Building Local Networks for Integrated Agribusiness Development

Learning Module Series

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This learning module series is based on ICRA's 30+ years of knowledge and expertise on functional capacity strengthening in agriculture and is produced by ICRA within the framework of the 2SCALE programme during 2012–2017. 2SCALE – "Toward Sustainable Clusters in Agribusiness through Learning in Entrepreneurship" – is implemented by a consortium of IFDC, BoPinc and ICRA and funded by the Dutch government (www.2scale.org).

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Module 4: Financial Education

Foreword

Many of the actors participating in inclusive value chains (VCs) and Agribusiness clusters (ABCs) especially need to develop their knowledge and skills in finance, as they are in a transition process; that is, they are moving from subsistence to small-scale, or from small- to medium- to large-scale businesses. Their activities may be the same, but their activities will increase in scale and they will consequently face new economic responsibilities, roles and needs. They need to access affordable and sustainable financial services including credit, savings and insurance to help them realise their goals. They need to be able to make informed choices how to earn and spend wisely, save and increase their saving capacity, borrowing and protecting their businesses against risks – in short, on financial decision-making.

This module on Financial Education was therefore conceived to provide guidelines for BSS/Coaches with the necessary financial knowledge and financial management skills to support VC and ABC actors to set goals in their businesses and to make plans for realising them. Included in the module is practical advice for VC and ABC actors on how to adjust proactively to the ongoing changes in finance. The module promotes positive attitudes toward saving, and for more prudent spending and borrowing. It also deals with the problem of indebtedness, one of the main causes of extreme poverty. This module was developed on the basis of the results and lessons learned from a number of projects and draws on various materials[1] used around the world.

About the module

Learning objectives of the module

At the end of the workshop, participants will be able to:

- Support ABC and VC actors on money matters and on how to use money wisely
- Understand the basic principles related to earning, spending, budgeting, saving and borrowing
- Confidently promote the use of financial products and services
- Strengthen ABC and VC actors' skills and behaviours to take informed decisions on more productive and responsible spending, and borrowing

[1] Developed from the 1000s+ project, the Financial Education for the Poor Project, supported by materials from European Commission Access to Finance, Microfinance Opportunities international, Citigroup and Freedom for Hunger, ILO – Women's programme, Heidelberg-Germany and the Kenya School of Credit Management. These tools have been adapted for use in Cambodia by the ILO Project on Women's Entrepreneurship Development and Gender Equality and the ILO Time Bound Programme on the Elimination of the Worst Forms of Child Labour and believe that they will be of similar impact in the 2Scale project.

Proposed outline of the workshop sessions

The workshop comprises 7 sessions, including the introduction and the workshop assessment. Session 1 deals with the concept of financial education and its importance, setting goals and priorities for saving and to identify savings goals. We then exchange in Session 2 about the various savings mechanisms, their advantages and disadvantages, and about linkages between savings goals and savings products. In Session 3, we take a closer look at another source of finance, apart from saving, which is borrowing. This will allow participants to understand the principal reasons for borrowing money, the pros and cons of equity and debt; we also address issues of good and bad loans. After presentating the different sources of finance, we define in Session 4 how to formulate a business budget and how to stay within this budget, in order to wisely spend the finance. In Session 5 we develop the ToR for the field coaching with cluster actors. And as always, we end with ideas on how to assess the module/workshop in Session 6.

Please note that the time indications are not set in stone. Depending on the context, it might take more or less time.

Session title	**Session activities**	**Time involved**
Session 0: Introduction to the workshop		½ day
Session 1: The what and why of financial education	Introducing the importance of FE Money management Financial goals **Exercise 1:** Goals for a happy future	
Session 2: Saving and saving options	The concept of saving Saving mechanisms **Exercise 2:** Savings exercise Saving products – matching with goals	½ day
Session 3: Equity or debt financing	Why do people borrow? Access to financial resources **Exercise 3:** Equity and debt exercise Good and bad loans	½ day
Session 4: Budget and budgeting	The concept of budget How to make a budget **Exercise 4:** Budget exercises How to stay within your budget Analysing saving potential	½ day
Session 5: Developing the TOR for field coaching		
Session 6: Workshop assessment		½ day

Session 0: Introduction to the workshop

Introduction

This short introductory session creates a positive beginning for the participants to get to know each other better, build a team and share the goals and plans.

Learning objectives

At the end of the session, the participants will:

- Agree on the objectives and the topics to be covered, and set-up of the workshop
- Be acquainted with the rules to be followed during the workshop.

Procedure

List of tools/equipment required

- Flip chart, markers
- Coloured cards for expectations and worries
- Sticky tack

1. **Plenary:** Start by welcoming the participants to the workshop. Then agree on the language to be used during the workshop. Also discuss the seating arrangements and the possibilities of changing from time to time.

2. **Buzz groups:** Ask participants to briefly interview the person sitting next to them, their name, residence, key experience, as well as their expectations for the workshop. Ask the 'neighbours' then to present each other to the group in plenary (give 1 minute per presentation).

3. **Participants brainstorm on expectations and worries**: Ask participants to write down their expectations and worries on coloured cards; use green cards for expectations and red for worries. Summarise and group these expectations and worries and hang them out on a flip chart on the wall so they can be seen during the whole workshop.

4. **Facilitator-mentor explains objectives and program sessions of the workshop**: which are related to money management in general, saving, borrowing (principles and types of products), budget development

5. **Reflection Diary:** Introduce the idea of keeping a reflection diary in which each participant writes down his/her reflections of the day using a standard format, indication what was done, interesting, important and applicable (see General introduction; Annex 1).

Session 1: The what and why of financial education

Introduction

In this session the participants will be introduced to the concept of financial education and its importance to ABC and VC activities. Draw the attention of the participants to the fact that managing their money can protect them, while expanding business activities.

Learning objectives

At the end of this session, the participants will be able to:

- Explain the concept of financial education and it importance
- Set SMART financial goals and explain how to reach them
- Describe what a business financial plan is, and how it can help achieve financial well-being

Procedure

List of tools/equipment required

- Cards, markers
- Tape - or Pins and a Pin board
- Flip chart sheets

Step 1: Introducing the importance of financial education

1. **Plenary Brainstorm:** Ask participants the question:

'What does financial education mean to you as an individual?'

- Write the answers on a flipchart.

Advice for the facilitator

Make sure the following terms are mentioned: financial management, earning, spending, budgeting, planning, understanding available financial services (savings, credit, insurance) and knowing how to use them, financial negotiations.

These terms are important because they help to highlight the role of financial education in the daily work of the participants, and ABC and VC actors.

Conclude the brainstorm by saying that low income people, many of whom have little formal education and come from rural areas, lack financial know-how and informed decision-making skills on budgeting, financial planning of income and expenditures, and use of savings, credit and insurance. This leads to higher risks of indebtedness, labour exploitation and overall unproductive use of their resources. Drawing the attention of people (especially those with a low income) to better manage their money can help them build their assets, protect themselves and expand their life opportunities. This is the role of financial education.

2. **Continue with a second plenary brainstorm.** This time, ask the question:
Why financial education is important for ABCs and VCs actors?

- Again, write the answers on a flipchart. Answers can include the following:
  - Transition from small scale business to large scale business
  - Independence
  - Need to start a (new) business
  - Expanding business
- If participants say that financial education is more important for some actors than others, ask them why. NOTE that in some cultures, financial management is the women's responsibility; pay attention to the gender aspect in financial education.

Advice for the facilitator

Conclude by saying that most of ABCs and VCs actors are in transition from small scale business to larger scale business. Their role in financial management is thereby often increasing. Most of them are already engaged in some income generating activities. Due to their changing role in the ABC or the VC, it is essential to equip them with financial knowledge and management skills to help them:

- To set financial goals and make plans for realising them,
- To understand why saving is necessary and how to save, when to take on a debt and how to manage a loan, how to make a budget, how to protect themselves against risks (using savings or insurance for example).

With these financial knowledge and skills, ABC and VC actors will be able to make informed decisions about their future.

Step 2: Introducing money management

1. **Plenary brainstorm.** Ask the question:
   What do you understand by the concept Managing money?

   - Note the answers on a white board or flip chart.

Advice for the facilitator

The answers could be:

- Deciding what to buy
- Figuring out how to have enough money for investment in your business
- Saving
- Budgeting

Conclude by saying that we do not have enough money to buy all the things we want. Therefore, we have to be selective. We also need to save to meet our future requirements. It can be difficult to manage money for fulfilling present needs and also for the future requirements. In this workshop, we will focus on the importance of savings and on the various methods that can help us to save, such as how to make a budget.

➢ ***Step 3: Identifying financial goals***

1. **Plenary question:** Ask the participants to explain what they understand by the term

'goal', giving examples. Explain to the participants that a goal is something that we intend to achieve or acquire in the near or distant future. Explain that goals to be achieved in the near future (less than one year) are short-term goals while goals to be achieved in the long-term future are long term goals.

2. **Plenary reading:** Ask one participant to read out Fatima's story (see **Exercise 1 – Part A**). Ask the other participants to listen and write down Fatima's goals as they hear them.
   - When the story is completed, divide the participants into groups to discuss the three questions. Summarise their answers.

3. **Individual & group work:** Proceed with **Exercise 1 – Part B**. Following the general discussion related to the exercise, introduces the concept of financial planning.

Advice for the facilitator

Explain that in order to achieve your goals for the future, you need to:

- Figure out the amount of money you earn and spend on basic family 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.

This is called **financial planning**

- Setting a goal starts with asking yourself what dreams you have for yourself and your family for the future. What would you like to achieve? For example where do you see yourself 1 year from now? 2 years? 3 years? 5 years?
- The next step involves putting your dreams in writing.
- You will then need a plan to turn your dreams into reality.
- Setting savings goals can give you a plan. For example your dream might be to buy a house in a good neighbourhood. To achieve this dream you will need a savings plan that will help you to raise enough money to buy or build the dream house.

The table below can be a simple and easy tool that will help you to set savings goals.

What I am saving for?	How much do I need?	By when do I need it?	How much to save per month?
1. A house	$ 60000	5 years	1,000

My goal
I will save $1000 per month for five years to buy a house.

4. **Plenary brainstorm:** Conclude on the importance of setting financial goals.
   End by explaining the concept and importance of a good goal – with the help of the SMART goal: see reference below.

Advice for the facilitator

Example: Goal – I want to buy a new tractor

SMART goals:

- **Specific** – I plan to save for a down payment on a new tractor
- **Measurable** – I plan to save shs 10,000 for a down payment on a new tractor
- **Attainable –** I plan to save shs 10,000 for a down payment on a new tractor by saving shs 2000 from every pay-check
- **Realistic –** It is realistic to save shs 2, 000 from each pay-check for a down payment on a tractor because I usually waste the money on unnecessary items.
- **Time Bound –** I plan to save shs 5, 000 for a down payment on a new tractor by saving shs 2, 000 from each pay-check for two years.

Additional reading

- **Reference sheet M4/1**: What is financial education? Why is it important?

Session 2: Savings and savings options

Introduction

In this session the participants will learn the importance of savings, how and where to save, and how to make a savings plan. The objective is to present the various savings mechanisms, their advantages and disadvantages, and to enable participants to establish linkages between savings goals and savings products.

Learning objectives

At the end of this session the participants will be able to:

- Explain why it is important to save
- Identify various savings mechanisms
- Discuss their advantages and disadvantages, and
- Match savings goals with specific savings products

Procedure

List of tools/equipment required

- Cards, markers
- Tape - or Pins and a Pin board
- Flip chart sheets

Step 1: Reviewing the concept of saving

1. **Plenary brainstorm:** Write the following sentence on a board or flipchart:
   Fill up a pitcher with dew drops and its amount will double in five years.

   - Ask the participants to write on individual cards, in key words what they understand by this saying.

Advice for the facilitator
Get the participants to mention principles of savings including • 'save a little bit at a time', • 'save regularly', and • 'savings allow building up a significant amount over time'.

   - Then ask the participants to identify other sayings meaning the same thing. Examples include: 'Hundred men's sticks make a full load for one man', 'One spit dries, hundred spits flow'.
   - Explain that the only way to save is to spend less than you earn.

2. **In Plenary, stand in a circle for a ball game.** Ask them when they catch a ball, to give a

reason why ABC and VC actors save.

- While one trainer facilitates this game, another trainer (or one of the participants) should write down participants' ideas on a flipchart.

Advice for the facilitator

There are many reasons for which ABC or VC actors save, most of them falling into one of the following three categories:

1. As backup for unexpected life cycle events (emergencies) examples accidents, medicine, fire, floods, landslides, illnesses in the family, etc. Without savings, we would have to borrow money to pay for these expenses, creating an added financial and emotional burden.
2. For expected life cycle events e.g. marriage, education for the family, food etc. These needs require additional money.
3. To achieve long-term goals & build assets e.g. building or buying a house, starting a business, etc. An asset is something that you own that has a long-term value. If the need arises, an asset can be sold and converted into money. Some assets can also generate income for us, like a house (if we rent it out). Without savings, it would be difficult to buy these assets that provide us long-term security.

Explain that the importance of saving is that savings helps us to ensure our long-term health, happiness, and stability.

- Tell all participants to review their reasons for saving and ask them in which category each reason belongs.

Unexpected life cycle events (emergencies)	**Expected life cycle events**	**Long-term goals**

3. **Brainstorm in plenary:** Ask the participants to explain how one can build savings. Note their responses on a flip chart sheet or board.

Advice for the facilitator

Organise the responses according to the following categories:

Save before spending
- Pay yourself first by setting aside some money in a savings fund every time you receive your income.

Earn more money
- Diversify your sources of income e.g. salary, farming, business
- Grow more crops
- Invest in income-generating activities e.g. business, rental houses

Spend less money
- Spend less on 'wants' (Needs are things that are required for survival, wants are things that we would like to have but are not required for survival)
- Avoid the temptation to spend by carrying less cash with you
- Look for bargains before buying
- Bringing your lunch (which you prepared at home) to work instead of eating at a restaurant.

Step 2: Identifying savings mechanisms and discussing their advantages & disadvantages

1. **Plenary interactive discussion:** Ask the participants' views regarding:
   - The ways people save in their community.
   - Where do ABC and VC actors keep their savings? Why?
   - Who, women or men, are more committed to savings? Why

   Summarise the participants' views on a flip chart sheet or board. Then, for each category, ask participants to raise their hands if they have used that way of saving and tally them up to identify their most common methods of saving.

> ***Advice for the facilitator***
>
> Ask the participants to mention different ways in which ABC and VC actors save. This would include both cash and non-cash forms like investing in jewellery, livestock, and land. Cash savings could be kept at home, with savings groups, microfinance institutions, with savings and credit cooperatives or with banks.

2. **Group exercise**: Go to **Exercise 2** for guidance. This exercise takes 30 minutes.
   - Ask each group to present their findings in plenary, and follow up with a discussion. Use the box below for guidance during the discussion.

Advice for the facilitator to use during the plenary discussion

Savings methods	*Advantages*	*Disadvantages*
Banks and micro-finance banks	• *Safest option* • *Can withdraw from any branch office* • *Earn interest* • *Access to a wider range of savings products (current account, fixed account, etc.)* • *Helps to manage money* • *Legally recognised* • *Can use ATM*	• *Low remuneration* • *Minimum deposit may be required* • *Long lines and delays inside banks* • *Less accessible to those who cannot read or write*
Savings and credit cooperation's	• *Safe option* • *Earn interest* • *More interest than in bank* • *Helps to manage money* • *Can save small amount of money* • *Easy access in rural areas* • *Helps to strengthen relationship with shareholders/members*	• *Need to be a member* • *Minimum deposit may be required*
Saving groups	• *Easy access* • *Savings often linked to credit* • *May earn dividends on loans made with savings* • *Group rules about frequency and amount of deposit encourages savings*	• *Safety depends on the group*
At home in cash	• *Easy access*	• *No interest* • *Not safe* • *Too easy to spend and 'waste' on non-essential items*
At home in kind	• *Value might increase over time* • *Must sell to access cash -decreases temptation* -	• *Difficult to liquidate in case of emergency* • *Value could decrease over time* • *Risk of theft or death (animals)*

3. **Plenary discussion using scores**: Ask the participants to consider each service presented in Exercise 2 and to give a score of 1, 2 or 3, depending on how safe they think the service is. '3' is safest and least risky and '1' is least safe and most risky.

   Encourage discussion if there is any disagreement.

4. **Plenary brainstorm using cards**: Ask participants to respond on cards (1 idea per card) to the following question:
   What are the important characteristics of savings services to consider when selecting a service?
   Post all cards on the board and discuss similarities and differences. Use the box below for guidance.

Advice for the facilitator

Characteristics to consider when choosing a savings service

- Ease of access - how quickly we can get our money when we need it.
- Convenience and ease of use
- Opening deposit requirements
- Safety- for example from fire, theft etc.
- Earnings on savings e.g. interest
- Appreciation in value e.g. land
- Other uses of savings e.g. as a collateral to borrow money

Step 3: Identifying savings products and match with savings goals

1. **Plenary discussion**: Ask the participants to think about their own experiences of putting savings in a bank, microfinance banks or credit cooperatives. Ask some of them to describe their experiences and more specifically the different choices of savings products they had to make.

Advice for the facilitator

Type of savings product	*How does it work?*	*What it is used for?*
Individual savings	• *Voluntary timing and amount of deposits* • *Flexible withdrawals (although sometimes clients need to give 3 or 4 days' notice for withdrawal)* • *Usually earns interest*	*Emergencies and unexpected opportunities*
Fixed-term account	• *Regular deposits of fixed amounts over a pre-determined period of time.* • *Client can decide how much to save for how long.* • *Penalty is paid for early withdrawal* • *Interest is usually higher than on passbook savings* • *Can borrow against your savings*	*For expected needs*
Time deposit	• *Fixed sum for a predetermined term and rate of interest* • *Requires a minimum deposit* • *Inflexible* • *Pays a higher interest rate than either a passbook or fixed term for the same amount of savings*	*For larger needs expected in future such as marriage or a major capital purchase*

2. **Individual work (10 minutes):** Ask participants to review the goals they developed and wrote out in the earlier sessions. Then ask them to each answer for themselves the question:
   Which savings product will best meet your short-term and long-term goals? Clarify!!

3. **Plenary exchange:** Ask participants to exchange on what they wrote and to specifically pay attention to those in the business, enterprise or family who have greater responsibilities to save, and who have the right to withdraw the savings.
   - Emphasise the fact that at some microfinance banks and savings and credit cooperatives, it is possible to open a savings passbook for business investments.

Additional reading

- Reference sheet M4/2: Rules of thumb for savings
- Reference sheet M4/3: Important factors for deciding where to save
  Reference sheet M4/4: How to make a savings plan

Session 3: Equity or debt financing

Introduction

In this session the participants will learn about the principal reasons behind borrowing money, the pros and cons of equity and debt and will address issues of good and bad loans. This will allow them to know how to handle debt successfully.

Learning objectives

At the end of this session, the participants will be able to:

- Define the term 'debt'.
- Identify the principal reasons to borrow money, ways to expand a business effectively, and pros and cons of equity and debt.
- Identify the responsibility associated with taking a loan.
- Distinguish good loans from bad ones.

Procedure

List of tools/equipment required

- Cards, markers
- Tape - or Pins and a Pin board
- Flip chart sheets

Step 1: Identifying reasons behind why people borrow

1. **Plenary brainstorm with cards:** Ask participants to come up with possible reasons for ABC and VC actors to borrow money, and writing their views briefly on cards (1 idea per card).
   Post the cards and classify them into 3 categories of reasons, as shown in the box below.

Advice for the facilitator

Reasons that ABC actors borrow

- To invest (in business: purchasing materials, equipment, land, working capital etc.)
- To respond to an unexpected event or emergency (sickness, theft or loss, invitation to a wedding or to other traditional and social ceremonies)
- To meet basic family needs (food, cloths), to purchase an item for which they presently do not have enough money

Remind the participants that we have discussed in the previous session that if you have enough savings, you do not need to take a loan for emergencies.
A point to note is that we borrow if our **spending exceeds our earnings**

2. **Plenary discussion:** Follow the brainstorm with a discussion on the possible loans that can generate income.

Advice for the facilitator

- Loans for productive investment earn income for the borrower
- Loans for crises and family needs do not bring in new revenue and must be paid back from other sources of revenue. Try to avoid borrowing for these latter purposes.

Step 2: Debating access to financial resources – Equity and Debt``

1. **Group exercise:** Follow the instructions for **Exercise 3 – Part A.**

3. **Plenary presentations and discussion:** After the exercise, ask each group to present their findings, and follow them by a discussion on the similarities and differences.

Advice for the facilitator

Equity
- Own Savings
- Income from Business
- Income from selling assets

Debt
- Loan from Micro-finance
- Loan from friends
- Loan from money lenders

- Mention that selling assets can be a good or a bad strategy, depending on the type of asset being sold. Selling jewellery, for example, will not affect the future income of the business. Selling land or livestock, however, can seriously affect the business.

4. **Group debate on pros and cons of Equity and Debt financing:** Follow the instructions for **Exercise 3 – Part B**. This will allow you to divide the participants into two groups, according to their answers.
   Summarise the debate by saying that both equity and debt have advantages and disadvantages. See the box below for guidance.

Advice for the facilitator

A loan provides you with a lump sum of money that might be difficult to obtain otherwise. It enables you to take advantage of business opportunities, respond to emergencies or purchase something you need. But borrowing money can be expensive and carries obligations to repay on time. For these reasons, taking a loan is not the same as using your own money that you may have through wages, business profits or savings. The chart below outlines the advantages and disadvantages of taking a loan.

	Taking a Loan	Using Your Own Money
Advantages	• You gain access to more money than you have in savings • You get money quickly when you need it for emergencies.	• You avoid the costs of borrowing. • You are free to use your money as you wish. • You face less risk when you finance your business growth in smaller increments based on what you can afford to invest. • You avoid the obligation of future loan repayments.
Disadvantages	• You bear the cost of borrowing (with interest, fees and time to apply). • You are responsible for repaying your loan on time, and face penalties for late payment. • You must meet the requirements of group membership (attend meetings on time, etc.) if the loan is through a group. • You have to fulfill demanding conditions or guarantees that can put at risk some critical assets…)	• You have limited access to needed capital. • Your business grows more slowly. • You have limited ability to respond to opportunities.

Step 3: Distinguishing between good and bad loans

1. **Plenary discussion:** Start with a provocative question:
   Are all loans good?
   Ask some of the participants to present their real life experience and use a question-answer session, to find out what is a so-called 'good' or 'bad' loan.

> ***Advice for the facilitator***
>
> ***Explain***
> Borrowing money can be a very positive experience. A good loan can help you start or expand a business; it can help you respond to an emergency in your family; it can help you improve your living conditions rather sooner than later.
>
> However, taking a loan always carries a risk – the risk of not being able to repay. If it ends up costing you money or forcing you to go deeper into debt or non-repayment (loan default), it is a bad loan.

Thereafter, focus the discussion on what people need to know before borrowing.

> ***Advice for the facilitator***
>
> **What to know prior to 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
> - The required conditions and 'hidden' commitments (guarantees…)

Additional reading

- Reference sheet M4/5: Components of credit
- Reference sheet M4/6: The costs of borrowing
- Reference sheet M4/7: How much debt can you afford?
- Reference sheet M4/8: Controlling debt

Session 4: Budget and budgeting

Introduction

In this session participants will learn how ABC and VC actors can take control of their money and be aware of how and where they can spend it. They will then understand how to formulate a budget and analyse how to use the surplus or balance the deficit in the budget.

Learning objectives

At the end of this session, the participants will be able to:

- Formulate a budget
- Develop a budget for their own business
- Stay within their budget

Procedure

List of tools/equipment required

- Cards, markers
- Tape - or Pins and a Pin board
- Flip chart sheets

Step 1: Discussing the concept of budget

Plenary brainstorm: Start with an open question to participants:
What is a budget?

Summarise the responses on a board and then compare them with the following definition of budget, which you write on a flip chart paper.

- **Definition of budget:** A budget is a statement of income and expenditure estimated for a particular period. It describes resources of income on one side and expenditure items on the other side.

> ***Advice for the facilitator***
>
> Explain
>
> - Every individual has some income. Some income is regular and some is received occasionally. Such income is spent on various items of expenditures. Some expenses have to be incurred regularly, other expenses not. We have seen in a previous session (Session 4) that expenditures on needs have to be met by all means while expenditures on wants can vary.
> - A budget is a statement of income and expenditures prepared for a certain period. It describes sources of income on one side and expenditures items on the other side.

Step 2: Clarifying how to make a budget

1. **Group exercise:** Ask participants to do an exercise on the different steps to create a budget (see **Exercise 4 – Part A**). The objective is to find the process of budget creating.

> ***Advice for the facilitator***
>
> **Answers: Steps to create a budget**
> 1. Review your financial goals
> 2. Estimate amount of income by source
> 3. List all expenses and amount needed for each one
> 4. Make sure your expenses are not more than your income
> 5. Decide how much you will save
> 6. Review and adjust as needed

2. **Plenary brainstorm:** Ask the participants about the possible sources of income and expenditures. Hang up two flipchart papers, one with the title 'Sources of income', and one with the title: 'Causes for expenditures'

- Ask the participants to write their ideas on cards (1 idea per card).
- Thereafter, read out the cards and posts them on the respective flip chart.

3. **Individual work:** Ask the participants to work individually and answer the following questions, based on the lists on the flipcharts:
   What can be the sources of ABC and VC actors' income?
   Which one is regular or irregular?

4. **Plenary discussion:** Orient the discussion through the following inquiries:
   - Who has more sources of income? Why?
   - What can be the causes ABC and VC actor's expenditures?
   - Which one is regular or irregular?

> ***Advice for the facilitator – some possible responses:***
>
> **SOURCES OF INCOME**
>
> ***Regular sources***
> - Salary
> - Income from business (milk, vegetables, fruit selling…
> - House rent
>
> ***Irregular sources***
> - Sale of assets (cattle, gold…)
> - Seasonal employment
> - Bonus, overtime
> - Remittances
>
> **SOURCES OF EXPENDITURES**
>
> ***Regular expenditures***
> - Food
> - Transport
> - Small medical expenses
> - Input for production
> - Social events
> - Education
>
> ***Irregular expenditures***
> - Medical expenses after accident or illness

5. **Group exercise:** Explain that first the sources of income and expenditures are identified, and that subsequently a budget for one crop season needs to be formulated. The amount of each source of income and expenditures needs to be estimated. This will be done through **Exercise 4 – Part B** and worked out in groups.

6. **Plenary exchange:** Ask 1 or 2 groups to present their findings (preferably choose groups that have obtained quite different outcomes). Orient the discussion, by asking the participants:
   What do you think of this budget?
   Is it a surplus budget or a deficit budget? Why is it so?
   What are the major causes of surplus?
   What are the major causes of deficit?

   Summarise the outcomes of the discussion on a flipchart:
   - A surplus in a budget means that there is money left over after paying for all expenses
   - A deficit in a budget means that there is not enough income to pay for all the expenses.

7. **Plenary discussion:** Encourage a discussion on the use of surplus and options to balance deficits. Post the following questions on different sheets of a flip chart, and refer to them one by one.
   If you have a surplus in your budget, how would you use it?
   If you have a deficit in your budget how would you balance it?

   Note the answers below the questions and discuss in turn.

> ***Advice for the facilitator***
>
> **Explain:**
> Keeping a record of your income and expenses helps you to know where your money goes. If you have extra, or a surplus, you can save it for your goals. If your budget tells you that you won't have enough money to pay for your expenses, or a deficit, you know you have to cut back on some of them. A good budget helps you to pay for what you need and to save up for your goals.

Step 3: Discussing how to stay within your budget

1. **Plenary brainstorm:** Start with the following question:
   What makes it hard to stay within a budget?

   Write the answers on a flipchart. (Answers can include: lack of discipline, pressure from family members, poor revenues from the business or farm, etc.)

2. **Discuss Katia's story:** Ask one participant to read out Katia's story (see **Exercise 4 – Part C**). The other participants listen and write down what Katia did to stay within her budget. Summarise the answers of the participants.

Advice for the facilitator

How to stay within your budget

- Remind yourself often what you planned to spend
- Put in the budget something for unexpected spending needs
- Keep savings out of reach so you do not spend them
- Keep track of what you spend
- Make sure you do not spend more than is budgeted
- If you spend more for one item, spend less for something else
- Make a list of ways to cut planned expenses
- Get the family to participate in developing and sticking with the budget
- When investing money in business, consider what to do if the investment fails

Step 4: Analysing savings potential

1. **Plenary question:** Ask the following question.
   Why include savings in the budget?

   Explain to the participants that we must be able to save on a regular basis (remember it is not always about a surplus, it is a deliberate action) to meet any short-term or long-term financial goals that we have. Savings are also very important in order to be able to cover emergencies.

2. **In groups:** Ask participants to review the budget made in Exercise 4 – Part B and find ways they can save money.
   What decisions have you made to save in this budget?

   Write these onto separate cards (one per strategy).

3. **Plenary tally:** Ask the participants to put 2 points, one on each card, according to whether the strategy was more in the line of:
   1) To cut their expenses, or
   2) To increase their income

Additional reading

- Reference sheet M4/9: How do you make a budget?
- Reference sheet M4/10: What other factors will influence your budget?
- Reference sheet M4/11: Nothing ever stays the same—your budget will change!
- Reference sheet M4/12: How do you stay within your budget? Discipline!

Session 5: Developing ToR for field coaching

Introduction

During this session, the participants will review the various workshop sessions and identify concepts and tools that are most relevant for application in their cluster context. This will then form the basis for the design of the Terms of Reference for coaching sessions on this topic.

Learning objectives

At the end of the session, the participants will have a better understanding of the relevance of the different concepts and tools on financial education, and on how to provide specific support to cluster actors to respond to the financial challenges the actors are facing and show them the means of satisfying their financial needs.

Procedure

List of tools/equipment required

- Paper and writing implements
- Flip chart, markers
- Coloured cards
- Sticky tack, pins or tape – depending on the location

Step 1: Review the sessions

1. **Plenary discussion:** Review the different sessions and tools used during this workshop; for each session:
    - what topics were treated and what tools use
    - what did you learn
    - what will be relevant for use and application

SESSION	TOPIC	WHAT I LEARNT	WHAT WILL BE RELEVANT TO BE APPLIED TO MY CLUSTER
1.			
2.			
…			

Step 2: Preparing terms of reference for field coaching

Below are some essential steps for making a plan for conducting the field coaching on Financial Education. Please do not impose this process and the following steps on the

participants but introduce these in an interactive way, based on their experiences.

1. If they have already done coaching, briefly review the last coaching session and act on any outstanding issue or clarify any decision that was pending.

2. Have a brief exchange on the cluster actors knowledge and experience with issues of finance that are or have been crucial for the activities of their clusters, hence the need to understand issues of finance.

3. Identify the various categories of cluster actors (e.g. producers, processors, traders, other services providers) and the main financial challenges facing each of these actors (take into consideration the period of the year they most need finances, for which activities and the estimated amount).

4. Prioritise the financial challenges identified according to the extent to which they affect their activities.

5. Identify the corresponding (relevant) actions that can be taken to find solutions to some of the financial challenges prioritised (e.g. if they require funds for buying inputs, can they arrange for input credit and pay later when their produce is harvested? Can they by themselves institute regular savings towards the acquisition of some of their inputs? Do they need to borrow from somewhere else to settle the issue? If Yes, from where and when? What will be the conditions? What will be the advantages and disadvantages of this borrowing? At the end: will the borrowing be beneficial or result in more problems?

6. Explore options of possible saving and credits in the immediate vicinity of the ABC (e,g. microfinance institutions and others); what are the types of products available, who has which experience?

NOTE to facilitators

At this level, the role of the coach might be no longer limited only to the identification capacity strengthening but will go beyond the coaching session. They may need to contact the institution identified, find out about the general conditions under which the institution operates for accessing the financial products and inform the stakeholders about it. The coach also needs to help the actors during the negotiation or developing or putting in place of relevant documents or documentations that may be required. If finding challenges, there may be a financial institution in your cluster, they can help.

7. Lead the cluster actors to draw budgets for their activities. The budget developed should be used as a guide to directly seek funding.

Session 6: Workshop assessment

Introduction

Did this workshop fit the participants' needs and has it satisfied their expectations? Do they now feel able to train cluster actors in the basic knowledge of financial education? These are some of the questions this session would like to have answers to.

Objective

With this assessment, the facilitator can find out whether the workshop was appreciated by participants, and will be able to adjust follow-up workshops, if necessary.

Procedures

There are several ways and tools to assess a workshop, from the beginning to its end, and during the sessions.

- **At the beginning of** the workshop: each participant wrote down their expectations and worries; these were summarised and hang out on the wall. The facilitator now reviews these and discusses with the participants to what extent the expectations are met and worries are let go.
- **During** the workshop: at the end of each day (even for a 2-day session), the participants were given the opportunity to reflect on what was done during the day in a Reflection Diary. Ask each participant to indicate how well they appreciated each session, why, and if relevant to propose improvements to the content.
- **At the end** of the workshop: Ask participants to either in plenary, or individually, to reflect on how they experienced the workshop.
    - One option: At the end of the workshop, ask participants to fill in the following table – to maintain anonymity and confidentiality, either completed individually on sheets to hand in - or putting an 'x' on a flip chart sheet on the wall, and writing comments on cards to be gone through by the facilitator.
    - Another option: This could alternatively be done in plenary if participants feel comfortable enough to speak out.

Session/topics	Good	Average	Poor
S1: The what and why of FE			
S2: Savings and saving options			
S3: Equity or debt financing			
S4: Budget and budgeting			
S5: Developing the TOR for field coaching			
S6: Workshop/module assessment			
Your opinion on the facilitation			
Give general or specific comments on the workshop			

Advice to the facilitator

An often recurring issue in a workshop is that time is too short to go through all planned activities. This often affects the time taken for assessment. This final part is very important, however. So, do not forget to assess how it is going at the beginning, during, and at the end of the workshop. This will give you very useful information.

Before starting this session, prepare the synthesis on the participants' expectations.

References sheets for Module 4: Financial education

Reference Sheet 1: What is financial education? Why is it important?

The answers to these two questions contain good news and bad news for poor people and their money. While the poor share the same goals as all people—economic security for themselves, their families, and future generations—their limited resources and options often lead to a sense of hopelessness and inertia. Careful management of the little money they have is critical to meet day-to-day needs, cope with unexpected emergencies, and take advantage of opportunities when they come along. The bad news is that the poor too often lack the knowledge and experience they need in order to be careful money managers.

Financial education teaches people the concepts of money and how to manage it wisely. It offers the opportunity to learn basic skills related to earning money, spending, budgeting, saving, and borrowing. The good news is that when people become better informed financial decision-makers, they can plan to achieve and realize their goals. Moreover, once people have acquired financial literacy skills, these will stay. A one-time course in financial education may have lifelong rewards.

Financial education is relevant for anyone who makes decisions on money and finances. Women, in particular, often assume responsibility for household cash management in unstable circumstances and with few resources to draw on. Financial literacy can prepare them to anticipate on life-cycle needs and deal with unexpected emergencies without assuming unnecessary debts. For youths, financial literacy may reduce their vulnerability to the risks associated with transition to adulthood, and enhance their skills in managing money as they enter the world of paid work.

Reference sheet 2: Rule of thumb for savings

While basic principles of money management can apply to everyone, decisions to save or consume money depend very much on the level of income, access to loans, and access to appropriate savings products. Nevertheless, there are a number of rules of thumb that you may use to guide decisions about savings and consumption:

- Save as much as you can as soon possible. The more you save, the better off you'll be.
- Save as you earn.
- Try to save 10% of your income even if you don't have a specific purchase or investment for which you are saving.
- Pay off your debts: Some people recommend paying down your debt before you start to save; others recommend saving even while paying down debt because it is important to start building assets as soon as possible. This choice will depend on individual priorities, situation, and means. Total household debt should not exceed 36% of household income.
- Calculate how fast your money can grow over time if you save regularly in an account that earns interest.
- Don't carry a lot of cash—avoid temptation to spend it!
- Spend carefully. If you purchase big items, consider how much money you could make if you resell. Look for opportunities to save money by bulk buying of non-perishables.
- Keep 3 to 6 months of living expenses in an emergency fund at all times. It can be used in case of job loss, unexpected illness, or to meet other emergency needs. An emergency fund will reduce your anxiety.
- Find savings products that match your savings goals.
- Keep emergency funds in a separate account. Open 2 savings accounts – 1 for emergencies that is easy to access and doesn't have any penalties for withdrawal, and 1 for savings for other goals, that is harder to access (and therefore less tempting to withdraw the money). Keeping some savings "out of reach" is important.

Good savings behaviour requires discipline; discipline is learned through practice!

Reference Sheet 3: Important factors for deciding where to save

When deciding where to save, you should consider the following:

- **Deposit requirements for the savings account:** Is there a minimum deposit required to open the account? Is there a minimum balance required to keep the account open? Are small deposits accepted? Can variable sums be deposited? Can deposits be made frequently? What paperwork is required?

- **Terms of use:** Is the saving program compulsory or voluntary? Do you have to commit to saving a set amount at regular intervals or over a certain time period? Are there rules about how much you must deposit and when? Are there rules about how much you are allowed to withdraw and when? Can you withdraw the money at any time without penalty?

- **Cost:** What fees are charged for deposits, withdrawals, or passbooks? Some forms of saving may lose value at times of inflation or economic instability. You need to consider such costs even though they do not involve payment of actual fees.

- **Access/Ease of use:** Is the account convenient? What are the institution's hours of operation? Is it open at convenient times? How far is the institution from your home or workplace? Are transactions quick and confidential? What is the quality of customer service? Is the atmosphere comfortable and friendly? Are there long lines at the teller windows? Is information on the account easily available? Does it provide statements? Are they easy to understand? Are the application procedures easy to follow? Does it have an ATM network?

- **Safety:** What is the reputation of the institution? Does it have insurance or other guarantees to safeguard funds? Are the telephone or electronic transactions safe? Is the bank or its branch located in a safe neighbourhood location?

- **Liquidity.** How easy is it to withdraw funds from the account? Will the full amount be available? Are fees charged if the funds are withdrawn before a specified date?

- **Interest:** Will your savings earn interest? If so, how much? How and when is the interest paid? What is the difference in interest rates earned across different types of savings products or plans?

Reference sheet 4: How to make a savings plan

A savings plan is a critical tool for managing money to meet short-, medium-, or long-term financial goals. To make a savings plan, follow the steps outlined below:

1. Set savings goals.

2. Figure out how much you need to save over what period of time to meet your savings' goals. Set a savings target.

3. Figure out how much you are earning over this period of time, the regularity (or irregularity) of your earnings, and how much you can expect to save on a regular basis.

4. Identify which expense you can cut back on (for example, video rental, cigarettes, or tea breaks) and reallocate this amount to your savings.

5. Decide where you will save. Identify places to save, available savings products, and their pros and cons.

6. Plan how much and how often you will save. For example, you could put a specified amount aside in an envelope when you are paid or at the end of each business day and keep it in a safe place until you are able to take it to the bank. Go to the bank on a fixed day of the week or month. If you are a wage earner and your employer is linked to a bank, consider a deduction from your pay check that is automatically deposited into your savings account.

7. Keep track of your savings. Monitor progress towards your savings target on a regular basis by checking the amount you have saved and how close you are to your goal. Check bank statements, pass books, or other sources of information on your savings.

Reference sheet 5: Components of credit

If you borrow money from a bank or other formal lender, there are several terms associated with your loan that you will hear frequently. It is important to understand what each means for your specific loan:

- Loan size: The amount you borrow
- Loan term: Period of time you have to use the loan money and repay it
- Interest rate: Percentage of the total loan amount charged to the borrower for the use of money borrowed. Interest is usually charged on a monthly basis
- Fees: Administrative charges in addition to interest that are usually paid once, at the time the borrower takes the loan
- Grace period: Period from receiving a loan until the first payment is due
- Repayment schedule: The frequency of loan payments (e.g., weekly, biweekly, monthly)
- Prepare a Business Plan

Reference sheet 6: The costs of borrowing

The main cost associated with a loan is the interest charged for the use of the money. This is usually calculated as a percentage of the total loan amount and you pay it in monthly instalments as part of your loan payment. In addition, many lenders also charge administrative fees that you usually pay once, when you take the loan. Interest and fees are charges that you pay directly to the lender. These "direct costs" are usually cash payments.

However, there are other expenses associated with borrowing that may not be so obvious. Sometimes applying for and taking a loan forces you to spend money for transportation to attend meetings or go to the bank to fill out application forms. These activities may take you away from your business, forcing you to close it or hire someone to "mind the store" while you are away. Although these additional "indirect costs" may not be part of the cash loan payment, they are real and should be considered, when choosing a lender.

Choosing a lender

The cost of a loan will vary on the type of loan you seek and on the lender's policies regarding interest rates, fees, savings requirements, and collateral. Before you borrow, compare the rates of several money lenders charged for taking the loan.

Choosing a lender is not only about costs. You may also want to consider the following:

- Location (is the lender close to your home or business?)
- Product offerings (does the financial institution offer other types of loans or savings services that interest you?)
- Customer service (do you feel comfortable there? Is the staff friendly and helpful?)

Questions to Ask a Lender

- What types of loans are available?
- What are the collateral requirements?
- What are the savings requirements?
- What is the interest rate?
- What fees are charged?
- What are the penalties for late payments?
- How long does it take to get a loan?
- How many times do you have to actually go to the loan office to complete the application?

Reference sheet 7: How much debt can you afford?

Too much debt may cause serious problems. The term "over-indebtedness" refers to household debt that is too high relative to household income. How do you figure out how much debt is too much? Unfortunately, there is no rule of thumb on what is a safe debt-to-income ratio, although 20 to 30 percent of household income is commonly regarded safe. Should your household always avoid carrying more than one loan at a time? Not necessarily, especially in case you face a crisis and are in need of cash urgently.

Before taking a loan, you should consider both the costs and the risks of borrowing. Answer the following questions, based on your own circumstances:

1. What percentage of my household and/or business budget can I afford to make available for debt repayment? Will I have enough left over to adequately cover other household expenses?
2. Can my guarantors afford to repay my loan? How will they feel towards me if they have to do so?
3. What are the consequences if I cannot repay my loan? What is the value of the collateral (for example, a motorbike, house, etc.) that I have pledged?

Reference sheet 8: Controlling debt

As a borrower, the debt trap can sneak up on you. As it occurs slowly, you may not see it coming. Suddenly you owe more than you can afford to pay and the way out is nowhere in sight!

The persistence of debt is one factor that keeps poor people in poverty. For most of us, living with debt has always been and will continue to be a reality. Because your need for credit does not go away, you are likely to renew existing loans. In fact, given ever-changing circumstances, at some point, you may need more than one loan at a time. This may happen when you are faced with an unexpected crisis and need cash urgently.

Warning signs:

Debt is out of control!

As your debt mounts and becomes a burden, warning signs appear. They include the following:

- Using credit to purchase things you once bought with cash
- Getting loans or extensions to pay your debts
- Using savings to repay loans
- Using credit for living expenses

Whether managing an existing debt, or deciding whether you can afford to take a second loan, make sure your debt obligations will not control your life, that you will still be able to pay for your basic needs and daily expenses. Two simple rules will help you control your debt:

1. Don't borrow more than you can afford to repay.
2. Save money regularly for emergencies so you do not have to borrow immediately.

The Bottom Line

Debt is not our enemy. Bad credit habits are. Use credit well and use it wisely.

Reference sheet 9: How do you make a budget?

1. Keep track of your income and expenses

The first step is to keep careful records of the money coming in to your household (income from all sources) and the money going out (expenses). You can then use this information to create a *cash flow statement* that shows where your money comes from and where it goes in a specified period of time. In other words, it tracks the *flow* of your income. Analysing your cash flow can help you figure out whether your expenses are greater than your income. It will help you identify where you can cut back on spending and ways you can save more (Gardner and Gardner 1998).

To make a cash flow statement, select a recent time period – a week or a month – for analysis. List all your sources and amounts of incomes during this period. Your *total income* should include any of the following types of income that pertain to your household: your salary after all deductions, average business income, spouse's income, other household members' incomes, rental income, remittances and any other sources of income. If you have a source of income that comes in periodically only (e.g. quarterly or twice a year), you can estimate how much it amounts to over one year, and divide by 12 to determine how much this income will be on a monthly basis.

Figure 1: Josephine's Cash Flow Statement November 2003

	Amount
The money Josephine makes	
Business income	
Kiosk	$200
Used clothes sales	$300
Farm income	$175
Husband's casual work	$200
Rental income……	$50
Remittances	$75
TOTAL INCOME	**$1,000**
The money Josephine spends	
Necessary Expenses	
House rent	$300
Utilities	$45
Food	$150
Transportation	$25
School fees	$75
Medical expenses	$ 50
Clothing	$20
Sub-total	**$665**
Discretionary spending	
Video rental	$32
Ice cream	$18
Church offering	$80
Sub-total	**$130**
Debt repayment	
School tuition	$35
Bank loan	$85
Moneylender loan	$50
Sub-total	**$170**
TOTAL SPENDING	**$965**
NET INCOME	**+$35**
(income – spending)	

Next, list your *expenditures*, including necessities (food, housing, clothes, transport, etc.), debt repayments and discretionary or optional expenditures. Do not include extraordinary or one-time expenses, only those expenses you have during this period.

Finally, subtract the total expenditures from the total income. The result is your *net income* – the difference between your income and expenses during the period. In the cash flow statement example in Figure 1, Josephine has $35 at the end of the month that she can decide to save, invest, or spend.

Repeat your record-keeping over several periods (weeks or months) so that you can identify the differences between periods and come to know the fluctuations in income and expenses. When are you likely to spend more money than you have coming in as income? When is your income higher? Can you save more during those periods? When are your expenses higher? What irregular expenses do you have? Are these necessary expenditures?

2. Create budget categories that are appropriate for you

Once you have estimated your monthly net income (Step 1 above), the next step is to think about appropriate categories for your budget. You must decide how specific or general to make each category.

Keep it simple. The two most basic budget categories are spending and saving. Figure 2 shows some of the specific items under each of these categories.

Figure 2: Possible Budget Categories

Spending
- Necessities (rent, school fees, health, utilities, food, insurance, transportation, clothing, ROSCAs)
- Debt repayment (loans, hire purchase, other debt)
- Discretionary expenses (entertainment, charitable contributions)

Savings
- Emergency fund
- Short-term savings
  - Medium-term savings
  - Long-term savings

3. Set your financial goals

Goals can vary from meeting basic needs, to getting out of debt, to educating children, to buying a house. Some are short-term to be accomplished quickly, others are long-term. Once you decide on your priority goals, figure out the cost of each and set a time frame for achieving it. Next, estimate how much you must allocate to savings every month to achieve each goal. If this amount is more than you think you can afford, make adjustments, extend the time you need to save the desired amount, reduce the cost, or change the goal.

Figure 3 provides an example of financial goals. Comparing the amount that Josephine wants to save each month towards her short-term goals (Figure 3) to the amount she has available for saving (Figure 1), a shortfall is evident. With her current income and expenses, Josephine cannot save as much as she wants each month. She can adjust her savings goals, saving less for each specific goal and extending the time it will take her to accomplish them. She may also look hard at her expenses to find places to cut down to free up more of her income for saving.

Figure 3: Josephine's Short-Term Financial Goals			
Goal	**Cost**	**When?**	**Savings/Month**
1) House Repairs	$180	12 months	$15/month
2) School Fees	$320	8 months	$40/month
3) Son's Operation	$160	4 months	$40/month
Total Savings needed per month			$95

4. Allocate your income across your budget categories

If your cash flow statement provides a good and detailed estimate of your current income and expenditures, you should be able to identify opportunities to reduce spending, and save more. When you allocate money across budget categories, consider your priorities and financial goals. If, like Josephine in the example, you don't have enough income to pay for daily necessities, repay debt *and* save for specific goals, you know that you will need to make adjustments in the budget. You can reduce your price expectations (for example, use less expensive materials to repair your house) or extend the time for achieving your goals (give yourself 18 months instead of 12 months to save for house repairs). Be realistic. See Figure 4 for an example of a budget allocation.

Reference sheet 10: What other factors will influence your budget?

1. Your money beliefs

Figure 4: A Simple Budget Allocation

Spending	
Necessities (housing, food, etc.)	60%
Debt Repayment	10%
Discretionary expenses	10%
TOTAL SPENDING	80%
Savings	
Emergency fund	10%
Short-term savings	5%
Long-term savings	5%
TOTAL SAVINGS	20%

Beliefs about money are based on what we have seen, heard, and experienced in the past. We build our behaviours on them. However, some common beliefs about money are not accurate and they hold us back unnecessarily. For example, many of us believe that we cannot manage money well because we are not good at math (Pohl 2001).

Figure 5: Rate Yourself: True or False?

- Managing money is complicated
- A person needs to be good at math to be good with money
- My friends would leave me if I earned more money than they did
- It takes a lot of money to invest
- My debt is too big to do anything about it
- I trust my husband to make good choices for me
- Poor people cannot save money

Figure 5 offers some common beliefs about money. Can you think of any others? What are some of your personal beliefs about money? What ideas about money or cash or banking are common in your area or particular to your ethnic group?

2. Your money personality

Your past behaviour in managing money is a reflection of your money personality. Are you a hoarder? A spender? A money avoider? A money amasser? A risk taker? A risk avoider?

Most people are a blend of more than one personality. Knowing your "personality" can help you counteract tendencies that may get in the way of achieving your financial goals (Godfrey and Edwards 1994; Pohl 2001).

3. The "financial phase" of your life

The amount of money coming in and amounts you allocate to spending, saving, or investing varies at different stages of life. When you are young, you will spend most of your money, but as you reach middle age, you will be able to save more. If you are over 65, falling income may force you to save less and spend more. When you make a budget, think about the financial phase of your life. In designing financial education, consider common patterns in the financial phase of life among your clients.

Reference sheet 11: Nothing ever stays the same – your budget will change!

Over time, changing circumstances may require you to revise your budget. If your income goes up, you can allocate more to savings. If your income goes down, you may have to save less in order to pay for basic necessities. If you have another child, you may decide to save more for education. If the price of basic needs go up at a faster rate than income, your budget will need to be adjusted. Monitor your budget regularly so that you are prepared to adjust it in response to your changing circumstances.

Budgets will also sometimes fail. Failure is generally due to (1) a serious emergency (a natural disaster or sudden illness) that forces unplanned spending; (2) lack of commitment or self-discipline; or (3) unrealistic goals. For emergencies, you can protect yourself against the negative impact of unexpected events by creating an emergency fund that is part of your budget. As you learn about and understand money and finances, you will be able to set more realistic financial goals and find the self-discipline to achieve them.

Reference sheet 12: How to you stay within your budget? Discipline!

Making a budget is a simple task. Anyone can do it. But following a budget and sticking to it, can be much harder. It takes discipline! You must respect each part of the budget, from establishing financial goals, to controlling your spending, to honouring your commitment to save. The following guidelines will help you find the discipline you need for each aspect of your budget.

For setting financial goals:

- Set specific short- and long-term goals for your money.
- Set up at least one goal that you can reach quickly to reward yourself for saving.
- Review your financial goals and budgets over time.

For spending:

- Reduce what "goes out" as a key form of saving (Rutherford 2000). Wise spending helps you save.
- Make a list of all possible ways to spend less on daily expenses. You can save more over time by cutting back on regular day-to-day expenses than by cutting back on one big-ticket item.
- Keep track of how much you spend on everything.

For saving:

- Save first! Follow the 10 percent solution: save 10 percent of what you earn. One strategy is to save first and then think about how to spend what is left over. Easier said than done, this strategy is a good way to achieve your financial goals.
- Save 3 to 6 months of operating expenses in an emergency fund before you allocate savings for other purposes. This will protect you in case of family illness or unemployment and reduce your reliance on short-term debt to meet emergency needs.
- Keep savings out of reach. If you keep your savings at home, you are likely to feel pressure from your family members to spend that money.

For investing:

- When considering an investment, identify the nature and psychology of its associated risk. You can think about risk as a matter of chance, and ask, "What are the chances that I will make a big profit or suffer a big loss?" A second aspect of risk is much more important: "What are the consequences of taking this risk?" In other words, what will happen to me if the investment fails?
- Figure out your tolerance for risk. Remember other occasions in your life that involved taking risks. How did you handle those? How did they make you feel?

Module 4: Financial education - Exercises

Instruction on group work and exercises

Before starting each exercise and the group work, please verify that all group members have well understood the exercise or the assignment at hand.

To the facilitator:

- Make sure participants are distributed into groups of interest, based on gender, or at random, whatever is needed. The objective is to stimulate real interaction between all the participants at the end of the day, that means to insure that one moment or another any of them will get the opportunity to express him/herself and to be listened by others. This supposes participants feel comfortable enough in his/her group, and that these groups are motivating enough: sometimes it is good to make mixed groups to avoid boring exchanges between people that know too well each other, sometimes it's better to make it easier for participants (for example having shy women together) …
- Make sure each group receives adequate tools and materials such as flip chart sheets, markers, etc.
- Assign an appropriate place/location to each group and sufficient chairs and tables so that they can work comfortably.
- Make sure the participants have a good understanding of the task at hand before they split into their groups so that they do not spend unnecessary time in trying to understand the assignment.

To the participants:

Discuss and exchange within the group about your individual understanding of the expected outputs of the exercise and make sure to come to a common understanding on:

- The objective of the exercise (what is expected and why?)
- How to proceed to answer the question as a group
- How to 'visualise' your findings (using poster paper or pin board and coloured cards or the computer)
- Who to appoint to lead/moderate the discussion
- How and who to present results during the plenary session
- If relevant: Who to be in charge of the final electronic write up

Exercise 1: Goals for a happy future

Part A: Fatima's story

One of the participants reads out Fatima's story; other participants listen and note down Fatima's goals.

Story of Fatima

Fatima lives in a village of Fadama District. She is a producer and will harvest her rice in three weeks' time. She plans to sell all the produce to a rice processor in town. Once she earns money from her business, she will be able to rent a tractor to expand the cultivated land. She would like to improve her productivity, and therefore she plans to start using fertilizer for next season's crop. Fatima's family members hope that she will become a big farm manager soon but she has her dreams of a business life.

Participants are split up into mixed gender groups of 3 to 5 persons each and discuss the following topics:

- What are Fatima's goals?
- Which of her goals can be met in a short time?
- Which goal takes a long time to achieve?

Part B: Discussion on Goals for a happy future

1. Individually answer the question: What are your goals for a happy future? Then write the answers or draw pictures.
2. Once finished, the participants share their goals and discuss similarities and differences.
3. Each group to make a list of goals that are similar, and a list of goals that clearly differ - and try to relate these to gender, age, background, profession, or social group/network.
4. Each group then presents its findings.

Focus the discussion on the goals that require priority.

Consider the following:

- What can you do to make sure you have the financial resources to make your dreams or saving goals come true?
- What will you do to reach these goals?

Exercise 2: Savings exercise

The participants are split into 4 small groups:

- Group 1 discusses advantages and disadvantages of savings with a bank or microfinance bank
- Group 2 discusses advantages and disadvantages of savings with a savings and credit cooperative
- Group 3 discusses advantages and disadvantages of savings with a group
- Group 4 discusses advantages and disadvantages of savings at home or in kind

Savings services	Advantages	Disadvantages	Risk rating
Savings with a microfinance bank or a bank			
Savings with a savings and credit cooperative			
Savings with savings group			
Savings at home (in cash)			
Savings in kind (gold, jewellery, livestock, land)			

Exercise 3: Equity and Debt exercise

Part A:

The participants are split into 3 or 4 small groups. Each group treats the following question:

?	**What are financial resources that VC and ABC actors can utilize when they want to expand their business?**

After listing the resources, the groups make a two-fold classification into: equity and debt.

Part B: Advantages of Equity or Debt financing

Participants answer the following question:

First: According to you what is the best option, equity or debt financing?
Then: What is the best option for Agribusiness people?

The participants are divided into two groups based on their answers.

- Group 1 discusses advantages of using your own money and disadvantages of taking a loan
- Group 2 discusses advantages of taking a loan and disadvantages of using your own money

Groups take some time to prepare prior to debating.

Groups enter into debate, with the one group trying to convince the other that taking a loan is better than using your own money. The other group tries to argue that using your own money is a lot better than taking a loan.

Exercise 4: Budget exercises

Part A: Steps to create a budget

Participants form groups of 3 or 4 persons each. Each group receives a set of budget step cards in random order. Then they organise the cards into the sequence they think is right for creating a budget. Take 5 minutes for this activity.

'Steps to create a budget' Cards

Review your financial goals	Estimate amount of income by source	List all expenses and amount needed for each one
Make sure your expenses are not more than your income	Make sure your expenses are not more than your income	Review and adjust as needed

Part B: Budget for a specific crop

1. Participants form 3 or 4 small groups.

2. Within each group, one volunteer shares with others – on the basis of some solid experience – the different sources of income and of expenditures and the corresponding amounts for a specific crop (expenditure or income per area). Each group will choose a different crop. All income and expenditure should be totalled.

Budget form

Budget title	Amount (one season)
Income: 1. 2. 3. 4. 5.	
Total income	
Expenditures 1. 2. 3. 4. 5.	
Total expenditures	
Total income – total expenditures=	Total surplus/deficit

Notes

- Expenses should include fixed and variable expenses
- **A surplus** in a budget means that there will be money left over after paying for all expenses. The surplus can be saved
- **A deficit** in a budget means that there is not enough income to pay for all the expenses. One may need to borrow.

3. Deduct the total expenditure amount from the total income for the example and write down the amount (either positive or negative) under surplus/deficit.

   Note that the last line is the most important one on the budget form. This line represents the difference between income and expenses. It helps to be realistic, and identify opportunities to reduce spending and save more.

<u>Part C</u>: Katia's Story

1. Read the following story.

   Katia made a budget for her restaurant business. She went to the market a week later where a close friend wanted to sell her some beautiful cloth she had recently purchased in the city. Katia was tempted but remembered there was no money for expensive cloths in her budget. She was glad she had put her savings into her account with the bank so it was not readily available. Later that week, her children broke her cooking pot. Katia was able to buy a new pot from money she had set aside for unexpected expenses.

2. How does Katia manages to stay within her budget.

   [Possible responses: Remembered what was planned in her budget and stayed within the plan; put savings out of reach so it was not easy to spend; set aside some money for unexpected expenses.]

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