a <i>savings</i> account in a bank or other formal financial institution?	a. Yes b. No	a=1 b=0	

² Compare to Questionnaire for generic index in Appendix B

9	In the past month, did you deposit money in this account? If you do not have a savings account, circle answer a: no account. <i>[circle one]</i>	a. No account b. no c. yes	a=0 b=0 c=1	
10	Is it better to save in a bank account or to invest your money in livestock? [Flag Question]	a. bank account b. livestock	a=1 b=flag	
11	Have you invested in a business, houses, or land in the last year? [Can have more than one answer (a)-(c)]	a. Business b. Houses c. Land d. None of the above	a=1 b=1 c=1 d=0	
12	You are less likely to suffer a food shortage if you have multiple sources of income.	a. True b. False	a=1 b=0	
13	How much money does your family need next month to avoid having a food shortage? [Do not give two points if both (a) and (b) apply]	a. _____ b. Have enough food stored c. I don't know	a=1 b=1 c=0	
14	Do you have enough saved (in cash and/or bank) to cover the cost of a funeral or a wedding?	a. Yes b. No	a=1 b=0	
15	If you kept \$100 in a savings account that earned 5% annual interest, how much would be in the account after one year?	a. less than \$100 b. between \$100 and \$120 c. more than \$120	a=0 b=1 c=0	
16	Is it more expensive to borrow from a moneylender or from the bank?	a. moneylender b. bank	a=1 b=0	
17	In the past year I have asked for help from others to pay for the basic needs of my family such as food.	a. Yes b. No	a=0 b=1	
18	In the past year I have given money to others in my community who needed financial help.	a. Yes b. No	a=1 b=0	

For each of the statements below, please indicate whether it describes you always, frequently, sometimes or never.
[circle the response that best describes you]

	Questions	Response				Score	
		Always	Frequently	Sometimes	Never		
19	I rely on casual labor to feed my family.	Always	Frequently	Sometimes	Never	Always or Frequently = 0 Sometimes or Never = 1	
20	I keep track of how much money I spend each month	Always	Frequently	Sometimes	Never	Always or Frequently = 1 Sometimes or Never = 0	
21	I hold off on selling my harvest to get the best price	Always	Frequently	Sometimes	Never	Always or Frequently = 1 Sometimes or Never = 0	
22	I spend more money than I should on beer or gambling.	Always	Frequently	Sometimes	Never	Always or Frequently = 0 Sometimes or Never = 1	
23	I had a food shortage in the last year.	Always	Frequently	Sometimes	Never	Always or Frequently = 0 Sometimes or Never = 1	
24	It is OK to be late with your loan payments if you are having financial difficulties.	Agree	Somewhat agree	Somewhat disagree	Disagree	Somewhat disagree or disagree = 1 Agree or somewhat agree = 0	
25	I make spending decisions without consulting my spouse.	Always	Frequently	Sometimes	Never	Always or Frequently = 0 Sometimes or Never = 1	
26	When school fees come due, I have money saved to pay them.	Always	Frequently	Sometimes	Never	Always or Frequently = 1 Sometimes or Never = 0 n/a (no school fees) = 0	

APPENDIX A – Data Tables from Malawi

Table 1 - Top-ranked “pile statements” in Malawi (those mentioned 1-2 times excluded)

Code	AvgOfRank	Count	Standard_Statement
150a	100	3	Provide support to others
109a	100	5	Buy fertilizer in advance
105a	100	3	Nice house
115b	96.66667	11	Do not experience food shortage
138a	94.09091	11	Have livestock
113a	93.33333	3	Buy enough fertilizer
128a	90	6	Pay school fees for children
100a	90	5	Invest in livestock
111a	87.66667	15	Have a business
126a	87.35294	17	Husband and wife budget together
102a	87.33333	15	Save money in a bank account
112a	86.66667	3	Have more than one source of income
101a	82.5	4	Save money
138c	65.55556	3	Have few livestock
140a	56.19048	7	Low income
126b	54.5	10	Husband and wife do not budget together
102b	49.21053	19	Do not save money in a bank account
113b	48.24074	18	Do not buy enough fertilizer
115a	44.47917	32	Experience food shortage
114a	44.44444	9	Does casual labor
138b	40	7	Do not have livestock
125b	31.94444	12	Do not budget
116a	31.90476	14	Spend too much money on beer
133b	26.25	4	Do not repay loans
149a	21.66667	3	Depend on others

Table 2 - Ranking of "general statements" in Malawi

Code	Standard_Statement	Negative	Positive	AvgOfRank
105a	Nice house		2	100
107a	Keep sanitary conditions in home		3	100
108a	Invest in business		6	100
109a	Buy fertilizer in advance		6	100
110a	Invest in houses		4	100
122a	Have enough money for a funeral		4	100
115b	Do not experience food shortage		11	96.66666667
113a	Buy enough fertilizer		1	93.33333333
128a	Pay school fees for children		4	90
100a	Invest in livestock		10	90
111a	Have a business		2	87.66666667

126a	Husband and wife budget together		6	87.35294118
102a	Save money in a bank account		9	87.33333333
112a	Have more than one source of income		6	86.66666667
109b	Do not buy fertilizer in advance	3		75
128b	Does not pay school fees for children	3		60
111b	Do not have a business	2		60
122b	Rely on others to pay for a funeral	6		57.5
101b	Do not save money	4		55
126b	Husband and wife do not budget together	6		54.5
102b	Do not save money in a bank account	8		49.21052632
113b	Do not buy enough fertilizer	4		48.24074074
115a	Experience food shortage	12		44.47916667
114a	Does casual labor	2		44.44444444
134a	Rely on community members to assist in case of emergency	1		32.5
125b	Do not budget	3		31.94444444
116a	Spend too much money on beer	8		31.9047619
133b	Do not repay loans	2		26.25
135a	Lazy	1		25
131b	Do not have or buy basic household items	2		20
100b	Does not invest in livestock	5		18.33333333
108b	Does not invest in business	1		16.66666667

APPENDEX B – Concept Table & Questionnaire for Generic Index

Category	Concepts we are trying to capture in the index
Lives within means	Someone who does not spend more than they earn
Prioritizes expenditures	Someone who understands the difference between wants and needs Someone who has a budget or spending plan that distinguishes between wants and needs Someone who pays for needs before wants
Avoids spending on unnecessary items	Someone who avoids wasteful spending Someone who avoids spending on vices
Plans ahead	Someone who is forward thinking. Someone who plans ahead. Someone who is proactive as opposed to reactive in dealing with financial demands
Has a bank account	Someone who has at least one account at a bank, credit union, or other financial institution
Saves	Someone who has a savings account in a bank, credit union, or formal financial institution Someone who uses their savings account regularly Someone who has savings Someone who understands the basic concept of interest (knowledge)
Borrows responsibly	Someone who avoids borrowing from money-lenders Someone who understands terms and conditions of loans before taking them Someone who pays back loans on time Someone who avoids borrowing for things that they don't need
Is well organized/a good administrator	Someone who is confident about their ability to manage money Someone who sees themselves as well organized in managing their money Someone who keeps track of their income and expenses
Is self-sufficient	Someone who does not need outside help to satisfy basic needs
Helps others in the community	Someone who has been able to build social capital within their community
Dignified, fair, honest, principled in money matters	Someone who treats others fairly Someone who is not greedy

	Question	Response		Score
1	Things that are necessary for living such as food, clothing, and housing are:	a. Needs b. Wants	a=1 b=0 c=0	
2	Things that are not necessary for living but are pleasurable such as [adapt to context... entertainment, visit to the hair salon, cosmetics, cigarettes, going to the cinema] are:	a. Needs b. Wants	a=0 b=1 c=0	
3	A budget helps you keep track of how much money you spend on needs and wants.	a. True b. False	a=1 b=0	
4	Knowing how to pay for your needs such as food, rent or utility bills should be the first priority in a budget.	a. True b. False	a=1 b=0	
5a	Think about a big, unexpected expense that you had this past year such as sickness or house repair. How did you pay for the expense? <i>[more than one response is OK]</i>	a. Used savings b. Borrowed money c. Used insurance money d. Got money from friends or relatives f. Other g. did not have a big unexpected expense	a=1 b=0 c=1 d=0 f=0	
5b	Let us assume that you have a big, unexpected expense such as sickness or a house repair. Assuming you have all these options, which options would be the best one to pay for this unexpected expense?	a. Used savings b. Borrowed money c. Used insurance money d. Got money from friends or relatives f. Other		
6	Do you have at least one account of any kind at a bank or formal financial institution?	a. Yes b. No	a=1 b=0	
7	Do you have a <i>savings</i> account in a bank or other formal financial institution?	a. Yes b. No	a=1 b=0	
8	How many times did you deposit money in this account in the past month? If you do not have a savings account, circle answer a: no account. <i>[circle one]</i>	a. No account b. 0 c. 1 d. 2 e. 3+	a=0 b=0 c=1 d=1 e=1	

9	How much money does your family need to pay for next month's expenses?	a. _____ b. I don't know	a=1 b=0	
10	Do you have enough saved (in cash and/or bank) to cover one month of your expenses?	a. Yes b. No	a=1 b=0	
11	If you kept \$100 in a savings account that earned 5% annual interest, how much would be in the account after one year?	a. less than \$100 b. between \$100 and \$120 c. more than \$120	a=0 b=1 c=0	
12	In the past year, have you borrowed from a moneylender, that is, an individual who charges for loaning you money?	a. Yes b. No	a=0 b=1	
13	What questions should you ask before borrowing money?	a. How long do I have to repay the loan? b. How often will I have to make payments? c. How much interest will I pay on the loan? d. All of the above questions are important to ask (a, b, c)		
14	In the past year I have asked for help from others to pay for the basic needs of my family such as food, rent, or utility bills.	a. Yes b. No	a=0 b=1	
15	In the past year I have given money to others in my community that needed financial help.	a. Yes b. No	a=1 b=0	

For each of the statements below, please indicate whether it describes you always, frequently, sometimes or never.
[circle the response that best describes you]

	Questions	Response				Score	
		Always	Frequently	Sometimes	Never		
16	I can easily tell how much I earn each month.					Always or Frequently = 1 Sometimes or Never = 0	
17	I keep track of how much money I spend each month					Always or Frequently = 1 Sometimes or Never = 0	

18	I think twice before making a spending decision	Always	Frequently	Sometimes	Never	Always or Frequently = 1 Sometimes or Never = 0	
19	I am organized when it comes to managing money	Always	Frequently	Sometimes	Never	Always or Frequently = 1 Sometimes or Never = 0	
20	I spend more money than I should on bad habits [<i>adapt to local context</i> examples include, gambling, drinking, cigarettes, visits to beauty salon, buying elaborate gifts for ceremonies or new model cell phone]	Always	Frequently	Sometimes	Never	Always or Frequently = 0 Sometimes or Never = 1	
21	I spend more than I earn	Always	Frequently	Sometimes	Never	Always or Frequently = 0 Sometimes or Never = 1	
22	I am fair and honest in how I deal with others when it comes to buying, selling or exchanging things.	Always	Frequently	Sometimes	Never	Always = 1 Frequently, Sometimes or Never = 0	
23	It is OK to be late with your loan payments if you are having financial difficulties.	Agree	Somewhat agree	Somewhat disagree	Disagree	Somewhat disagree or disagree = 1 Agree or somewhat agree = 0	
24	When it comes to money I think it is important to plan ahead and not live day to day.	Agree	Somewhat agree	Somewhat disagree	Disagree	Agree or somewhat agree = 1 Somewhat disagree or disagree = 0	
25	I am confident in my ability to manage money	Agree	Somewhat agree	Somewhat disagree	Disagree	Agree or somewhat agree = 1 Somewhat disagree or disagree = 0	
26	When my neighbor buys something, I do not feel the need to buy the same thing.	Agree	Somewhat agree	Somewhat disagree	Disagree	Agree or somewhat agree = 1 Somewhat disagree or disagree = 0	