AGRICULTURAL ECONOMICS

Financial services and money in Agriculture

Competency: The learner understands the importance of prudent financial management and uses knowledge and skills to manage financial resources effectively.

NEEDS AND WANTS

Needs are things that people require to survive. Food, water, clothing, and shelter are all needs. If a human body does not have those things, the body cannot function and will die. Wants are things that a person would like to have but are not needed for survival. A want may include a toy, expensive shoes, or the most recent electronics.

Both needs and wants must be purchased with money. Sometimes people confuse their wants and needs and spend too much of their money on things they want. Then they do not have enough money for their needs.

Comparison between needs and wants

Basis if comparison	**Needs**	**Wants**
Meaning	Things required to sustain life	Things needed to make life more comfortable
Nature (limited or unlimited)	Limited; they are relatively few, easy to identify and can be satisfied	Unlimited; their list is inexhaustible and very hard to satisfy
Purpose (must or wish to have)	Must have to live and it is very hard to sustain life without them	May wish to have to make life more comfortable
Level of requirement (necessity or need)	Necessary to have needs satisfied	May have wants satisfied
Change/constancy or Variation with time	Constant; humans have had the same basic needs for years	Vary with age, time and economy and new ones are discovered every year

Effect of lack	Poor health, disability or death	Reduced comfort

The core pillars of Financial Literacy

Financial literacy is having a basic grasp of money matters and its fundamental pillars. It is the ability to properly understand and apply financial management skills. It is the possession of a set of skills that allows an individual to make informed and more effective decisions with all of their financial resources.

A financially literate person is expected to demonstrate certain characteristics such as effective financial planning, proper debt management, accurate calculation of interest and understanding the time value of money. This knowledge enables one to build wealth throughout one's life by leveraging the power of these pillars. The core pillars include;

1. Earning: This refers to the resources, especially finances that get into the farmer's accounts. Earnings are important because they represent the primary investment in many farms and if well, used could be the spark for growth through re-investment.
2. Understanding credit and Debt: Debt is money that agricultural enterprises owe external persons. Farmers need to know how credit works, how to use it responsibly, and how to manage and pay off debt effectively.
Good debt is considered money borrowed for things that are absolutely necessary for making a life e.g. a house and for advancing your money-making potential e.g. an education.
Bad debt is considered borrowing money or using a credit card to pay for things you don't need, such as expensive clothes, hi-tech electronics, eating out at restaurants, going on holidays, etc.

3. Saving: A **s**aving is money that is generated from an agricultural enterprise but set aside to be used in the future. Saving is an essential part of financial wellness, a secure present, and a happy future. Wealth is built through spending less of your income so that you keep some aside.

4. Budgeting

Budgeting is the life skill of planning and managing your money. By understanding exactly where your money goes every month, you are empowered to create an actionable plan by which you can spend less, by curtailing those unnecessary expenses and saving more for the things you need and want.

The rule here is that money coming in (your total income) should always be greater than money going out (your total expenses). The difference between the two values is what you should be stashing away as savings.

Farmers should understand how to create and stick to a budget, manage income and expenses, and save for future goals.

5. Investing

Investing is all about creating and growing the wealth you need to enjoy a financially secure and happy future. It's about putting your money into something that will make you a profit over time, such as property, retirement funds, and unit trusts.

The growth of your investment's value can establish a second, monthly income for you, or, if and when you sell it, you'll have more money than you originally invested. The funds generated by your investments can then be used to see to your financial needs now and when you retire.

6. **Risk management:** understanding different types of insurance and how they can protect against financial risks.

7. **Financial planning:** Setting short and long term financial goals and creating a plan to achieve them.

8. **Consumer awareness**: Understanding consumer rights and responsibilities, and how to make wise purchasing decisions.

9. **Economy and financial:** Understanding how the economy works, including inflation, interest rates, and the role of banks and financial institutions.

10. **Financial decision making**: Developing the skills to make sound financial decisions based on understanding financial principles and the impact of choices on your financial future.

11. **Financial ethics**: Understanding ethical considerations in personal finance, such as honesty, integrity and fairness in financial dealings.

Saving and investment

Saving money means storing it safely so that it is available when we need it and it has a low risk of losing value or getting lost

Reasons to save

- **Retirement:** Many people save when they are working to have the resources to spend and a reasonable amount of comfort when they are no longer working and earning the same.
- **Emergencies:** Some people save so that they can overcome the emergencies and other hardships that life might throw at them e.g. Illness or accidents.
- Avoiding debt: People save money to be able to avoid debt when the need for more money to spend rises. Rather than borrow, many people would dip into their savings to avoid paying interest.
- **Financial independence:** Some people save money to acquire financial independence so that they can eventually survive without a job.
- **Reduce stress**; When people have some save money, they feel more comfortable within themselves and suffer less stress.
- **Investment:** Some people save money so as to raise enough money to invest in those things they hope to earn more from.
- **Education:** Many people save money to be able to cater for the cost of educating thie children and grandchildren.
- **Meet life goals:** Some people save so as to be able to achieve those dreams they have had in life e.g. going for travel to a distant area.
- **Leave a legacy for loved ones:** Some people save so as to have something to leave behind for those that they care for when they are no more.

- **Achieving financial goals:** Some people save money to be able to meet targets set by themselves.

One example of saving is setting aside a portion of your allowance or paycheck into a savings account every month.

Ways Of Saving Money

- Bank deposits. This involves opening up an account where you can deposit money on daily, weekly or monthly basis and one is able to earn interest.
- Buying assets. One can save money through buying assets like land, houses, and animals.
- Buying currencies. This is where one buys foreign currencies and sells them after for a profit when the exchange rate appreciates in forex bureau.
- Investing in business. Savings from one's income can be done by investing in a business in order to earn profits.
- Forced saving. This is where one is forced to save by law like the National Social Security Fund(NSSF) which deducts employees' salaries and it is given to them in their old age or to the family at his or her death.
- Buying ornaments or valuable items. Some entrepreneurs buy valuable items such as gold or diamond among others which they can sell in future to recover their money.
- ***Informal savings*** e.g. saving cash at home, e.g. in piggy banks.
- ***Semi-Formal savings*** encompass group savings mechanisms, including rotating credit and savings associations (ROSCAs), Village savings and loan Associations, village banks, solidarity groups and self-help groups. The advantage of Associations is that each member receives a lump sum of money at one time, with no loan or interest payments.

Cons

- Much lower yields
- May lose out to inflation
- One loses out on the value that they could have obtained if they had invested in riskier but higher yielding assets

INVESTMENT

Investment is the allocation of resources to an income generating activity with expectation of a positive benefit or return in future. It is putting money into an activity or enterprise that enables your money to work for you and generate more income.

FORMS OF INVESTMENT

- Buying of hard currencies like united states dollars and pounds which can later be converted to earn profits when the exchange rate appreciates.
- Buying of valuable items like gold and diamond which can later be sold at higher prices to earn profits.
- Buying assets like land, buildings or animals that can be used or sold later to earn more income.
- Buying shares in other registered companies in order to earn dividends as income at the end of a specific period.
- Buying of securities like treasury bills and selling them at an interest after a specified period of time.
- Real estate development. This is the improvement and construction on land to create value. For example buying land and construction of rental houses to earn income out of them.

Reasons for investment.

- To become self-employed hence becoming independent and self-reliant by operating their own business.
- To control unnecessary expenditure by converting part of their income into goods and services to meet other people's needs.
- To create jobs for others hence reducing on the unemployment problem.
- To utilize idle resources like land, water among others to produce goods and services.
- To promote economic growth by producing goods and services which contribute towards national income.
- To earn income. Investment is a source of income to investors in form of profits.

Pros of investing

- Potential for higher returns than savings
- Can help achieve long-term financial goals

Cons of investing

- Risk of loss, especially in the short-run
- Requires discipline and commitment
- May require longer time horizons

Types of Banks In Uganda

Central bank: A central bank is a financial institution that is set up to control, guide and assist commercial banks and provide banking services and financial advice to the government.

The central bank has several functions

- It issues the country's currency notes/coins
- It offers banking services to the commercial banks operating in the country
- It accepts deposits on behalf of the government, in form of tax revenue and also offers short term loans to the government.
- It controls the issuing of foreign currency
- It supervises the commercial banks and other financial institutions in the country
- It lends money to the government and other financial institutions in the country
- It controls the interest rates in the country
- It regulates the amount of money in circulation
- It manages the country's foreign reserves
- It issues government securities e.g. treasury bonds and treasury bills on behalf of the government.

2. Commercial Banks

These are financial institutions that accept deposits from the public and release it on demand. They deal in money issues and aim at making profits. They are authorized to hold checking, savings and time deposit accounts for individuals and institutions in local as well as international currencies. Commercial banks are also authorized to buy and sell foreign exchange, issue letters of credit and offer loans to customers. Examples include ABC Capital Bank Limited, Bank of Africa (U) Limited, Absa Bank (U) Limited, Bank of Baroda (U) Limited, Centenary Bank Limited, Citibank (U) Limited, DFCU Bank Limited, Ecobank (U) Limited, Equity Bank (U) Limited, Orient Bank Limited and Stanbic Bank (U) Limited.
Roles of commercial banks

- They accept people's deposits and keep them safe until they are demanded by the depositors
- They provide loans and bank drafts to the public
- Keep valuable items and documents in safe custody on behalf of their clients
- Provide cheque facilities to make payment easier
- Give advice to their clients on financial services
- Provide revenue to government through taxation of their activities
- They buy and sell foreign currencies
- As as referees for their customers by giving information about their financial status.

3. Development Banks
These are financial banks created by the government to facilitate industrial, commercial, agricultural and industrial development by giving people long term loans on a non-commercial basis. Examples include Uganda Development Bank, East African Development Bank, African Development Bank and the International Development Bank.

4. Merchant Banks: These are set up to assist traders in international trade and often do not accept deposits of money from depositors.

5. Credit Institutions
This class includes Credit and Finance companies. They are authorized to take in customer deposits and to establish savings accounts but they do not trade in a foreign country or establish check accounts. They are also authorized to make collateralized and non-collateralized loans to customers e.g. Post bank, Brac Uganda bank, Mercantile Credit Bank etc.

6. Microfinance Deposit-Taking Institutions (MDIs)
This class includes microfinance institutions, which are allowed to take in deposits from customers in the form of savings accounts and are regulated by the Bank of Uganda. Microfinance Deposit-taking Institutions are not authorized to offer checking accounts or to trade in foreign currency. Examples include FINCA Uganda Ltd, Pride Microfinance Limited, UGAFODE Microfinance Ltd, EFC Uganda and Yako Microfinance Ltd.

5. Microfinance Institutions (MFIs)
This class includes the rest of microfinance institutions, Saccos etc. These institutions can give credit to clients but are not mandated to take and keep client' deposits for safe keeping. This class also includes the Money Lenders, and Non-Deposit Taking Microfinance Institutions. Examples include Letshego Uganda (Kampala), Platinum Credit (Kampala), Premier Credit (Kampala), Vision Fund Uganda (Kampala), Uganda Microcredit Foundation (Kampala) , Ecumenical Church Loan Fund (Eclof) and Wazalendo Sacco.

Types of bank accounts

1. Savings account: This is normally offered to low income earners
Features of a savings account
- It requires a minimum deposit when opening it
- Deposits and withdrawals can be made from it at any time

- There is a maximum amount that can be withdrawn from the account on a single day.
- A small interest is given to the account holder depending on how much the account holds
- A minimum balance is required to e maintained on the account.
- A pass book or ATM card is given to the holder to be used during transactions on the account
- Bank overdrafts are not given on this account

2. **Current account**: This is the kind of account normally offered to business people or to institutions.

Features of current accounts

- A minimum initial deposit is required on opening the account
- No minimum balance is required and on can withdraw all the money from their account.
- One can deposit money at any tie and in any form e.g. cheques, cash, drafts e.t.c.
- A cheque book is issued to the holder
- Bank statement are given to the holder on a monthly basis
- No interest is given to the account
- There is no upper limit to the amount of money you can withdraw in a day
- Bank drafts can be given on this account

3. Recurring Deposit Account

Recurring Deposit account or RD account is a form of account wherein the account holder needs to deposit a fixed amount every month until it reaches the fixed maturity date.

4. Fixed Deposit Account: This is opened by people with extra money that they may not need immediately for spending. The account requires a certain minimum amount to open and after the deposit, withdrawals are not allowed for a certain period of time.

Features of a fixed deposit account

- Deposits are for a defined period of time
- Withdrawals cannot be allowed before the expiry of the defined period.
- The account attracts a higher interest than the others
- Money on the account can be used as a security when applying for a loan.
- The amount deposited in FD account can only be withdrawn all at once and not in instalments
- The rate of interest depends upon the amount you deposit and for the time duration of the FD
- Full repayment of the amount can be available before the maturity date of FD

5. Brokerage account: this is an investment account that enales one to buy and sell ivestments such as stocks, bonds, mutual funds and exchange traded funds.

This helps facilitate easy trade of bonds and shares

- Transaction cost is reduced
- Traders can work from anywhere
- The transfer of securities can be done with reduced paperwork

6. Checking account: This is a bank account that allows one to easily deposit and withdraw money for daily transactions.

Importance of Bank Accounts

- Bank accounts offer simplicity for transactions. one can easily withdraw money and make payments if they have a bank account.
- Having bank accounts offers a safe treasury of your hard-earned money and even if the bank or the unions are close you are sure to get back your money.
- Most banks and financial institutions offer the account holders free or low-cost services, hence bank accounts are cheaper.
- It is an easy way to grow money. Most banks offer an interest rate when you put your money in a savings account. The interest will help your money grow over time.
- It offers easy access to credits. Having a bank account is favourable as banks provide the facility to access credits to its customers for Personal loan, home loan, education loan etc.

Services provided to farmers by banks

- Bank overdrafts
- Agricultural loans
- Agricultural enterprise insurance
- Cash deposits and witdrawals
- Balance inquiries
- Information on agricultural innovations
- Linking farmers to suppliers of certified inputs
- Networking services by linking farmers to consumers of their products

How to open a bank account

Basic requirements

- A valid National ID (front & back)
- A clear photograph
- A photo of your Signature
- A registered mobile phone number
- Initial deposit amount not less than UGX10,000
- A letter of introduction from your supervisor at work or the LC 1 Chairperson of your area of residence
- Some banks require a secondment by a person already holding an account with the bank.

Procedure

(i) Write a letter to the Bank manager asking to open a bank account with the bank

(ii) Present all the requirements as listed above

(iii) Fill the forms provided by the bank. These forms capture, among others, your names, age, sex, marital status, residential address, occupation, next of kin and the specimen signatures.

(iv) Pay the opening balance into the account number given to you by the bank and the bank account becomes active.

Farm budgeting

A budget is a document which shows a firms' expected income and expenditure.

Types of budgets

There are two types of budgets that can be drawn up, a partial budget and a complete budget. A partial budget is made when a small change involving only a small portion of the farm or a few enterprises on an already existing enterprise are involved.

A complete budget is made when a major change to an already established enterprise is to be made or if a farmer is setting up a completely new enterprise.

How to make a Budget:

- Identify your resources.
- Identify your needs.
- Cost each of your needs.
- Arrange your needs in order of priority (separate your needs from your wants).
- Find the alternative means of satisfying your needs.
- Choose the best alternatives.
- Allot the resources to the priorities.
- Write it out as a draft.
- Implement your budget
- Monitor the progress of the budget
- Evaluate the progress of the budget
- Keep modifying the budget to suit the circumstances.

Sample budget

S/no	Item	Quantity	Rate	Total	Remarks

Making a budget using Microsoft spreadsheets

- Open a Microsoft spreadsheet and insert the items in the columns as on the hard copies
- In the quantity column do not include the units. If the units e.g. kilograms and litres are added, the formulae will not work
- Using the formula, place the equal sign in the first row of quantities in the total cost column
- Click on the quantity cell, add the multiplication sign and click on the corresponding unit cost cell
- Press the enter key on the keyboard to get the total cost for the item
- Repeat steps 3,4and 5 for the next two rows. Select the 3 cells with total cost values and drag to the end of the rows with quantities.
- All the rows will appear with total cost values after dragging and releasing the cursor
- To get the total of the total cost, select the first cell with the values and drag to a free cell just after the last cell with quantities.
- After all the total cost cells are selected, click on Autosum at the top right hand corner on the spreadsheet page.
- The total sum of the costs will appear in the last blank column selected.
- Print the sample budget and display it

Benefits of budgeting

- Aids in the planning because it gives one an indication of what is available and what is required before hand.
- Ensures proper utilization of resources because it enables the farmer to allocate resources to what is important.
- Budgets enable organizations to seek for help in form of grants or loans.
- Coordinates the activities of the organization
- A good budget communicates to all what their role will be and this ensures accountability in implementing the budget. **.**
- Motivates managers to strive to achieve the budget goals because in some institutions, the payment of the workers is based on how well they have achieved the goals set out in the budget.
- **Control activities: T**he budget acts as a guide to the managers as they spend and so enables them avoid unplanned expenditure.
- **Evaluate the performance of managers:** This is because it provides a reference of what was set out to have been done at the start and what would have been done at the the end.