

THE MFO FINANCIAL CAPABILITY INDEX FACT SHEET

THE CONCEPT

Low-income people face greater uncertainties in life than those faced by individuals who have ready access to such services as health care, clean water, sanitation, education, and financial services. As a result, they need to mitigate the uncertainties they face with financial savvy. Microfinance Opportunities (MFO) designed the Financial Capabilities Index (FCI) to help meet that need.

A financially capable person is someone who has the knowledge, skills, and attitudes (KSAs) necessary to manage their cash flow, plan ahead financially, and make appropriate use of financial services, given the particular circumstances in which they live.

In addition, they use their knowledge and skills to make responsible financial choices. Current efforts to increase the financial inclusion of low-income individuals by enhancing their financial capabilities must begin with a model of financial capability that makes sense to those individuals and be informed by the context in which they live. If the poor are presented with a model and indicators of financial capability that are not relevant and applicable in their contexts, they are unlikely to find value in them or feel motivated to improve their capability level. MFO's FCI ensures that low-income individuals can relate to the way it measures their financial capability. For example, knowledge, skills, and appropriate attitudes about saving can help a low-income individual in a drought-prone area survive periods of food shortage, and in that context, these behaviors can best be measured in terms of whether an individual saves up for a period of anticipated food shortage, rather than a more generic measure of savings KSAs (e.g., whether an individual makes a savings plan).

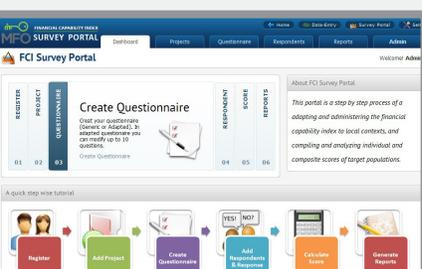


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“MFO’s Financial Capability Index ensures that low-income individuals can relate to the way it measures their financial capability.”

Featured Project

FINANCIAL CAPABILITY INDEX WEB PLATFORM



The FCI Web Portal

MFO is developing a web platform to enable those interested in measuring the financial capabilities of low-income people to produce their own, locally-informed Financial Capabilities Index (FCI). The platform features a web-enabled, data-entry system to capture the results of participatory exercises that identify the most salient dimensions of financial capability within a community. It also features a generic FCI survey instrument that can be adapted by integrating findings from those exercises, and a second data-entry system where responses to the survey can be captured.

THE PROCESS

Through a highly participatory ranking exercise, low-income individuals define what it means to be financially capable within their own contexts. To develop an index, local participants rank households in their community based on the degree of their financial capability. After ranking local households, participants explain which capabilities are associated with households at each level of the ranking. Based on this information, the most salient factors in financial capability are identified and then ranked according to whether they correspond with more or less financial capability. Based on the most salient concepts and their ranking score, MFO is able to generate a community-specific index of financial capability.

This index integrates local understandings of what it means to be financially capable with universal understandings of financial capability drawn from research conducted across the world. MFO has operationalized the index through a survey that measures a respondent's financial capability and then gives them a score for their overall capability as well as their capability in various sub-categories, such as day-to-day cash flow management and savings.

THE VALUE

A guiding principle for MFO's work is to actively engage MFI clients, community leaders, implementing partners, financial service providers, and other key stakeholders in shaping programs for the consumer's benefit. Stakeholders can use the financial capabilities index in a variety of ways to:

- Prioritize and tailor content areas for a financial education program (e.g. saving, budgeting, debt management) targeted at a particular consumer audience.
- Identify product design needs, allowing financial service providers to create products that address consumers' ongoing challenges, based on knowledge of their financial capabilities.
- Evaluate changes in financial capabilities of target groups over time (e.g. before and after an intervention) in order to help assess the effectiveness of an intervention.

ABOUT MFO

Microfinance Opportunities is a global nonprofit organization committed to understanding the financial realities of low-income households and developing consumer-focused solutions. Our work shapes the design and delivery of financial products and services, and enhances the capacity of low-income consumers to make informed financial decisions. In collaboration with a wide range of public and private sector partners, our research and expertise help to increase consumer access to finance in the developing world. Founded in 2002, Microfinance Opportunities is based in Washington, DC.

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EXAMPLES OF FINDINGS

In Central Malawi, participants in FCI exercises identified the ability to avoid food shortages and the willingness and ability of husbands and wives to budget together as indicators of financial capability. In the Luwero district of Uganda, participants identified the ability of an individual to manage their inheritance well to be an indicator of financial capability. These are examples of culturally unique articulations of financial capability that have emerged out of the FCI exercises.

