Financial Literacy & Empowerment programs

Presented by

Mwiche Namukulwa

Introduction

- This session will introduce participants to financial literacy and relevant tools to the effectively manage CDF opportunities.
- The objective is to equip participants with basic financial management knowledge to manage CDF empowerment loans and grants effectively and for the intended purpose.

Session Outline

- Lesson 1: Introduction to Financial Literacy & CDF opportunities
  - Understanding financial literacy and why it is important to effectively manage CDF recourses provided for empowerment.
- Lesson 2: Effective management of project funds
  - This session will focus on practical tools to effectively manage project funds highlighting financial planning, budgeting and saving.
- Lesson 3: Investment
  - Identifying investment opportunities and ensuring that your money grows
- Lesson 4: Loan repayments

Understanding your responsibility as a borrower.

Lesson 1: Introduction to Financial Literacy & Empowering programs

- The government of Zambia has allocated 25.7 million to CDF which fund is aimed at localizing development interventions/efforts through decentralization. The Constituency Development Fund (CDF) has three (3) components namely; Community Projects, Youth, Women and Community Empowerment, and Secondary Boarding School and Skills Development Bursaries. For the sake of this session we will focus on the Youth, Women and Community Empowerment.
- As part of this fund, government has set aside funds specifically for the empowerment of women, youth and persons with disabilities. In this session, we will look at CDF opportunities available to persons with disability and how to manage the fund effectively. These include

1) Seed money in form of grants given to Organised Groups, Clubs and Cooperatives.
2) Empowerment loans given to cooperatives and individuals with established small and medium scale businesses wishing to grow their businesses within the Constituency

- Empowerment of the women and other vulnerable persons will contribute towards the reduction of vulnerability and improving livelihoods of the community.

What is Financial Literacy?

Financial literacy refers to a set of skills and knowledge that allows individuals to make informed and effective decisions regarding money matters. Financial literacy is a combination of financial awareness, knowledge, skills, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. Being financially literate means that you understand the basic financial principals such as:

- Financial planning
- Saving your money
- How and where to keep your money
- How to grow your money and ensure that it works for you
- How to track your income and expenditure
- How to access financial assistance

Why is Financial Literacy Important?

- An individual who is financially literate makes good decisions on money matters
- Has money to meet emergencies and for other important things (from his/ her savings)
- You will also be able to convince others to lend you money
- There is a big chance that one will not make poor financial decisions that can harm his or her family and business
- To have knowledge that improves one's understanding of personal financial issues
- To have skills that enables one to apply financial literacy knowledge to manage one's personal finances
- To develop confidence and attitude that enables one be sufficiently self-assured to make decisions relating to one's personal finances.

Lesson 2: Effective Management of Project Funds

The first step to effective financial management is financial planning. Financial planning is the process of setting financial goals and developing strategies to achieve them. Financial planning is the process of identifying financial goals and setting them considering the time and resource required to achieve them.

- **Mwape's story**

25-year-old Mwape of Chifubu constituency in Ndola district lives with her grandmother and younger siblings and supports the family through her small business. She would like to go to university to study agricultural economics but does not have the funds to pay for her education. She has heard about CDF which has been set aside to empower young people. Mwape visited her constituency office to find out what she needed to do to access an empowerment loan to improve her small business so that she can earn money to continue to support her family and to further her education.

- **What can you identify as Mwape’s goals?**

(To further her education, provide for her family’s household needs, expand her small business),

- **Which of her goals can be met in a short time?**

Short term – Expand business through CDF loan

- **Which goal takes a long time to achieve?**

Long-term – education and household needs.

Important tips for financial planning

In order to achieve your goals for the future, you need to:

- Figure out the amount of money you earn and spend on basic needs,
- Determine the costs of your goals,
- Make decisions about how much to save, how to pay off debt and how much to invest in your business,
- Decide on the timing for doing these things.

Budget Planning

- **Budget planning is a financial management practice that** helps you to track/ follow up the money you earn and the money you spend. It is a summary of estimated income and how it will be spent over a defined period of time. Money coming in is called **income** and money going out is called **expenses. Budgeting** is the process of planning your expenses so that they are less than your income. A secret to effective financial management is to **K**eep **E**xpenses **Below I**ncome
- An important key to successful budgeting is answering the question why. Depending on your situation, the answer could be to save or get more control over your money.
- Why is it important for a CDF grantee or borrower to have a project budget?

Importance of Budgeting

- It ensures that you will always have enough money for the things you need and the things that are important to achieve the project objectives.
- Following your budget or spending plan helps to keep you out of debt or helps you work your way out of debt
- It helps you to balance your expenses with your income.
- Keeps you focused on your money goals
- It enables you to give accountability to your constituency about how you use the money they give you.

Tips on how to succeed at budgeting

Understanding wants and needs. An item is probably a "want" if it is possible to delay buying an item, substitute something less expensive, or to use something you already own. Wants are things you might want but don't need to live. Almost every experience and activity, from going out with friends to shopping is a want. On the other hand, if the purchase is for something necessary to survive, like food or scholastic materials, it's likely a "need." Before you buy something, ask yourself, "Do I need this item, or do I just want it?" You may be surprised at how many things are actually "wants."

Do not budget more than 90% of income

- Aim to spend no more than 90% of your income. That way, you'll have the other 10% left to save for your big-picture items. These big-picture items can be short term (like reading materials) or long term (like saving to buy land).

Watch the little things.

- **50** Kwacha for a taxi, when you can use cheaper transportation and you will soon be faced with a budget collapse. Beware of the little expenses that are not included in your budget! don't hesitate to review and modify your budget. There is nothing wrong with making changes, but only make a few small changes at a time.

Saving Planning

- **Savings** is money that is put aside in the present to be used in the future when it is needed. It is the part of income (the money you get) that is not spent on goods and services but accumulated or multiplied.

A savings plan is a financial planning tool that strengthens financial management. The first step to developing a savings plan is identifying your savings goals.

- What do you need to save for, in the short term?
- What future long-term goals do you have?
- To achieve your financial goals, you will need a plan that states each goal, the amount of money you will need to achieve that goal, and the amount you will save each week or month over a defined period.
- To make this plan, you must look at your income, determine how much you have available to set aside as savings, and decide your savings priorities. Which goals are most important to you?
- A clear plan will help you know what to do, increase your discipline to save and be more successful in reaching your savings goals.

Saving Mechanisms

What are the ways people save in your community?

- There was once a time when people saved money in their homes. They would hide it under the ground or under the mattress but most people realized that their homes were not a safe place to keep money (since it could be stolen or lost in a fire). Instead of saving their money at home, they began to save their money elsewhere.
- People save in many different ways including; at home, in livestock, with savings groups, with microfinance institutions, with savings and credit cooperatives or with banks.

Which saving mechanism do you think is better? Why?

- It’s important to consider various factors. There are good places to save and risky places to save. Let us have a look at the characteristics of each place.

- **Good place,**
- Ease of Access
- Very safe
- Interest earned
- No charges on savings
- Enforces discipline

- **Risky Place,**
- Not safe
- No interest earned
- Charged
- Too easy to spend and waste on non-essentials

Lesson 3: Investments – How to grow your money

This discussion shall focus on achieving financial freedom through growing your money what we call Investments. It builds on the choices we make in saving and borrowing, and what we should do with this money. We shall discuss different options available for us to grow our money

- Investment means foregoing today's consumption for an activity that will bring you more income in future. It's a process of putting money in some place with the intention of making a financial gain. That is you choose not to spend your money on food, clothing, leisure, but you purchase an asset that will earn you more income.
- Investment means spending your money in ways that increase you're earning ability. This includes starting or expanding a business, buying livestock, buying shares in a village saving group, going for further studies and building a house.

Different types of investment

There are three types of investments and they are classified according to the time it takes before the investor starts getting returns/profits. These include:

- **Short-term investments**: The money invested is expected to bring returns (income) soon. The period it takes before the expected returns are received is normally less than two years. Investments may include but are not limited to, starting a business e.g. a saloon, buying a bull or a dairy cow.
- **Medium-term investments**: These are investments that take some years before one can earn from them. Cash is expected to start flowing after two years; it could come as a lump sum or regular flow of cash. Examples include but are not limited to buying shares of a quoted company so as to earn dividend or developing your farm to increase productivity.
- **Long-term investments**: These are investments that require a lot of money and take long before realizing income from them. Their income may start flowing after completion but will take long before you get the money you put into the project. The time it takes to get your money back is long. These include investments into buildings (real estate) and buying a farm.

Reasons to grow your money/invest

Here are some key reasons why you should consider investing/ growing your money:

- You generate additional resources to protect your future wellbeing.
- You achieve your financial goals such as buying a bicycle, buying a garden and starting a business.
- You accumulate resources for further education.
- You accumulate resources to care for, ageing parents and other relatives.
- You secure your income for when you are too old to work.

- You contribute to the growth of our national economy as your investment is deployed in the productive sector of the economy.
- You preserve the value of your money against inflation.
- You create employment opportunities.
- You increase your ability to earn more income.
- It’s almost impossible to increase our earnings without any form of investment.

Developing an investment plan

- We now know what it means to invest and why we should invest. It's very important to have a goal and plan before an investment decision is done or undertaken. Creating an investment plan will help you reach your financial goals. This involves four steps outlined below

1). **Set specific and realistic goals**. For example, instead of saying you want to have enough money to go to college think about how much money you'll need. Your specific goal may be to save K10 every week until you get to college.

2). **Calculate how much you need to save each month**. If you need to have saved 1 million Kwacha by the time you're 65, how much will you need to save each month? Decide if that's a realistic amount for you to set aside each month. If not, you may need to adjust your goals.

3**). Choose your investment strategy.** If you're saving for long-term goals, you might choose more aggressive, higher-risk investments. If your goals are short term, you might choose lower-risk, conservative investments. Or you might want to take a more balanced approach.

4). **Develop an investment policy statement** Create an investment policy statement to guide your investment decisions.

Your investment policy statement should:

- Specify your investment goals and objectives,
- Describe the strategies that will help you meet your objectives,
- Describe your return expectations and time horizon,
- Include detailed information about how much risk you’re willing to take,
- Include guidelines on the types of investments that make up your portfolio, and how accessible your rebalanced.

Lesson 4: Loan Repayments

This discuss highlights your responsibilities as a borrower or individual that has taken a loan.

A loan is money that the borrower can use temporarily. After a defined period of time, the money is repaid to the owner, usually with interest or a fee charged for use of the money.

What do you need to know before borrowing?

- The amount of your loan repayment, including principal, interest and fees
- The sources of income and or savings you have to make those repayments
- That the asset you are buying with the loan will outlive the loan, and continue earning income for you.
- That the price you can charge for your goods financed with the loan money is high enough to both repay the loan and make a profit.

- There are different ways to meet your needs. Some people use the money they have accumulated to put into business as they are able and one step at a time. Others borrow money to get started or to make a big change. The two stories below will show different pathways to business growth. Listen and think about which of these business women is most like you

Chungu's story

- Chungu has fish business in the Green Market that she started with K1000. K600 came from her savings and K400 which her husband gave her. Although the business is very small, Aisha has a plan of expanding it, one step at a time. Every week, she tries to set aside K40 in her village savings group especially for her business. That way, every 3 or 4 months, she has enough money saved to buy something she needs to grow her business. She began buying larger quantities and greater variety of fish, and then she got a bigger stall where to sell her fish. Next, she wants to buy space in the new market and put another stall there. As her income increases, she can save more and plan bigger investments in her business.

Questions

- How is Chungu getting money for her business?
- (Uses money from her savings and her husband, she does not borrow, plans ahead and saves for her business investments).
- What difficulties does she face?
- (Can only grow as she is able to save, may miss an opportunity for expansion if she doesn't have enough money to invest.)

Misolo’s story

- Misolo also has a fresh fish business that she started with K400 of her own money and a loan of K600. With the loan she had enough money to purchase a small refrigerator right away that enables her to store the fish for longer and sell it when its fresh she pays her weekly expenses, including her loan payment, on time every week, but can only save K20 at most per week. When a kiosk in the market became available for renting, Misolo saw a good business opportunity. With the fact that people in the market were increasing, she calculated that she will sell twice what she is currently selling. Because she needed to rent the kiosk right away or lose it, she borrowed K1000 from her brother-in-law.

Questions:

- How is Misolo getting money for her business? (Borrows most of her money, has little savings, borrows more to purchase assets, does not plan ahead the amount she needs.)
- What difficulties does she face? (If her sales do not increase as expected, she may have trouble paying her loan to her brother-in-law. With little in savings, she may be in trouble if she has emergency expenses.)

- Which business is likely to grow faster? Why?
- (In the short term, Misolo’s business will grow faster because she has more money to put in it. Chungu invests small amounts one step at a time and her business grows in smaller increments. Over time, Chungu’s business is likely to be more stable and secure because she is not paying off expensive loans and can save for both emergencies and future investment.)

Know your responsibility as a borrower

A loan should always be invested in productive ventures to yield returns that will ease loan repayment. Diverting money for a purpose that it was not intended always leads you into debt.

- When someone borrows something, what are their responsibilities as the borrower?

(To repay at the agreed time and pay as agreed)

- What can happen if the borrower fails to meet her responsibility?

*(*Anxiety, tension among family and friends, damaged reputation, they may not be able to borrow again)