FINANCIAL LITERACY MANUAL

January 2020
This manual was prepared by Kilimo Trust under the Competitive African Rice Initiative in East Africa (CARI-EA) Project, which is funded by the American people through the USAID Office of Bureau for Food Security (BFS).

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What is financial literacy?

It is the possession of knowledge and understanding of financial matters. It often entails the knowledge of proper decision-making pertaining to certain personal finance areas like, financial planning, loans and credit management, savings, investment, etc.

Learning out comes from the financial literacy modules

- Planning and proper budgeting is at the core of financial discipline and prosperity
- Save to avoid unnecessary debts
- "Never to dig a hole to fill up another hole." It's easy to get into debt but hard to get out.
- To always evaluate for the best financial product offers on the market
- Invest for future growth
- Prepare for the unexpected by taking up agriculture insurance
- Strong financial management systems are very critical for success of farmer organizations and SMEs

MODULE 1: Personal financial management

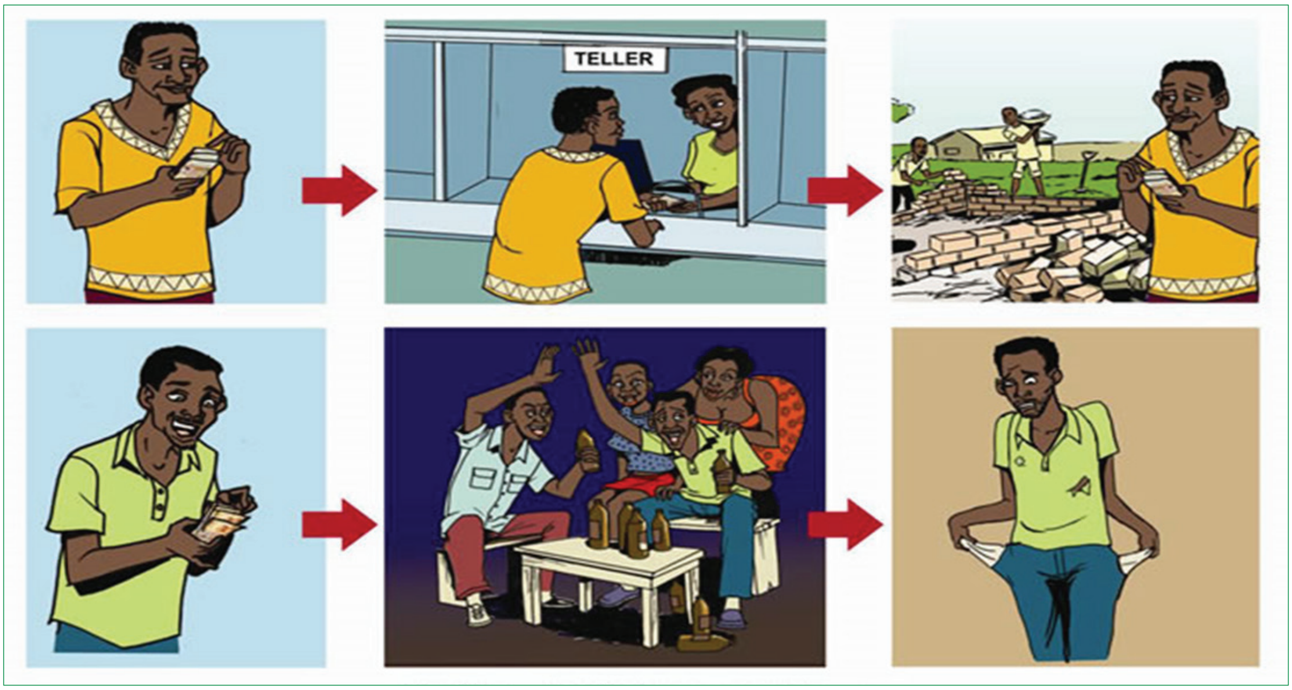
Pre and post evaluation questions

1. What is the main tool for personal financial management? ....
2. What are the three things you can do with your money?
   a) ....
   b) ....
   c) ....
3. Give ways how you can stay within budget?
   a) ....
   b) ....
   c) ....

1. Determine what you need and what you want

A need is a thing that is necessary for an organism to live a healthy life. Needs are sustaining while a want is something that you would like to have. Wants are entertaining.

Balancing between needs and wants: Plan to meet your basic needs before thinking of luxuries. For example, ensure that your children's school fees are paid before you spend money on expensive clothes



Decide what is important to you

2. Set family financial targets:

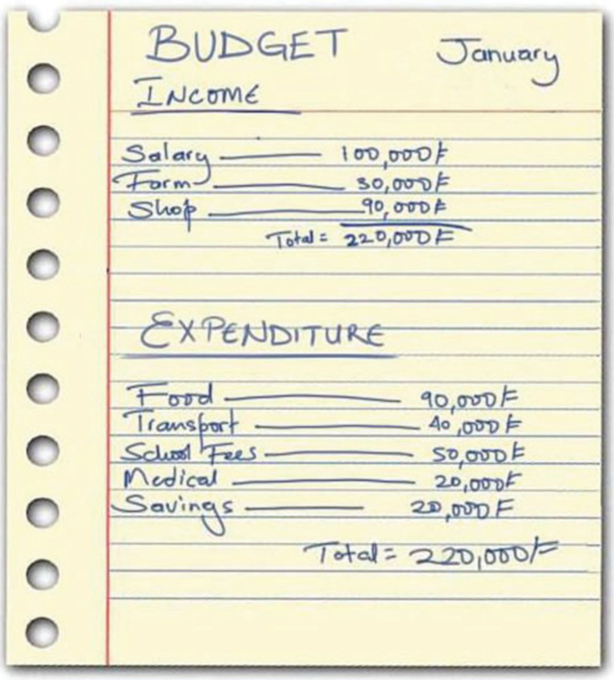
Set financial goals/targets to manage your money well. Think of what you want in life and set goals towards achieving that. For example, if you want to buy land in 5 years' time, start saving for it now. If you are working for something that's important to you, and if you have a plan of action, you will be more likely to succeed.

Set family financial goals

Your action plan should include the goals, resources, and responsibilities of the entire family. You can achieve family needs but not necessarily what each family member wants. For example, you can decide together what schools to take your children to and which medical Centre your family can get treatment from, according to your income

3. **Where does money come from & where does it go?** After setting your financial goals, plan where you will get the money from. If you can't get enough money from your income, raise additional money through home-based projects (e.g. vegetable growing and marketing, bricklaying, roasting and selling of groundnuts, baking, etc.). You can also cut your expenses and save: Look for ways to spend less so that you can save some money to help you reach your financial goals.

4. **Prepare a budget which is within your income:** Once you have decided on your priorities, find out how much you need to pay for them.



Prepare a budget which is within your income

Note: Make sure you plan not to spend more than you earn. When making your budget, keep in mind that prices usually change over time.

5. **Keep track of your expenses:** It is important to keep track of all your expenses, e.g. keeping a book where you record all your daily expenses. This helps you monitor how you spend your money and can provide guidance on which expenses you can reduce or do without. If you keep your money with a financial institution, ask them for your financial statement to see how much money has been coming in and how much is going out.

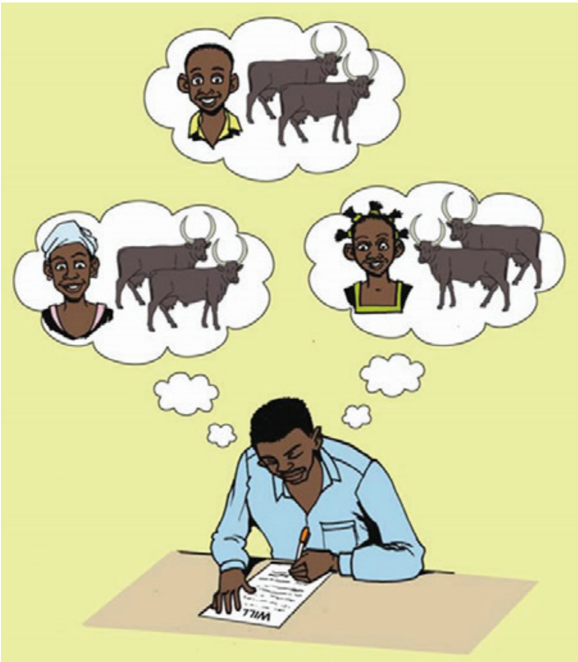
6. **It's easy to get into debt but hard to get out:** If you borrow money, plan carefully how you will use your loan and how you will pay it back – and stick to your plans. Always use borrowed money for the purpose you borrowed it.

   Avoid borrowing to pay off debt

7. **Save and invest to grow your earnings:** Some people look at their income and "get comfortable" with it. Don't be one of them! You can save a portion of your income and you can invest part of it in a business, shares and other property. Save and invest so that you will still have something to live on in case of a sudden loss of employment, accident or illness.

8. **Keep your money in a safe place:** Money can be very tempting and unsafe if it is easily accessible. Try to carry only the money you need for the day and a small amount for emergencies e.g. moving with an ATM or Visa card is as good as carrying money. Keep it/them away unless you really need to get money for a certain purpose. Money can be best kept in a credible financial institution like banks, SACCOs and Micro Finance Institutions

9. **Avoid gambling:** If you gamble, you eventually lose. Gambling can take the form of betting on sports, games, playing cards and more sophisticated games like in casinos or online. Reckless business investments are also gambles. Sometimes gamblers win or benefit for a short period but, in the end, they always lose more than they have won or benefitted. Gambling has left many people financially strained with destroyed relationships and friendships and an unmanageable amount of debt. For example, you may lose 10,000/= ten times and only win 40,000/= once. This means that you would have lost 60,000/=.



Write a will to protect your investments for your dependants

10. **Write a will to protect your investments for your dependents**

    To make sure that your money and property is going to the right people when you die, write a will. A will is a signed document which spells out how, and by whom, you want your property to be managed after your death and who should benefit from it. Don't forget to update your will whenever you get new property, children, a partner or whenever you lose, sell or give away the property you included in your original will. Your dependents should know where to find your will.

Module 2: Saving

Pre and post evaluation questions

1. Give three important factors to consider when deciding where to save from?
   a) ....
   b) ....
   c) ....
2. What is the recommended minimum of your income that should be saved?
   ....
3. Which tool can be used to boost your savings?
   ....

1. What is saving?

Saving is the practice of putting aside part of your current earnings for future use, this could be in form of cash, livestock or food in store. Savings are used in times of scarcity of when an emergency strikes. It is not done once but over a period of time.
You may have to sacrifice current luxuries to save for a better future.

2. Choose where you want to save

Many times, we find excuses to avoid saving, claiming that we don't have enough money, or we don't know how and where to save. Here are some options you can choose from:

- Saving in a savings account with your bank or Microfinance Deposit-taking Institution (MDI). You can save via regular deposits or a standing order from your current account to your savings account.
- Saving through a group e.g. Savings and Credit Cooperative (SACCO), Village Savings and Loans Association (VSLA). When you want to keep your savings in a SACCO, it is wise to ask other members what their experience has been before you start.

When you save with a Village Savings and Loans Association, make sure you can trust the other group members and ask for regular accountability to reduce the risk that someone walks away with your money. Also check that the group's money is kept in a safe place where it cannot easily be stolen.

Keep your savings safe

Don't save large amounts of money at home. It might easily get stolen or destroyed by fire, insects or other animals.

3. Choose to save in an institution that is easy to reach and work with.

The institutions you choose should at least:

- Be safe and secure
- Be easily accessible
- Have an easy process for opening an account
- Have good interest earned on savings
- Have little or no charges on your account (make sure that your monthly interest is more than the monthly charges)
- Value and treat you well as a client.

4. How to grow your savings.

a) One by one makes a bundle': You don't need much money to start saving. Whether you are a student, a farmer, a teacher, nurse, banker, market vendor, taxi driver or a business person, you can always put a little money aside. When you save regularly, your money will "grow"

b) Spend less to save more: You can save by spending less on wants.

c) Encourage your children to save: Parents should teach children to start saving for a purpose while they are still young. This helps children to understand the value of money and to develop a savings culture at an early age. You can help a child save money in a small tin or box (piggy bank).

Encourage your children to save

d) Save to avoid unnecessary debt: Savings are the best way to pay for day-to-day costs like school fees, clothing and medical charges. It is better to save for such expenses than to borrow. For example, if you start saving for your children's education early enough, you may not need to take an education loan or borrow money from a friend to pay fees.

e) Always have an "Emergency Fund": Savings are very helpful in addressing unexpected or unforeseen problems such as illness, accidents, unemployment, robbery, drought, funerals, too much rain that destroys crops etc. In such situations, your savings can help you recover from such shocks. Make sure that you keep money for emergencies. If you ever must use part of your emergency fund, top it up again as soon as you can.

f) Save for special events: Have a savings scheme for luxuries such as birthdays, a wedding ceremony or holidays. You can plan ahead for this and hence save over a long period of time.

5. **Make the most out of your savings:** with big interest and small fees

   When you save with a savings account, you should be paid interest. In order to make sure you get the most from your money, find out:

   - How much interest you will get. Different institutions offer different interest rates. Some of them pay interest monthly and some yearly. Compare it all.
   - What fees and charges (if any) you will need to pay. There might be an account opening fee, an account management fee, a deposit or withdrawal charge, etc.
   - How much notice (if any) you need to give before taking out your savings and what penalty (if any) you will have to pay if you take out your money before then.

6. **Four steps to achieve your savings goals:** Follow these four steps to achieve your savings goals:

   - Decide what you want to save for and find out how much it will cost – whether it is buying a house, land, starting/improving a business, studying or saving for your child's school fees, etc. Ensure that what you are saving for is realistic and not over-ambitious.
   - Start saving now – the sooner you start, the sooner you'll get there.
   - Put your savings in a safe and secure place where you earn good interest.
   - Keep saving regularly and over a long period of time. It's only then that your money can accumulate.

7. **How to Start Saving**

   a. Review your lifestyle
   b. Make a realistic budget
   c. Close all the leaking taps of expenses
   d. Open a savings account
   e. Join a saving scheme/Investment club
   f. Start a saving scheme/Investment club

8. **Saving & Planning Principles.**
   a. Have a healthy balance between saving and consuming.
   b. Put it where you can't reach it
   c. Close all the leaking taps
   d. Save when it makes financial sense.
   e. Save for a reason
   f. Start by saving what you can afford - The discipline is better than the amount
   g. It is not what you earn but what you keep that determines your financial success in future
   h. If your dream is lifelong poverty, then pay for other things/people e.g. landlord, taxi, markets, etc. And not yourself i.e. saving

   Saving = Paying Self

9. **Why Don't People Save**
   a. The income is low and demands are high
   b. Irregular income
   c. Extravagant living
   d. Un employment
   e. Having debts
   f. Live by faith

10. **Why Should We Save Our Finances**
   a. Helps us plan for the future – Improves financial planning
   b. Handle Emergencies – Self-insurance
   c. Debt prevention
   d. Allows us to take risks by investing using our savings.
   e. Gives us an opportunity to give – Become a blessing

11. **Requirements for Savings**
   a. Discipline
   b. Belief that you can save
   c. A Mechanism for saving i.e. A savings account or Saving scheme.
   d. A conducive lifestyle
   e. Have set goals - If you save for nothing, you will spend the money on nothing

Village savings and Loan Association-VSLA methodology

What is VSLA also called VS&LA?

It is a group of 15 to 30 people who save together and take small loans from those savings.

VSLA is a savings model with its roots in traditional Rotating Savings and Credit Associations (ROSCA's) and Accumulating Savings & Credit Associations (ASCA's).

Members' savings deposit creates a pool of capital. The model creates a fund from which group members may borrow at a pre-determined interest rates and terms. This allows the fund to grow, provided when needed and matched with borrower needs. It creates accessible, transparent and flexible accumulating savings & credit groups.

In short, VSLAs avail flexible financial products to their members.

Other characteristics of a VSLA

- User/member owned and self-managed in the communities where members reside.
- Members normally live in the same community and are encouraged to self-select into groups.
- Most groups opt for social fund that can be used for small grants during emergencies in addition to funds for investment
- If Associations are larger than 30 members, they are encouraged to divide into smaller sub-Associations.
- At the end of predetermined period usually called a "cycle" (usually between 8 months and 1 year), all or part of total accumulated internal fund return to all group members (savings, interest, investment profits & fines) according to their level of savings.
- VSLAs meet on a weekly basis, but can determine longer durations (not more than a month) after their first cycle

How does VSLA work?

VSLA Group

The VSLA methodology is/should be simple and easily accepted by local communities.

The essential components of a VSLA are:

a) **Group Formation:** VSLA groups consist of self-selected individuals. Members select each other based on characteristics of trustworthiness, honesty, reliability, and punctuality.

Members must be aware of the qualities that are needed for one to be a member. Anyone who is not able to meet these standards should probably not join. Good members will:

- Know each other and be from same community
- Not live too far from where the meetings will be held
- Have a reputation for honesty and reliability
- Be able to attend all meetings
- Attend all meetings on time
- Follow all rules
- Have a cooperative personality. Someone who is known to create conflict should probably not join
- Be able to buy at least one share each week
- Be able to repay loans on time
- There is only one member from the same household. It is better if members from the same household join different VSLAs

b) **Fund Development:**

- Member contributions and savings become a source of loan capital for other members of the group.
- When fund is sufficient, any group member can borrow at predetermine interest rate and repayment time.
- The dynamics of the group create an appropriate setting for the fund to grow.

c) **Ownership:**

- VSLA groups are owned and managed by their members. This is their most important characteristic.
- Self-reliance is fundamental to their operations and long-term sustainability.
- The goal of a VSLA is group and financial independence.

d) **Governance:**

- VSLA groups are managed by a five-member elected governing committee consisting of a Chairperson, Secretary, Treasurer and 2 Money Counters.
- Committee members are subject to annual re-election at the start of a new cycle.
- However, a member may be removed if extraordinary circumstances warrant an emergency meeting.

e) **Self-regulation:**

- VSLA group members agree on a set of rules, bylaws or a constitution, to guide their activities.

f) **Transparency and accountability:**

- All transactions at meetings are carried out in the presence of the group to ensure transparency and accountability.

- Loan requests are presented in a public manner among the VSLA membership and the approval is contingent on the review and consensus of the general assembly.
- Once the loan is approved, it may then be disbursed immediately.
- Loans are given for consumption/household expenses, emergencies or investment that are agreed to by the group and noted in their by-laws.

g) Duration:

- The cycle of savings and lending is time-bound.
- Members agree to save and to borrow from the savings of the group for a limited time period.
- At the end of the period, the accumulated savings, interest earnings and revenue from other economic activities undertaken by the group, are shared out to members.
- The amount shared is relative to the amount that has been invested by each member throughout the cycle.

h) VSLA group members meet at agreed-upon times:

- The frequency of the meetings is usually limited to weekly or every two weeks but varies between VSLA groups.
- During times of hardship, or harvest, members can decide to postpone meetings.
- However, all members are required to approve this adjustment.

i) Ensuring the continuity and sustainability of VSLA expansion—Private Service Providers:

- VSLA has resulted in tremendous demand for further growth and expansion of the methodology into other communities/new groups.
- Innovative market-based field agent approach, referred to as Private Service Providers (PSPs) is used for sustainability.
- Qualified field agents that are certified as PSPs are able to offer their services to savings groups based on an agreed-upon fee structure.

j) Relevance of VSLAs in Development Programs

- VSLA results in greater financial inclusion of several target groups that have been excluded from accessing traditional financial services.
- This includes households that are food insecure, poor farmers, people affected by HIV, and vulnerable youth & women.

k) VSLA and its Benefit on Agriculture:

i. Ability to procure inputs/services in bulk
ii. Ability to pull resources together to acquire capital equipment such as tractors
iii. Ability to bulk commodities and market as a group
iv. A platform for receiving capacity building trainings
v. Ability to pay agricultural insurance premiums as a group

l) VSLA and its Benefit on Health Care:

i. Increased ability to pay for access to health facilities.
ii. A platform for health messages - creates an ideal atmosphere for conveying important life skills and health messages for its participants.
iii. Improved ability to pay health insurance premiums - VSLA participants are empowered to go even a step further to save and pay for the national insurance premiums.

Module 3: Loans

Pre and post evaluation questions

1. What is the cheapest source of credit/loan?

   ………

2. Apart from the total cost of the loan (including interest rate and additional charges), give three other factors you should consider before taking a loan?

   a) …………………………………………………

   b) …………………………………………………

   c) …………………………………………………

3. Between variable and fixed interest rate, which one might turn out to be expensive?

   ………

Role play 1

Team composition: A farmer with a family of 3-4 kids, a banker, a money lender and a group of unconstructive friends

Instructions for the first role play:

1. A farmer needs urgent cash to be able to meet his household basic needs including paying school fees for the kids and buying agro-inputs for the next season. He is literally confused on the next course of action.
2. However, he gets a rumour through one of his friends that his fellow farmers within the local community were receiving loans from a prominent formal financial institution (bank) within the local vicinity.
3. This farmer decides to approach the above bank to persuade the loans officer to extend credit to him. However, unfortunately during their meeting the loans officer concludes that this farmer is highly risky with no assurance of consistent income inflows to meet his loan obligations. In addition, the farmer doesn't have any supporting farm records to show his performance in the past seasons. **In turn, "the farmer curses banks alleging that they are only profit oriented and never willing to help farmers."**
4. Being frustrated that he couldn't secure a loan from the bank, the farmer decides to approach some of his friends seeking for a loan. Unfortunately none of them is of help as they can also barely meet their own household needs. However, one of his friends refers him to a prominent money lender within their local vicinity who could be of help.
5. The money lender was so welcoming to the farmer and managed to sweet talk the farmer to even borrow more money than what he initially intended to borrow. The farmer pledged his household assets as security for the loan. Filled with joy of securing the loan from the money lender, the farmer did not even bother to read the terms and conditions of the loan including type of interest and interest rate before appending his signature. Unfortunately, this farmer doesn't even inform the wife that the household items have been used as collateral.

6. After securing the loan, the farmer decides to first take his friends out for celebration and they end up spending over half of the money in the bar. The remaining balance is used to pay part of the school fees for the kids and also to buy a few inputs to cater for only one acre yet before taking the loan the farmer intended to plant 3 acres.

7. Unfortunately, the production season was hit by excessive drought and the farmer barely harvested anything. In addition, the farmer failed to honour his obligations towards the money lender and ended up losing his household items to the money lender. The wife was so disappointed in his husband's actions that her and the kids decided to abandon him. The husband was full of regrets for having failed to set his priorities right and not having embraced farming as a business in addition for seeking relevant knowledge and understanding of financial matters.

Question

what are the key financial attributes/characteristics that describe the above farmer?

Characteristics of the **"Non-FBS Graduate Farmer"** i.e. **Highly not bankable and not attractive to financial institutions because of poor enterprise performance. The farmer always struggles to meet household financial needs and rarely undertakes productive investments**

a) Poor business skills: i.e.

- Doesn't keep enterprise records and if he/she does, the records are inadequate for making an informed business decision
- Rarely plans or budgets for enterprise activities – and always struggles to raise the necessary funds to undertake enterprise activities such as purchase of agro-inputs and paying for field operations
- Always struggles to find market for his/her produce because of not meeting buyer requirements i.e. farmer has low volumes, poor quality produce and with inconsistent supply

b) Poor financial discipline: i.e.

- Rarely assess his/her financial needs in relation to the business enterprise
- Rarely saves/ invests for own future growth
- The need to borrow is guided by his/her unplanned need for cash
- Highly risky and never qualifies for accessing credit from formal financial institutions e.g. Banks
- Normally relies on borrowing from friends, relatives and money lenders (who always charge ambiguous interest rates because of the associated risk)
- Occasionally borrows to pay off another debt
- Never pays attention to the details of the agreement signed with the money lenders e.g. interest and repayment period

c) Rarely invests for growth/ proper utilization of the loan

- Does not utilize the loan according to the intended business purpose/ agreed upon plan with the family
- Does not service the loan according to the agreement with the money lender

d) Never prepares for the unexpected

- Doesn't take on any measures to safeguard against/ minimise effects of risks related to agriculture

In summary, the Non-FBS Graduate Farmer is a **"Repeated Frustrated Farmer"** that never graduates from one level to the next, has a poor credit history, non-resilient to production & market related shocks, and not attractive at all to any credible financial lending institution.

1. What is a loan?

A loan is money that is borrowed and must be paid back, usually with interest and other associated costs such as loan processing costs, insurance fees, stamp duty etc.

2. Most loans must be secured

The lender needs to make sure that they don't lose their money if the loan is not paid back. You may therefore be required to present proof of security or collateral. This is something you own (e.g. a piece of land) and which the lender can take over if you fail to pay back the loan. Some lenders accept another person to be a guarantor.

In case you fail to pay back your loan, the guarantor must stand in for you and pay back that loan. You may also be required to provide the lender with indications/proof of your business records to give the lender an understanding of your capacity and inform their decision on how much to give you.

Banks or other lenders that do not require security may charge very high interest rates or other fees(insurance) because it is very risky for them to give out a loan that has no security. Therefore, in case you are offered a loan without security, make sure you understand all the terms and conditions including the cost of the loan.

3. Things to consider before taking a loan

a) **Plan before taking a loan.** Before taking a loan, plan in advance on how you will use and pay back the loan.

b) **Interest:** Interest is the additional money you have to pay to the person or financial institution that lends you money. Interest is normally expressed as a percentage of the amount you have borrowed. It is mostly calculated on an annual or on a monthly basis. Depending on the loan, you may be asked to pay interest yearly, monthly, or weekly. There is a big difference between a yearly, monthly, and weekly interest rate.

CASE 1:

Yearly interest rate: If you took a loan of 100,000/= with 12% interest per year, you would pay an interest of 12,000/= per year in addition to the 100,000/= that you received as a loan. After one year, you would therefore have to pay the lender 112,000/= plus any other fees/charges.

Monthly interest rate: If you took a loan of 100,000/= with 12% interest per month, you would pay an interest amount of 12,000/= every month. Over the year, this would amount to 144,000 in interest only. You would therefore have to pay back [100,000/= + 144,000/=, which would add up to 244,000/=.

Furthermore, understand the type of interest that is offered. There are 2 types of interest rates i.e. "fixed", "variable", flat or declining

- If it is variable, this means that it can change over time. Therefore, you might end up paying more.
- Fixed interest is one where the interest rate doesn't change during the period of the loan repayment. This allows you to accurately predict your future payments.
- With a declining interest rate, you only pay interest on what you owe the lender
- With a flat interest rate you keep paying interest on the original amount of the loan until this amount is entirely paid back.

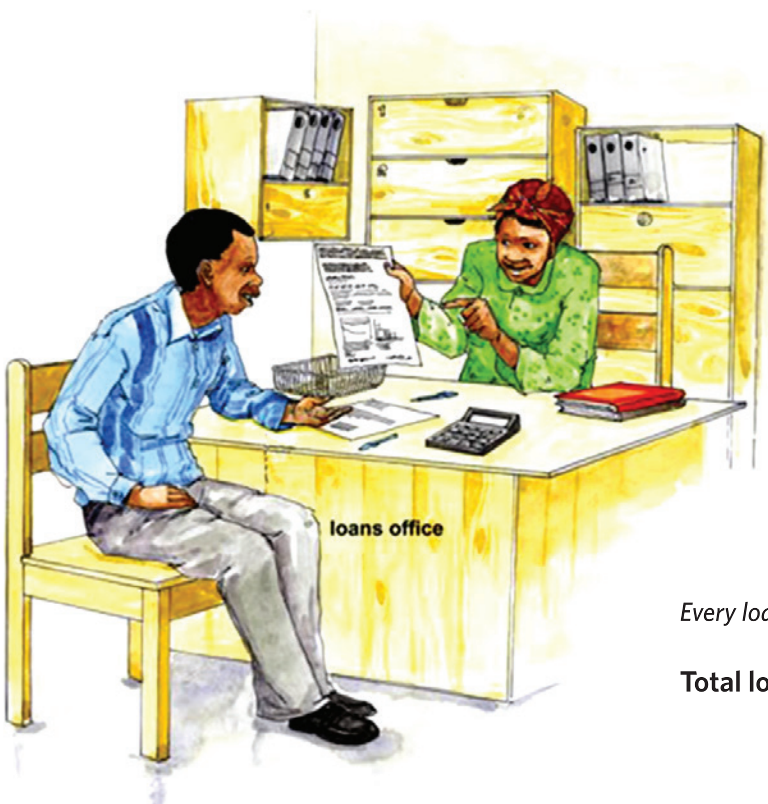
CASE 2:

If you take a loan of 100,000/= at 10% interest per month and you pay back 50,000/= (plus the interest) after one month,

- with **flat interest** you pay 10% of 100,000/= which is 10,000/= in the second month
- with **declining interest,** you only pay 10% of 50,000/= which is 5,000/= in the second month

c) **Additional charges**

In addition to interest, financial service providers may charge further fees/charges. These include loan processing fees, insurance, stamp duty, etc. Make sure you understand the total amount you will have to pay back. Once you have understood this, think again and ask yourself if you will be able to pay back the loan. If not, you may want to opt for a different financial service provider or a smaller loan size.

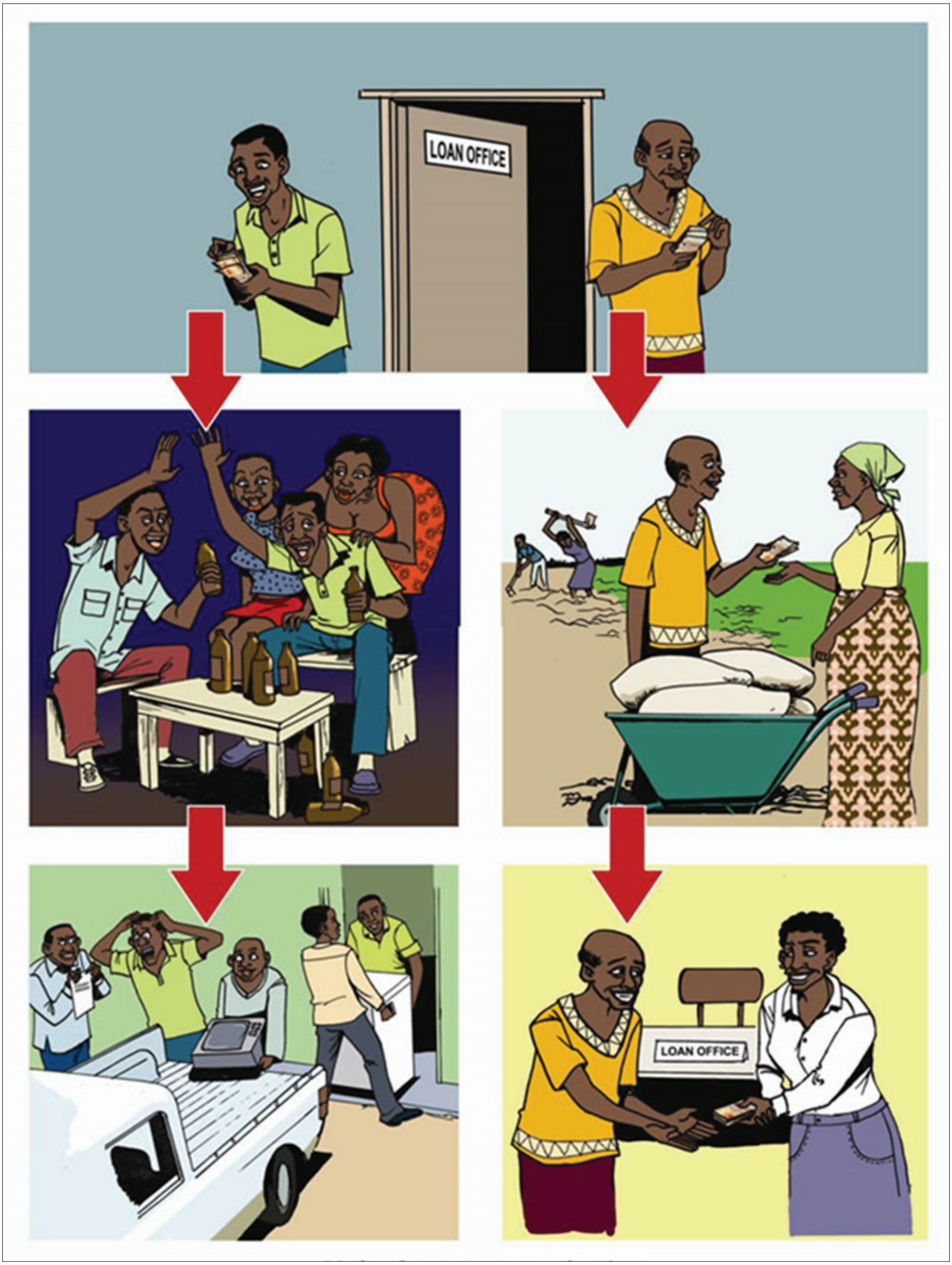


Every loan comes with a cost

Total loan cost = Amount Borrowed+ Interest + Any other fees

Other things to consider

- The economic returns on a business loan should outweigh the total loan cost. It is best to borrow for productive investments.

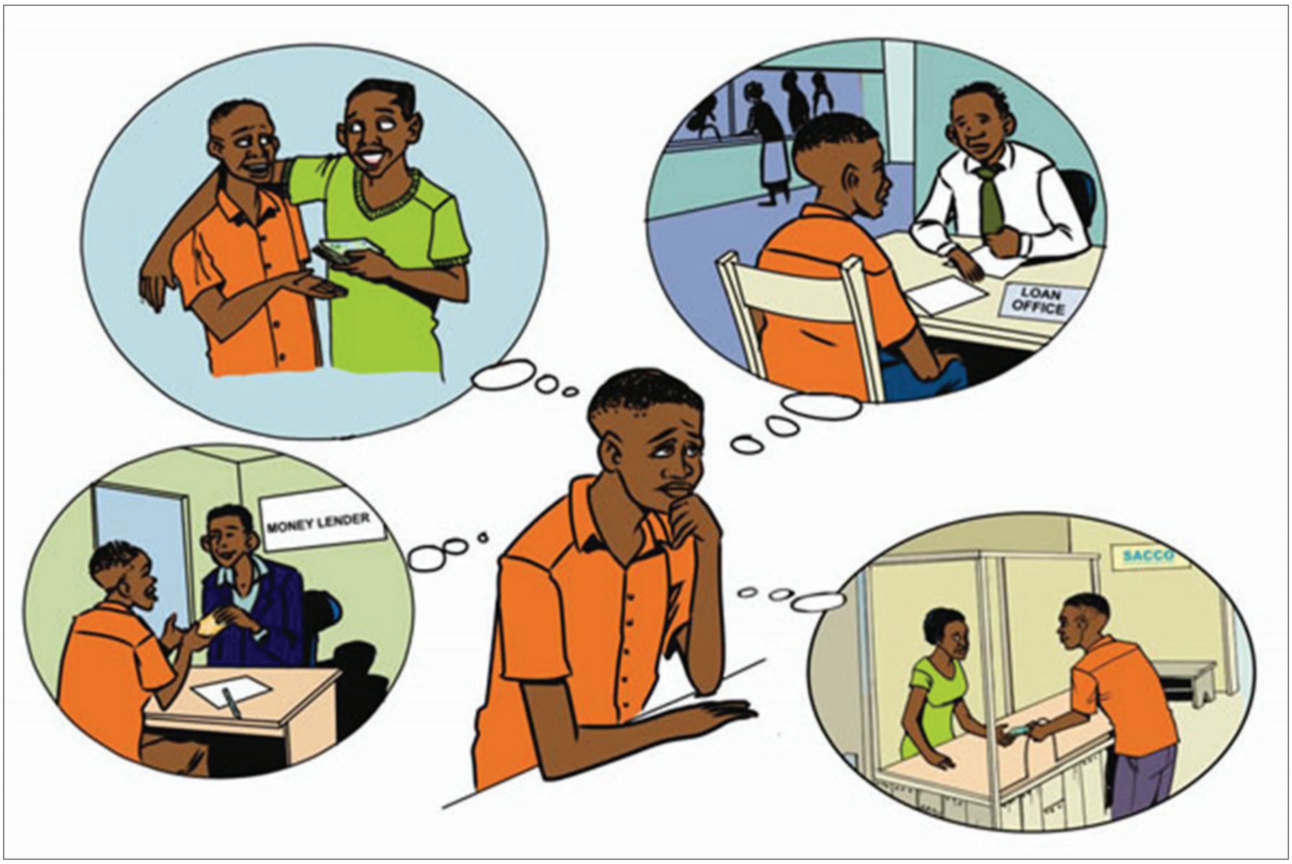


Make that money productive

- Don't borrow because others are borrowing-Ask yourself if you really need the loan.
- Avoid "easy" loans and lenders who discourage you from reading and understanding the loan documents. They might try to take advantage of you

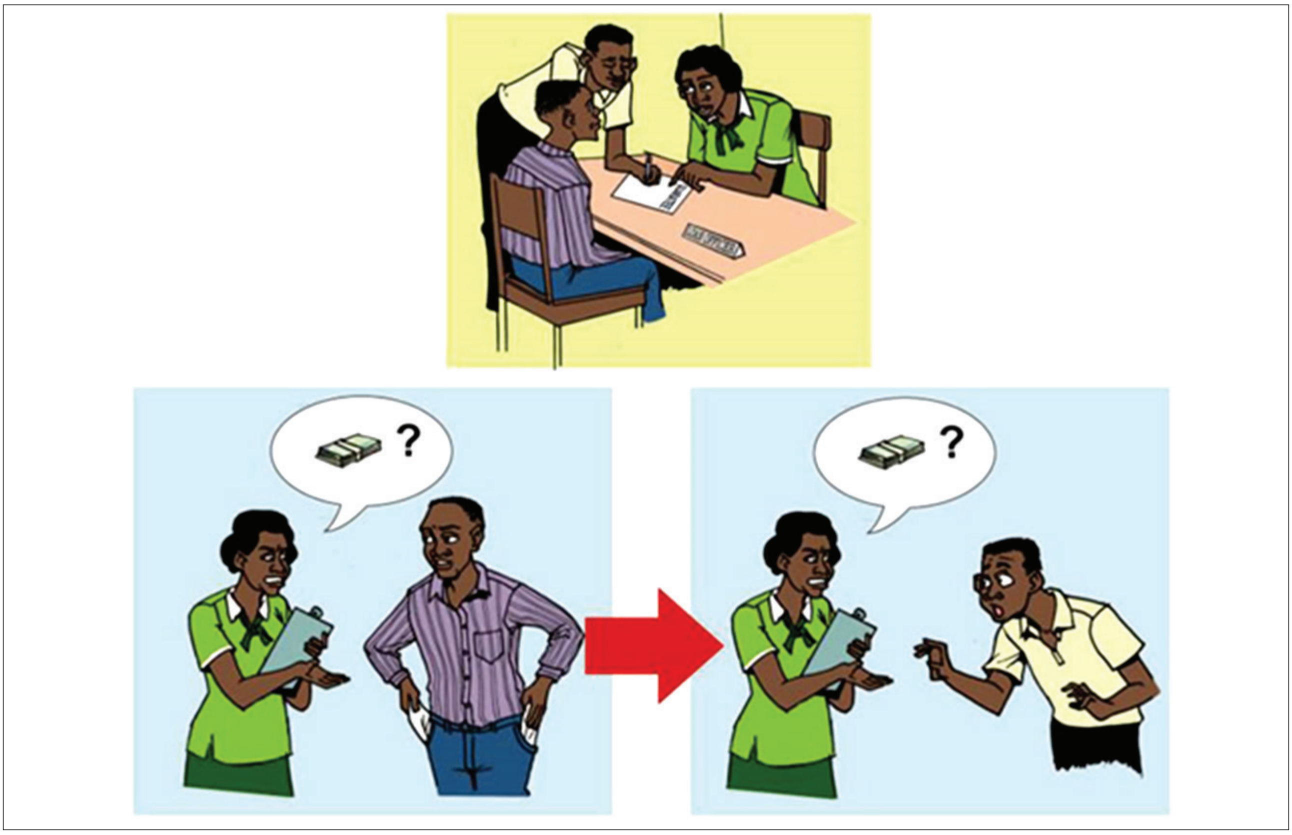
Beware of aggressive lenders

- Understand what penalties or fines you would face if you make a late payment or miss a payment.
- Shop around for the best offer. When you want to take a loan, compare the offers from different financial institutions by considering: interest (rate, period, currency, declining/flat, fixed/variable), charges and penalties – understand the "Total loan cost".



Shop around for the best offer

- Be careful about being a guarantor for other people's loans. If the people you are guaranteeing for fail to pay back the loan, you must pay the loan.



Think before becoming a guarantor

- If you are going to fail to pay on time as laid out in the contract, inform your lender in advance. Don't try to buy time by paying with a cheque that 'bounces' or provide false information
- It's easy to get into debt but hard to get out, if you are already struggling with debts, avoid taking another loan. - **Don't 'dig a hole' to fill up 'another hole'.**

Check list for deciding on whether to take a loan or not;

- Purpose of the loan
- Total cost of the loan e.g. interest rate and additional charges
- Payback period
- Additional benefits that come with the loan e.g. grace period
- The economic returns on the loan
- Repayment plan
- Timing of disbursement and loan processing period for the intended purpose
- Available internal control to ensure financial discipline
- Compare offers for similar products from other financial providers

It is advisable to also consult a trusted financial adviser to enable you make an informed decision before taking a loan

Module 4: Financial Service Providers

Pre and post evaluation question

1. Give four factors to consider when choosing a financial institution to work with?
   a) ....
   b) ....
   c) ....
   d) ....

There are a number of financial institutions that provide financing to agriculture, both formal and informal. There are three types of institutions which are regulated and supervised by the Central Bank:

1. Commercial Banks (large financial institutions that offer loans and savings)
2. Credit Institutions (similar to commercial banks but smaller)
3. Micro Finance Deposit-Taking Institutions (MDIs - microfinance institutions licensed by Bank of Uganda to collect savings from the public)

If you can, save with and borrow from financial institutions which are regulated and supervised

Other providers of financial services include;

1. Savings and Credit Cooperatives (SACCOs). These are formed, owned and operated by the members. They are usually organized around a specific region (e.g. a parish or a district SACCO) or an activity or profession (e.g. a farmers' SACCO or a teachers' SACCO). SACCOs can only accept deposits from their members. Every SACCO is supposed to register with the Registrar of Cooperatives in the Ministry of Trade, Industry and Cooperatives which is represented by a District Cooperative Officer in each district. Check with the District Cooperative Officer to find out whether the SACCO you wish to join is registered.

2. Village Savings and Loans Associations (VSLA). These are small member-based community groups with up to 30 members that collect savings and give small loans to their members. Make sure that your VSLA has all its activities being done openly and accountability is given to its members regularly. Only join a VSLA if you trust the other members.

3. Rotating Savings and Credit Associations (merry-go-rounds) are groups where members meet regularly to make contributions that are given to a different member each month or week. Only join a ROSCA if you trust the other members.

4. Money lenders often provide quick loans - but their interest rates are very high. If you decide to borrow money from a money lender, make sure he or she is licensed and has a certificate from the Magistrate in your area.

5. A Forex Bureau, a place you can exchange local currency into foreign currency or vice versa. You should check your notes and take a receipt before leaving the Bureau.

6. Mobile money. Money can now be remitted through your mobile phone.

Ask, Ask, Ask!

It is your financial right to know all the information about a financial product or service you wish to use. Ask for written information and keep it with you. If the financial institution or person you went to doesn't want to give you information, then they might not be the right ones for you.

Ask, Ask, Ask!

Know your financial rights

Knowing your financial rights enables you to make informed decisions and choices.

- You have a right to place a complaint and to receive a response from the institution.
- The institution has to treat you with respect and minimise the time you take to be served.
- You have a right to information about the services and products and about all the fees and charges.
- If the financial institution is not following what is written in a contract you have signed with them, you have a right to seek legal opinion.
- A lender should not force you to borrow.
- The information you provide to a financial institution should be kept confidential in line with the laws of your country.
- No financial institution is allowed to ask you for a bribe to access any of their services or for any other purpose.

Know your financial rights

Best steps in choosing a financial institution to work with

1. Accessibility and convenience to the client
2. Suitability of financial products to target client's needs
3. Reputation of the financial instruction dealing with similar clients or clients of the same category, avoid financial institutions that connive with service providers (input suppliers) to rip off clients
4. After sell services offered e.g. trainings and client follow up
5. Preferably the client should work with financial institutions regulated by the central bank to guarantee safety of deposits e.g. SACCO fraud in Uganda
6. Willingness to address client concerns and provide reliable information (clients public relations)

Watch the animation on Aunt I Need a Loan to summarize modules 3 and 4

Module 5: Investment

Pre and post evaluation questions

1. What is the difference between investment and savings?
   ....
2. Give 4 reasons why should you invest
   a) ....
   b) ....
   c) ....
   d) ....
3. Give 3 ways you can protect your investments
   a) ....
   b) ....
   c) ....

1. Investment is forgoing today's consumption for an activity that will bring you more income in the future i.e. you chose not to spend your money on food clothing and leisure, but instead purchase an asset that will earn you more money. In a nut shell it is spending in ways that will earn you more money. An investment can be in form of property such as livestock (cows, goats, pigs), land (rental apartments, buildings), business (market stalls, grocery shops, boda boda) or shares and bonds from which you can earn profits.

Invest and let your money grow

The difference between **saving** and **investment** is that for saving you put aside money for future use while with investment, money is put into a productive activity to multiply it.

There are 3 types of investment

1. **Short term investment**-money is expected to bring returns soon and takes less than 2 years e.g. starting a business, buying a bull

2. **Medium investment**-returns are expected to start flowing after 2 years e.g. buying shares

3. **Long term investment**-these require a lot of time and take long to complete the project. In this case the incomes start flowing before the completion of the project e.g. investing in buildings, buying a farm or educating children

Why invest?

- To create wealth and security for the person investing
- Increase the ability to earn more income
- Establish income generating activities for your old age
- Enable your children to have some income and create jobs for yourself and family

CASE 3:

1. Where can you invest your money?
2. What do you consider when investing your money

Important points on investment

1. **Get started with your investment plan.**
   It is always good to invest some of your money. Save and invest at the same time. Consult individuals who are already investing.

2. **Invest to employ yourself**

Invest to employ yourself

You can invest your money in activities such as poultry farming, growing vegetables, running your own grocery shop or building apartments for rent. Smart investment can transform you into an employer and enable you to earn more income.

3. It is always best to use personal savings to start an investment than borrowed money.

4. **There is power in numbers**

   Small savings in a small group e.g. a Village Savings and Loan Association-VSLA with your like-minded friends may give you the financial breakthrough you desire. Individually, you may be emotionally attached to a product that does not meet your financial goals. Be ready to let go of it and settle for bigger and better financial ideas as a group.

There is power in numbers

5. **Every investment comes with a risk...**

   There is a risk of losing money when your investments lose value, are stolen, mismanaged, destroyed or damaged. Use anything that goes wrong as a lesson learnt for the future. Usually, the potential for higher profits carries with it a higher risk that you will lose some or all of your money. Invest according to how much risk you are willing to take

6. **Don't put all your eggs in one basket**

   Invest in different projects in order to spread the risk or earn from different investment opportunities: "Don't put all your eggs in one basket" because if the basket breaks you could lose everything. It is a good idea to balance high and low risk investments or savings – this is like mixed cropping: if beans don't germinate, then the maize could.

Don't put all your eggs in one basket

7. **There is no such thing as a free lunch in finance**
   Beware of investments that look too good to be true, as they will most likely end up in total loss. Don't get taken in by "get rich quick schemes" such as gambling and pyramid schemes (where you are promised payment if you introduce more members to a "business group") and gift circles – it might well be a scam and you could lose all your money.

8. **Get professional advice on large investments**
   If you have large amounts to invest, seek advice from an investment expert.

9. **When you buy, think about selling**
   Some types of investments may be difficult to sell quickly – or difficult to sell at all due to depreciation and personal attachment (a farmer refusing to sell livestock because they look nice). Before deciding whether to buy an investment, seek information on how easy or difficult it will be to sell it at a later time.

10. Have a SMART goal

Having a Specific, Measureable, Attainable, Realistic and Time-bound (SMART) goal is the key to a financial breakthrough. Ensure that you keep an eye on your investments to see how they are performing. Do they still meet your goals?

CASE 4:

Evaluate your investment

You need to calculate the equivalent cash tomorrow and what you want to make. If your money is losing value by 10% per year, then it means your Shs100 will be equivalent to Shs110 next year the same time. Implying that if you are investing Shs100 today for 1year, it should be more than Shs110 the next year at least to maintain its value, any amount less than that will be a loss to you

Module 6: Agriculture Insurance

Pre and post evaluation questions

1. What do you understand by agricultural insurance?

   ....

2. Mention at least 2 agricultural insurance products available on the market

   a) ....

   b) ....

3. Mention at least 4 agricultural risks that can be insured

   a) ....

   b) ....

   c) ....

   d) ....

What is insurance?

Insurance is an arrangement in which an insurance company compensates a person or a company for a specified loss caused by e.g. weather (bad season), accident, fire and death. In such an arrangement, an insured party pays an agreed amount of money (premium) in advance to be compensated in case the event happens.

What is agriculture insurance?

This is an arrangement aimed at mitigating the financial losses suffered by farmers and other value chain actors due to damage and destruction of the crops and livestock resulting from various production and marketing risks. Such risks include:

- Fire
- Drought
- Flooding
- Land slides
- Hail storms damages
- Windstorm damages
- Malicious damage
- Uncontrollable pests and diseases
- Riots and strikes
- Theft

For example, in Uganda, the government is piloting the Uganda Agricultural Insurance scheme (UAIS), which is a Public - Private Partnership between the Government of Uganda, Uganda Insurance Association and farmers, to mitigate financial losses suffered by farmers resulting from the above agricultural risks. Under this scheme, the government contributes 50% for small scale farmers and 30% for large scale farmers on the insurance premium. The 2 main types of agricultural insurance products promoted on the market through the UAIS are:

S/N	Insurance Product	Description
	Drought/ crop weather index insurance	Covers against losses and damage to crops due to drought and excessive rainfall. This is the most widely promoted type of insurance because it's cheaper and you do not need a loss assessor. The amount insurance depends on production costs or expected revenue from harvest. The system uses satellite weather data to determine the damages to a farm which reduces cost of in person farm visits.
	Multi-peril insurance	Covers against physical loss or damage to growing crops directly by uncontrollable pests and diseases, drought, Fire, Lightening, Malicious damage, Earth quake, Riot and strikes, Explosion and Windstorms. This can be offered if a farmer is a large-scale farmer or a cooperative with many members are growing the same crop. You need the assessor

Prepare for the unexpected

Important points on insurance

1. **Prepare for the unexpected:** When you get insurance, you take away some of the financial risks of unexpected events. For example, a farmer who insures their crop will get back some of the money they will have lost if yield is affected by drought or uncontrollable pests.

2. **Look for an insurance company or broker that has the best service ("shop around")**

   When identifying the best insurance company, consider their conditions, processes and the time it would take to have your compensation paid in case of loss incurred. In Uganda, there is an Agro-consortium that brings over 10 insurance companies together to provide products. These include; Sanlam general Ltd, APA insurance Uganda Ltd, Gold star insurance Co Ltd, Phoenix of Uganda Assurance company, Jubilee insurance Co of Uganda Ltd, Nova Insurance, Pax insurance Co Ltd, NIC general insurance Co, First insurance, CIC general insurance Uganda and UAP insurance Uganda Ltd. The above insurance companies work through insurance brokers such as M-Omulimiisa, Marsh and others

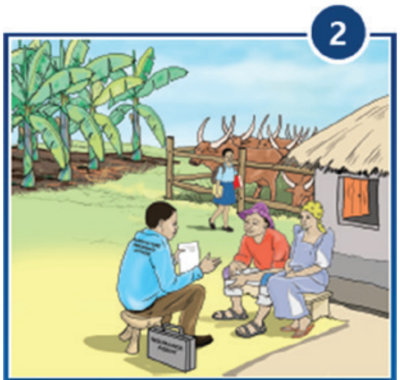
3. **Take the right steps to get your insurance policy/product:** When you are ready to take insurance, these are the main steps to follow:

   - Contact an insurance broker (e.g. M-omulimisa - 0701035192), agent or an insurance company.

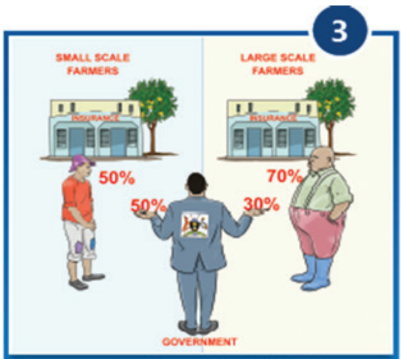
- Talk to them about your insurance needs. Think carefully about the options, and then choose a policy/product that meets your needs.
- Give correct information about yourself for the insurance contract documents. If you don't give the right information, the insurance company might not pay your claim.
- Read the contract Carefully. Ask where you do not understand. Only sign when you are satisfied on all points – including the insurance cover and the premiums you will be paying.
- Pay your premium before you receive the insurance policy/product for which you are covered.

Generic Process of acquiring agriculture insurance cover under the UAIS

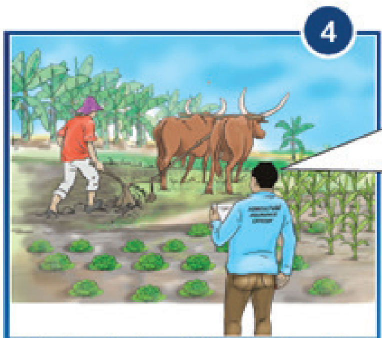
Interested farmer completing the proposal form



A licensed Agruculture Insurance Officer assesses the farmer



Government will contribute 50% for small scale farmers and 30% for large scale farmers on the insurance premium



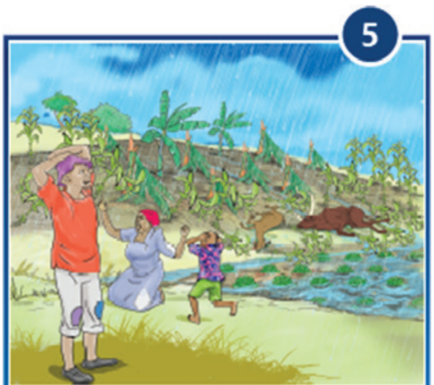
Agriculture Insirance Officer continues to make an assessment and appraises the farmer for basis of sum insured

BASIS OF SUM INSURED

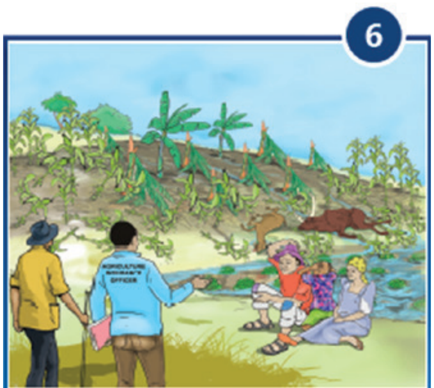
CROPS	LIVESTOCK
No. of acres X Tonnage X Expected selling price X Guaranteed yield	Insured/ Market value of the animal
50% - 75%	

Example

2 X 1000 X 700 X Guaranteed yield



If this happens, immediately notify the representative of the insurance company within 24 hours



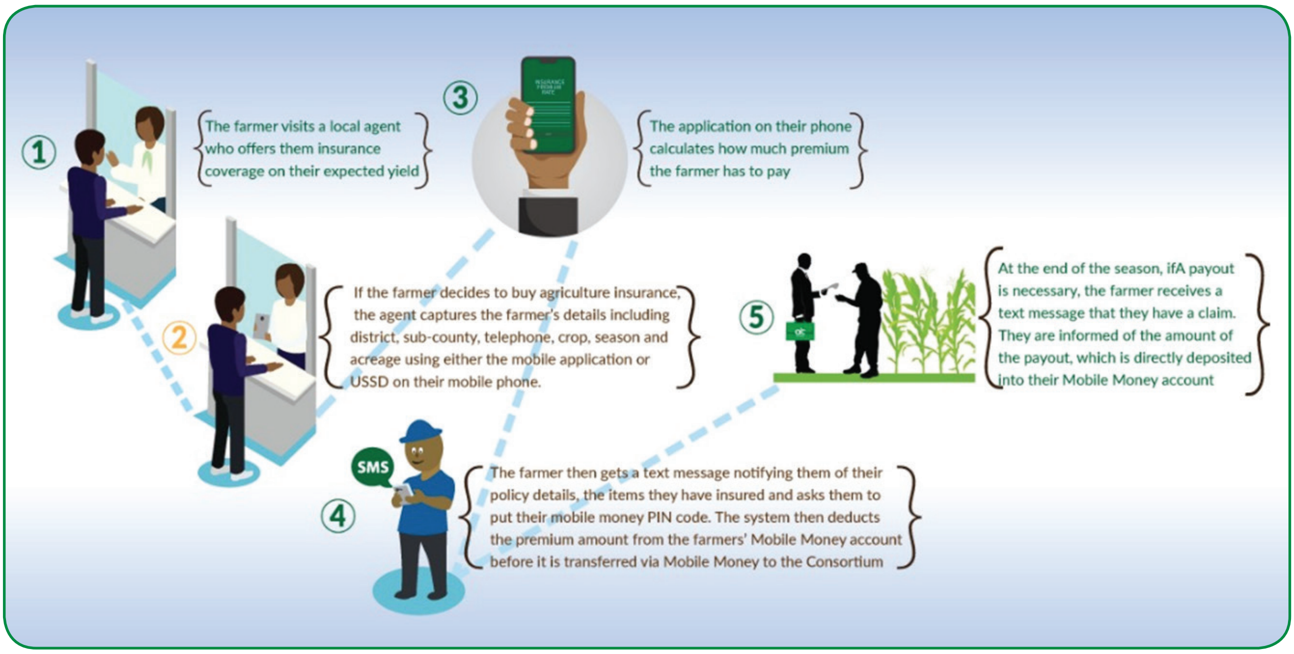
A licensed Agriculture Insurance Officer assesses the affected farmer

After one week of filing the claim, the farmer signs to consent and receives a cheque for payment to the claim

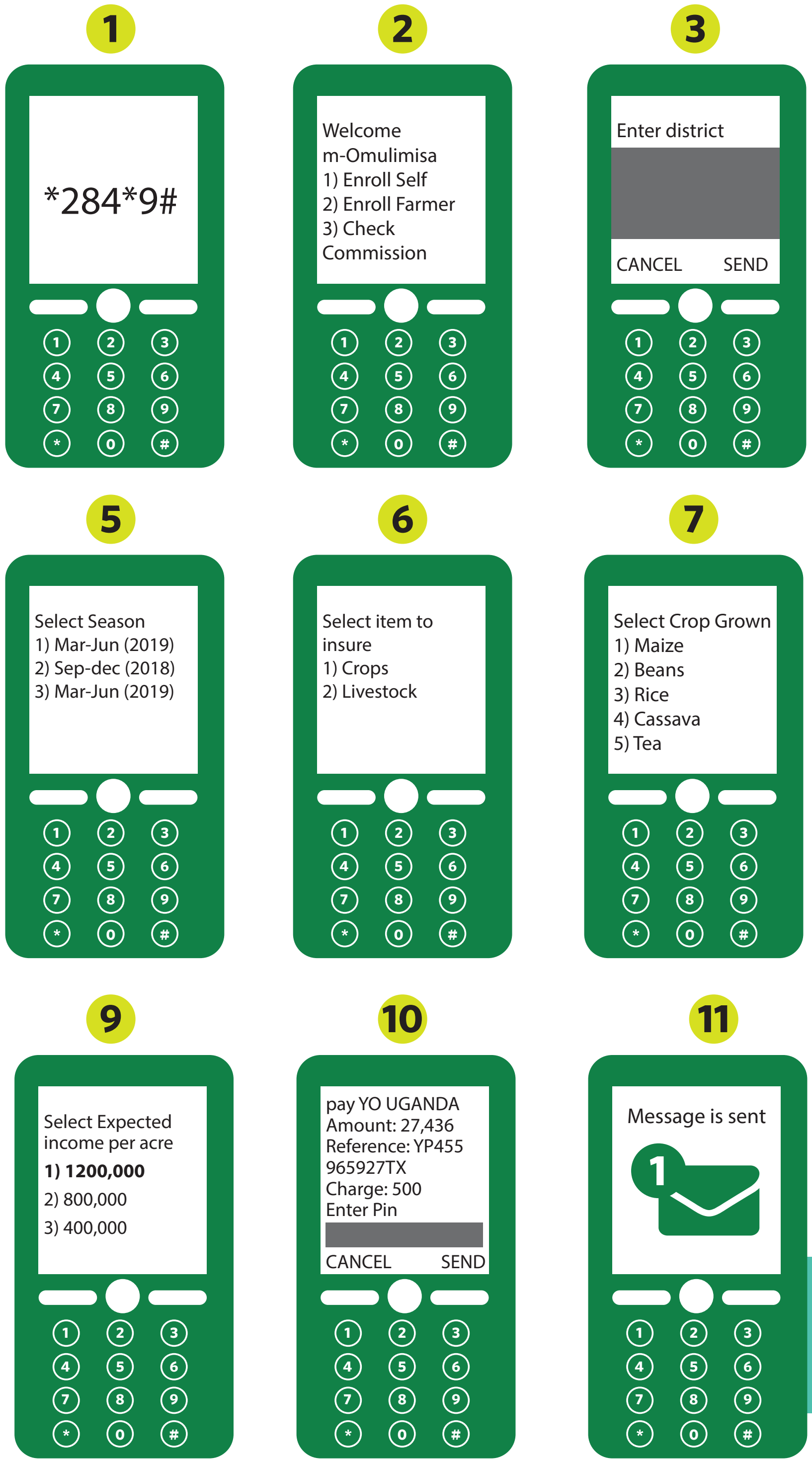
However, some of the insurance brokers like M-Omulimiisa, have further simplified insurance acquisition (weather index insurance) and payment of compensation by developing a mobile based agricultural insurance system which can be used by an individual or through an authorized insurance agent. The key steps are shown below.

➢ Self-Enrolment by a farmer

- Farmer accesses the system on their phone by dialing ***284*9#** on their phone
- Farmer selects **self-enroll** and goes ahead to enter their details including district, sub-county, crop, season, acreage and expected yield (as illustrated below)
- The system calculates the premium and presents it with the captured farmer details for confirmation
- After confirming his/her details, the system sends a text message to the farmer's phone asking them to pay the premium by putting in their Mobile Money PIN code
- The farmer receives a certificate of insurance in form of a text message indicating the farmer's name, location, period of coverage, crop and sum insured
- At the end of the season, if a payout is necessary, the farmer receives a text message that they have a claim. They are informed of the amount of the payout, which is directly deposited into their Mobile Money account



STEPS TO BUY AGRICULTURAL INSURANCE AS A FARMER



For More Information
Please **Contact**

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www.m-omulimisa.com

How weather index premiums are calculated?

Calculation of Insurance Premium Using Maize as an Example under government subsidy arrangement

- If a farmer has one acre of maize and is expecting to harvest 15 bags (1,500 Kgs), that will be sold at UGX 800 per kg, the sum insured will be 1,500 Kgs x 800 **= UGX1,200,000**
- The premium rate is 5% of the expected income or sum insured which is 0.05 x 1,200,000. The premium is **UGX 60,000**
- Farmer pays 0.5% training levy that goes to the Insurance Regulatory Authority. 0.005 x 60,000 **= 3,000**
- Farmer also pays VAT which is 18% of (60,000 + 3,000) which is **11,340**
- Net premium that the farmer will pay is 60,000 + 3,000 + 11,340 **= UGX74,340**
- However, under the UAIS arrangement the government pays 50% of 5% basic premium (UGX60,000). This implies that the farmer pays 30,000 + 3,000 + 11,340 **= UGX 44,340.**

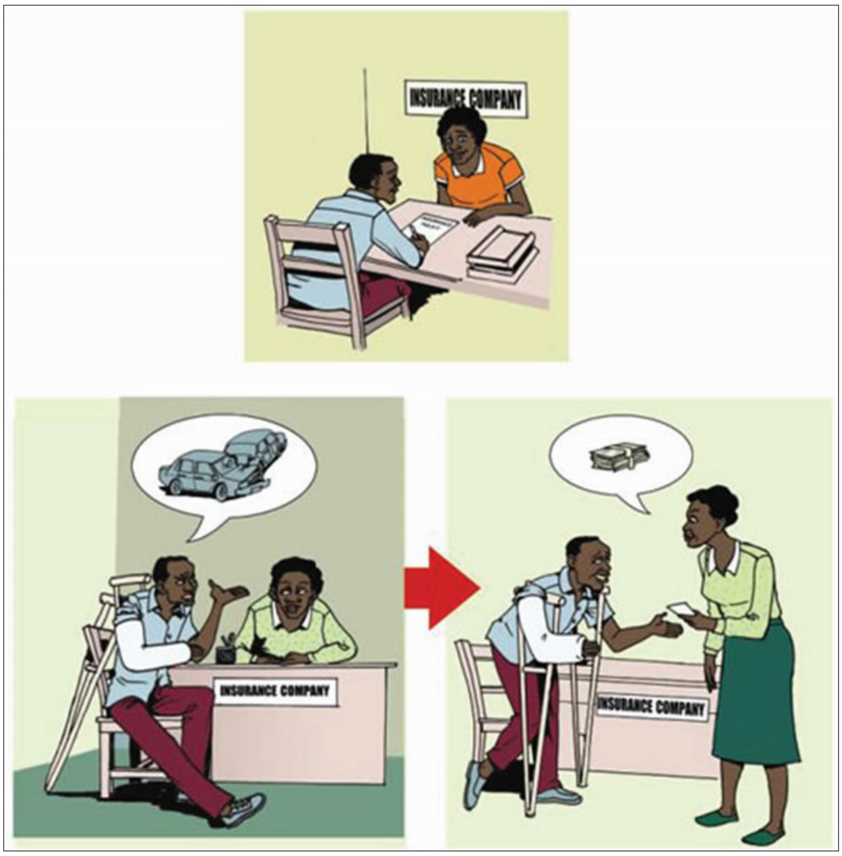
4. Make a quick and honest claim

For Multi-peril insurance

If you incur any loss covered by the insurance policy, inform your insurance company immediately. When making any claims, always tell the truth. If you tell lies, your claim will not be paid. Report thefts, accidents and other damages to the police before going to ask for compensation from the insurance company.

For Weather Index Insurance

If the payout is necessary the farmer will receive a text message that they have a claim, informed about amount of pay out which is directly deposited into their mobile money account. Please note that the amount payable can vary per sub-county



Make a quick and honest claim

5. Complain if you are treated unfairly

If you think that the insurance company has unfairly refused to compensate you, or has not given you enough compensation, you can complain to the insurance company. If the insurance company refuses to consider your complaint, or you consider that the insurance company has not responded fairly to your complaint, you can approach the complaints bureau at the Insurance Regulatory Authority of Uganda (IRA).

Complain if you are treated unfairly

Role play 2

Team composition: A farmer with a family of 3-4 kids, 2 bankers and an agriculture insurance officer

Instructions for the role play:

1. This farmer jointly with his wife make a decision to expand their crop enterprise from 3 acres to 5 acres the next cropping season. Guided by their budget for the next production season, they realise that they will need an extra 2 million shillings on top of their own savings to cater for all the production and marketing costs. Market is not a challenge because through their farmer group they managed to secure a collective supply contract with a reliable produce buyer within the district.

2. The farmer together with the wife decide to approach 2 different formal financial institutions (banks) to explore the different available financial products that could suit their crop enterprise. During their interactions with the two different loan officers, the farmer and his wife ensure that all the relevant questions regarding the terms and conditions including cost of the loan and dates of loan disbursements are well answered.

3. The two loan officers are well convinced that the farmer and his wife can pay back the loan due to availed evidence (records) of profitability in the previous seasons. At the end of the day, the farmer and his wife settled for the best financial product.

4. In addition, this farmer and the wife acknowledge the need to protect their investment by taking on crop insurance to minimise the risks associated with agriculture including drought and uncontrollable pests and diseases outbreaks.

5. Amidst all the production challenges (prolonged drought) encountered the next cropping season, this farmer managed to have his claim to the insurance company honoured because it was backed by evidence and the supporting farm records. Hence, the farmer was in position to successfully meet his loan obligations to the bank and also to reinvest during the next cropping season.

6. Based on his performance and ability to take on crop insurance, he became more attractive to the bank. The two parties continued doing business in the subsequent seasons which even informed the bank's decision to lower the interest rate offered because of the reduced risks associated with lending to him.

7. The farmer's crop enterprise kept on growing over the years from 3 acres to 10 acres. In addition, the farmers also diversified his investments to include livestock and rentals. The wife was so proud of his husband that resulted into the improved livelihoods of the family members.

Question

what are the key financial attributes/characteristics that describe the above farmer?

Characteristics of the **"FBS Graduate Farmer"** i.e. **Highly bankable and attractive to financial institutions because of profitability of his enterprise. The farmer always meets household needs with ease - in addition to undertaking continuous productive investments.**

a) Good business skills: i.e.

- Keeps adequate enterprise records
- Proper planning & budgeting per season (guided by the financial calendar)
- Has access to reliable markets because his/her harvest meets buyer requirements

b) Good financial discipline: i.e.

- Always assess his/her financial needs – supported by a realistic business plan
- The need to borrow is guided by his/her growth plans. – A clear purpose for the loan
- Scouts for the right formal financial institutions e.g. Banks
- Asks the financial institution/ loans officer the right questions before taking on the loan i.e. terms and conditions of the loan product including loan requirements
- Settle for the right financial product

c) Invests for growth/ proper utilization of the loan

- Utilizes the loan according to the purpose/ agreed upon plan with the family
- Services the loan according to the agreement with the financial institution

d) Prepares for the unexpected

- Takes on measures to safeguard against/ minimise effects of risks related to agriculture e.g. takes on agriculture insurance

e) Repeated customer to the financial institution

- More bankable and attractive to the financial institution

In summary, the FBS Graduate Farmer is a **"Transformed Farmer"** that has a good credit history and resilient to production & market related shocks, and can easily negotiate with banks on the cost of financing (including the interest rate)

Module 7:
Financial management at Cooperative level

A Cooperative (Often referred to as a **co-op**) may be defined as:

a) a business organization owned and operated by a group of individuals for their mutual benefit.

b) autonomous associations of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through jointly owned and democratically controlled enterprises International Co-operative Alliance's Statement on the Co-operative Identity

c) A cooperative may also be defined as a business owned and controlled equally by the people who use its services or by the people who work there

Characteristics of Cooperatives:

Cooperatives all over the world have common characteristics such as:

1. Members are united through at least one common interest
2. Members pursue the goal of improving their economic and social situation through joint actions
3. Members use a jointly owned and operated unit, which provides them with services or goods.

Regardless of its physical size and activities, the Co-operatives purpose is to use the joint resources of the members to produce or obtain goods or services for members.

The Seven Cooperative Principles

Voluntary and Open Membership

1) Democratic Member Control
2) Member Economic Participation
3) Autonomy and Independence
4) Education, Training and Information
5) Cooperation among Cooperatives
6) Concern for Community (CSR)

Essential Conditions for the Success of a Cooperative

1. The cooperative needs to produce visible and tangible (economic and social) benefits for its members, which should outweigh the costs involved in cooperation.

2. The cooperative should have motivated, experienced and dynamic leaders & managers who are able to plan and implement business policies.

3. Cooperatives must be able to provide goods and services required by the members, taking into account both interests and needs of members as well as entrepreneurial goals of the cooperative.

4. The structure and management of the cooperative should correspond to the capabilities of its members.

With regard to financial management at cooperative level, there are a number of challenges that have been identified that hinder them from accessing finance (credit and grants from development partners) these include;

1. Financial indiscipline and fraud, due to weak internal control measures and systems i.e. limited monitoring and oversight of funds both at board and management level
2. Weak documentation due to limited financial skills and knowledge
3. Limited or no segregation of duties and power between management and the board on financial matters and lack of accountability
4. Lack of documented cooperative plans and budgets that are adhered to
5. Often there are no policies, procedures or manuals to guide the financial management.

Financial management is not just about keeping accounting records. It is an important part of programme management and must not be seen as a separate activity left to finance staff. Financial management to an organization is rather like maintenance is to a vehicle. If we don't put in good quality fuel and oil and give it a regular service, the functioning of the vehicle suffers, and it will not run efficiently. If neglected, the vehicle will eventually break down and fail to reach its intended destination.

Financial management entails planning, organizing, controlling and monitoring the financial resources of an organization to achieve objectives.

This will involve:

1. **Managing by objectives**
   Financial management involves close attention to organization objectives. The financial management process – Plan, Do, Review – takes place on a continuous basis.

2. **Managing scarce funds and other resources**
   Organizations operate in a competitive environment where raising its funds is increasingly difficult. We must therefore make sure that funds and other resources are used properly, and to the best effect, to achieve the organization's mission and objectives

3. **Managing risk**
   All cooperatives face internal and external risks which can threaten operations and even survival (e.g. an office fire or a fraud). Risks must be identified and actively managed in an organized way to limit the damage they can cause.

4. **Managing strategically**
   Financial management is part of management as a whole. This means managers must keep an eye on the 'bigger picture' – looking at how the whole cooperative is financed in the medium and long term, not just focusing on day to day operations in the short term.

   There is no model finance system which suits all Organizations. But there are some basic building blocks which must be in place to achieve good practice in financial management.

5. **Accounting Records**
   Every organization must keep an accurate record of financial transactions that take place to show how funds have been used. Accounting records also provide valuable information about how the organization is being managed and whether it is achieving its objectives.

6. **Financial Planning**
   Linked to the organization's strategic and operational plans, the budget is the cornerstone of any financial management system and plays an important role in monitoring the use of funds.

7. **Financial Monitoring**
   Providing the organization has set a budget and has kept and reconciled its accounting records in a clear and timely manner, it is then a very simple matter to produce financial reports which allow the managers to assess the progress of the organization.

8. **Internal Controls**
   A system of controls, checks and balances – collectively referred to as internal controls – are put in place to safeguard the organization's assets and manage internal risk. Their purpose is to deter opportunistic theft or fraud and to detect errors and omissions in the accounting records. An effective internal control system also protects staff involved in financial tasks

The Seven Principles of Financial Management

Consistency: The financial policies and systems of an organization must be consistent over time. This promotes efficient operations and transparency, especially in financial reporting.

Accountability: Accountability is the moral or legal duty, placed on an individual, group or organization to explain how funds, equipment or authority given by a third party has been used. Organizations have an operational, moral and legal duty to explain their decisions, actions and submit their financial reports to scrutiny. All stakeholders have the right to know how their funds and authority have been used.

Transparency: Is includes preparing accurate, complete and timely financial reports and making them accessible to stakeholders, including Members. The organization must be open about its work, if an organization is not transparent, it gives an impression of having something to hide

Viability: is a measure of the organization 's financial continuity and security. To be financially viable, an organization's expenditure must be kept in balance with incoming funds, both at the operational and the strategic levels. This can be achieved by preparing a financing strategy to show how the organization will meet all of its financial obligations and deliver its strategic plan.

Accounting Standards: The system for keeping financial records and documentation must observe internationally accepted accounting standards and principles. Any accountant from anywhere around the world should be able to understand the organization's system for keeping financial records.

Integrity: On a personal level, individuals in the organization must operate with honesty and respectability. For example, managers and Board members will lead by example in following policy and procedures and declare any personal interests that might conflict with their official duties. The integrity of financial records and reports is dependent on accuracy and completeness of financial records.

Stewardship: An organization must take good care of the financial resources it is entrusted with and make sure that they are used for the purpose intended – this is known as financial stewardship. The governing body (e.g. the Board of Directors) has overall responsibility for this. In practice, managers achieve good financial stewardship through careful strategic planning, declaring conflict of interests, assessing financial risks and setting up appropriate systems and controls.

Key terms to note in financial management

Share capital. This is

- A permanent source of funding – not withdrawable
- An indicator of financial solidness
- leveraged to obtain external funding
- Attracts dividends if profits are made

Retained earnings

- Profits/surpluses that are not distributed to shareholders (members)
- Composed of current year surpluses and surpluses accumulated over the years
- More easily accessible for use than raising share capital or external funds

Reserves

- Other forms of equity than paid up share capital or retained earnings
- More easily accessible for use than raising share capital

They may arise from:

✓ Surplus on asset revaluation
✓ Capital contributions not financially registered as paid-up share capital
✓ Net retained profits for special purposes

Member savings

- A primary reason for existence
- Used to fund the cooperative's loan portfolio
- Can be a cheap source of funding
- Require good management; systems and controls
- Can be volatile

External loans

- Can be availed in sufficient amounts & timely
- Not always easy to obtain
- Attract interest and other charges
- Can be conditional
- Can threaten cooperative independence
- Can "kill" savings mobilization

Grants

- Can be availed in sufficient amounts
- Not always easy to obtain
- Attract no interest and other charges
- Can be conditional
- Can threaten cooperative independence
- Can "kill" savings mobilization

Cash

- Most liquid asset – enables cooperative to meet very urgent needs
- Very vulnerable; requires strong controls
- Too much cash is bad; too little cash could be worse

Fixed assets

- Include land, buildings, motor cycles, motor vehicles, computers, safes, furniture, etc.
- Support cooperative activities
- Often do not earn

Financial Planning and Control (Budgeting & budget control)

A financial plan is primarily a budget. An expression of the amount of financial resources the cooperative will require over a given period, and how those resources will be used to help a cooperative avoid leaving operations to chance. It is essentially a result of the operational plan, which is derived from the cooperative's business plan

Budgeting in cooperatives

A budget is an estimate of income and expenditure for an immediate future period. in co-operative societies, a budget is normally prepared to cover one financial year. there are two types of budgets. They are:

(a) the operational budget which shows the income and expenditure of the daily business operations of the society.

(b) the cash budget which shows how money will be raised and how it will be used to finance the items which are not expenses.

This budget is prepared according to the activities that the society is dealing in. The core activity in SACCOs is savings and credit. The core activity is the activity that the society was established to handle. It has got direct dealings with members.

Secondary activities are those that are established, normally later, to support the main activity and to offer more services to members.

STEPS

(a) The society should have decided on what activity or activities it wants to handle during the year.

(b) Always start by budgeting for the expected income. income is the money that the society earns from its operations. It includes; interest from loans to members, sale of stationery, interest from bank, any fines etc.

(c) The budget for expected expenditure. this is the money that the society will pay out for expenses in the course of its operations. the items of the expense may include; purchase of stationery, office rent, salaries, sitting allowance, bank charges, interest on borrowed money, education and training, travel and subsistence, audit fees etc.

(d) The expected income should be more than the budgeted expenditure. this is to avoid the society operating at a loss. the excess of income over expenditure will be the surplus/profit for the year.

(e) Budgeted figures should be as realistic as possible, and income should not be inflated in order to justify expenses.

(f) Past performance and any future expectations will assist to arrive at more realistic budget figures.

(g) The annual figures should be broken down into quarterly figures. This will later assist the management in comparing budgeted amounts with actuals. But income and expenditure can vary according to the trend of operations during the year.

(h) When expected income is less than expenditure, expenses should be reduced accordingly. Never budget for a loss in income generating activity.

The Cash Budget

a) A cash budget shows how the society intends to get finance and how it will use the funds mainly for capital items and other cash outflows.

b) The source of funds in SACCOs will include; entrance fees, members shares and savings, repayment of members loans, disposal of assets, sales of investments, external borrowings etc.

c) The application/uses of funds will include; issuing loans to members, refund of shares, acquiring fixed assets, investments, repayment of external loans.

STEPS

While pre-preparing the cash budget, the society should have decided and identified, probably from its long-term plans, what developments and other cash outflows will fall within the year. it should also list down the liabilities that will be repaid during the year.

Budgeting for Cash/Sources of Funds

(a) Start by getting the figure for the cash that will be available both in hand and bank at the start of the year.

(b) Get the figure for any surplus expected from the previous year and which will be available at the start of the year.

(c) Get provision for depreciation during the year as part of the funds that will be available.

(d) Get all other monies that you expect to flow in during the year, including loan repayments from members, members' savings contributions/shares, entrance fees and any borrowed funds.

(e) The total of all these will be the funds/cash available.

Budgeting for Cash Outflows/Uses of Funds

(a) Get the money that will be used to pay loans and to settle other liabilities

(b) Indicate the amount you intend to lend to members

(c) Indicate the money that will be used to refund members who are withdrawing membership

(d) Indicate the money that will be used for investments

(e) Budget for any dividends related to the year and that will be paid to members

(f) The total will be cash needed during the year

(g) the figure for cash available should be higher than the cash needed

(h) the annual figures for cash budget should be broken into quarters to show what will be available and what will be used during each quarter

OTHER IMPORTANT STEPS

(a) After the committee is satisfied that the budget is exhaustive and proper, it should be presented to the members in a general meeting for their approval before use.

(b) After approval by the general meeting, the final draft should be typed and enough copies produced for distribution to relevant offices. the society copy should be filed for use in budgetary control.

(c) The budget should be signed by the officials authorized to sign documents on behalf of the society.

(d) It is the duty of the committee to ensure that the society budget has been prepared and approved by members in a general meeting at least three months before the start of the year in which it is going to be used.

Budgetary Control

a) This involves comparing budgeted amounts with actuals and noting the differences. The differences can be either favorable or unfavorable.

b) When actual income is more than what was budgeted for, the difference is favorable. the society is doing well. But when actual income is less than budgeted, then the society has not achieved its expected target.

c) When actual expenditure on any item is more than what was budgeted for, then the difference is unfavorable. But when the actual expenditure is less, the difference is favorable. the society has been able to save money on that item.

d) Budget figures are found in the society's annual operational budget prepared for that year. Actual figures are found in the society's trial balance prepared from the books of accounts. the trial balance shows the actual income and expenditure of the society on each item as at a particular period from the start of the financial year.

e) Comparison between the actual and the budgeted figures and noting the differences is called variance analysis. Management should get reasons for the unfavorable differences on every item of income and expenditures.

f) The analysis of differences above and the reasons for the unfavorable ones is then presented and discussed in the society management committee meeting. this is in form of an economic report.

g) The management committee should then discuss the report and make decisions on how the negative situations will be addressed and turned to positive conditions.

Financial & Management reporting in Cooperatives

Financial Reporting and Management Reporting. Financial reporting is the preparation of general purpose financial statements for various stake holders not involved in day to day management of the entity.

- The objective of these statements is to provide information about the financial position, financial performance, and cash flows for the cooperative society.
- This information is useful to a wide range of users including members, lending institutions and government institutions.
- Management reporting is the preparation of internal reports for use by internal management. This reporting is outside the scope of the presentation.

Cooperatives Financial Reporting Regulatory Framework

a) The financial reporting requirements for cooperatives in Uganda are provided in the cooperative society regulations-Regulation 12 (3) requires a registered society to draw up annual accounts and balance sheet in such form as to comply with generally accepted accounting procedures and practices.

b) Regulation 29 (e) requires the treasurer to prepare annual accounts and balance sheet that show the income and expenditure, the surplus or loss of assets and liabilities of the society.

c) Section 4(a) of the accountant's act gives ICPAU the responsibility and obligation to regulate the standard of accounting in Uganda. Since 1998, ICPAU adopted International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) without amendment for application in Uganda.

d) The IFRS are therefore the generally accepted accounting standards in the country that cooperative societies are required to use for financial reporting.

e) The institute also adopted the IFRS for SMEs to simplify financial reporting for small and medium sized enterprises.

f) The institute issued guidelines that explicitly exclude SACCOs from using the IFRS for SMEs.

g) Therefore, SACCOs are required irrespective of size to fully comply with International financial reporting standards.

h) Cooperative societies that are not SACCOs are not explicitly excluded from applying the IFRS for SMEs and may apply it.

Cooperative Societies Financial Statements

In accordance with IAS 1, the complete set of cooperative society financial statements should comprise of;

a) a balance sheet as at the end of the period;
b) a statement of comprehensive income for the period;
c) a statement of changes in equity for the period;
d) a statement of cash flows for the period;
e) notes, comprising significant accounting policies and other explanatory information;
f) comparative information in respect of the preceding period;

Challenges of Financial Reporting in Cooperatives

(a) Complexity of IFRS. Cooperatives in Uganda are required to prepare financial reports that comply with IFRSs which a complex reporting framework is whose application relies on qualified and skilled accountants that most cooperatives may not afford.

(b) Clarity of legal requirements. The cooperative societies Act does not explicitly provide for accounting standards to be used. The cooperative societies regulations require use of generally accepted accounting procedures and practices. This is subject to different interpretations.

(c) Enforcement weaknesses. Cooperatives financial reporting enforcement mechanisms in Uganda are weak. There are no legal provisions for sanctions or penalties to be imposed on cooperatives that don't comply with IFRSs.

(d) Poor financial management systems - In many cases, cooperative society accounting systems whether computerized or manual are not properly maintained.

(e) Accounting policies - accounting policies are in most cases not applied consistently. Cooperatives' accounting policies generally do not conform to International Financial Reporting Standards

(f) Expectation gap/Awareness. management and members of SACCOs may not be aware of their obligation to prepare annual financial statements and expect this to be done by the auditors. This lack of awareness extends to other stakeholders in the sector who usually blame auditors for poorly prepared financial statements of cooperatives.

(g) Inadequate staffing. Most cooperatives cannot employ sufficiently trained and experienced staff because they lack the resources to reward qualified staff. Again because of lack of resources, most cooperatives in Uganda, will not recruit the desired number of staff. This is also a challenge to financial reporting.

Best practices recommended to cooperatives.

(a) **Follow the policies and procedures.** Most cooperatives just leave policies & procedures on the shelf to
gather dust and do things according to convenience.

(b) **Pay employees well**

(c) **The Board should not interfere in their work.** What has
caused some of the problems is that some cooperative officials do not know their roles and end up trampling on the feet of others which breeds conflict and poor performance.

(d) **Ensure that the members feel the impact of the services of this cooperative**

(e) **Develop a good range of services/products** so that you can ably cater for the needs of your members. This is the only way to satisfy them.

(f) **Technology.** Harness new technologies so that you can modernize your operations and improve efficiency, effectiveness, satisfaction of your members and ultimately your profits. Although in cooperatives the primary objective is service, it cannot survive without making profits.
Being an organization with members scattered all over the country will present its own challenges. But if you harness partnership networks and technology, you will be able to overcome the challenge.

Build trust between the members and the leadership and between the managers and the leaders. Our biggest capital in the cooperative movement is trust.
Existing and potential members must have full confidence in the cooperative. This will make it easy for you to mobilize more members, more share capital, and more savings. This will then enable you to provide more services to your members. This will in turn enable your cooperatives to grow and become more successful.

Notes

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