2SCALE

MODULE 2

Financial Education Guide

- **Facilitators' Guide**
- Exercises
- Reference Sheets

2SCALE consortium:

BoP INNOVATION CENTER
DEVELOP ► LEARN ► ACCELERATE

ICRA

IFDC

Supported by:

Ministry of Foreign Affairs of the Netherlands

Publication of this manual was supported by the Dutch Ministry of Foreign Affairs.
The manual was developed by technical experts of IFDC and ICRA, partners within the 2SCALE Project. The contents do not necessarily reflect the views of the Dutch Ministry of Foreign Affairs.

A FEW WORDS ABOUT THE CASE APPROACH

CASE (Competitive Agricultural Systems and Enterprises) is an approach of local entrepreneurial development. It is not a totally new concept but one built on past experiences. CASE aims at strengthening links between local actors in agribusiness clusters (ABC), including producers, processors, traders of a given value chain (VC), and also input dealers, financial institutes and Business Support Services (BSS). The approach is based on experiential and collective learning of and between the ABC actors and partners. CASE is oriented to local, regional, national and international markets through the development of competitive strategies.

A FEW WORDS ON BSS, COACHES AND TRAINERS

BSS will most likely be institutions/organizations/firms that include consultants, governmental and non-governmental organisations (NGOs), research departments and enterprises that support producers, processors and other affiliated enterprises. The BSS will also likely single out an individual from within the group to oversee the activities of the cluster through coaching; this individual is called a **coach**. It is worth noting here that the BSS is an important actor of the ABC, a group of "local" actors interacting in a given area around an agricultural product (commodity) and "servicing" a segment of the market (through a common or shared vision). Trainers will be responsible for strengthening the capacities of the BSS/coaches. Facilitators will be encouraged to take note of any lessons learnt in the capacity strengthening sessions and to give feedback so that their input can be used for further improvement of the module.

The roles and responsibilities of the BSS/coach in CASE can be grouped into three main domains:

- Brokering services and networking; Information and advice, i.e. market analysis, strategies of competitors;
- Training and support in technical and entrepreneurial issues;
- Design and set-up of capacity strengthening and action research programmes that include the facilitation of interactive learning processes to support the formation of ABCs, value chain development and creativity and innovativeness. This is for instance strengthening of confidence, collective analysis, collective monitoring of concerted actions, etc.

The BSS/coach require a lot of diverse and complementary competences in these fields. The BSS/coach are crucial ABC actors especially in the first years of the ABC. In most cases, the capacities of the BSS/coach need to be strengthened so that they can fully play their roles and assume their responsibilities in the ABC.
These guides are set up for BSS/coach and trainers and will help to strengthen the capacities of the BSS/coach throughout the learning process and accompany/support the BSS in their fieldwork.

A FEW WORDS ON THE SERIES OF MODULES WITH FACILITATORS' GUIDES

We develop modules that address the different competences the BSS/coach should have. Each module will be a collection/package containing the following:
1) Facilitators' Guide on how to conduct a training session/workshop
2) Reference sheets or what are commonly referred to as hand-outs
3) Excerpts from educational films and
4) Exercises

The facilitators' guides are meant to guide the delivery of training sessions and the organization of workshops or any other opportunity to strengthen the competences of the BSS/coach. For most of the guides, the capacity strengthening will be in the form of a learning cycle, which is composed of three phases:

- Review and acquisition of knowledge on the theme, normally through a workshop.
- Implementation in the concrete context of providing support to ABC which will normally include field coaching by the trainer.
- Reflection and revision of lessons learned, generally through a workshop with those BSS/coaches that actually required experience in the field (and possibly adaptation of the guide)

Basically, facilitators' guides deal with the knowledge review and acquisition workshops and occasionally with aspects of field implementation. In practice, the workshops group several BSS that are, preferably, accompanied by one or more direct actors of the ABC. Each guide is an entity; all together the guides can be assembled in a binder – comprising general themes (e.g. preparing a workshop, identifying fears and expectations) and specific themes (e.g. introduction to CASE approach, business plan development) Each guide specifies the pedagogic objectives, the steps to be taken to conduct the workshop or training, and the programme set-up with all details and adapted pedagogic material.

Apart from the binder with Facilitators' Guides, there is also one with "Reference Sheets" corresponding to the modules. The Reference Sheets to be used for the session are indicated at the end of each session. These sheets will be provided to the participants at the end of the day. The exercise(s) and/or video excerpts to be used during the sessions are also cited within the specific session.

ABBREVIATIONS AND ACRONYMS

2SCALE	Towards Sustainable Clusters in Agribusiness through Learning in Entrepreneurship
ABC	Agribusiness Cluster (sometimes represented simply as cluster)
BSS	Business Support Services
CASE	Competitive Agricultural Systems and Enterprises
CSC	Capacity Strengthening Coordinator
ICRA	International Centre for development oriented Research in Agriculture
IFDC	International Fertilizer Development Centre
NGOs	Non-Governmental Organizations
VC	Value Chain

Introduction to the Financial Education Guide

This module on Financial Education was developed on the basis of the results and lessons learnt from the 1000s+ project and from the diagnosis and design (D&D) workshop held in 2012 in both EASAF and NAWAF. In developing the module, we have also borrowed materials developed by the Financial Education for the Poor Project, supported by materials from European Commission Access to Finance, Microfinance Opportunities international, Citigroup and Freedom for Hunger, ILO – Women program, Heidelberg-Germany and the Kenya School of Credit Management. These tools have been adapted for use in Cambodia by the ILO Project on Women's Entrepreneurship Development and Gender Equality and the ILO Time Bound Programme on the Elimination of the Worst Forms of Child Labour and believe that they will be of similar impact in the 2scale project.

The 2SCALE project is committed to supporting VC and ABC actors to access finance. These actors are in transition from subsistence to small scale, and from small to large scale businesses. Their activities may be the same in the ABC or VC, but the size of the activities will be increasing with the scale, and they will have to face new economic responsibilities and needs. Their role in the ABC or VC is changing and the actors involved have new economic responsibilities and needs. It is essential to equip them with financial knowledge and financial management skills to enable them to set goals in their businesses and make plans for realizing them.

The actors need to access affordable and sustainable financial services including credit, savings and insurance to help them realize their goals. They need financial management skills that allow them to access and use these financial services and to be able to make informed choices such as financial decision making, earning and spending wisely, saving and increasing saving capacity, borrowing and protecting their businesses against risks.

The 2SCALE project has developed this guide to address these specific needs and provide concrete guidelines for BSSs/Coaches who interface directly with the ABC actors.

This guide aims at giving the VC and ABC actors of the 2SCALE project practical advice on how to adjust proactively to the ongoing changes in financial issues. The module promotes positive attitudes toward saving, and more prudent spending and borrowing for sound reasons. It deals with the problem of indebtedness, one of the main causes of extreme poverty. The module follows a participatory adult-learning approach. This means that participants are invited to actively take part in group discussions, share their concrete experiences, and explore learning together through role-plays and case studies.

To achieve sustained behavioural change, this guide uses a learner-centred approach. The learning sessions are very active, engaging participants in role plays and exercises. The exercises are presented in a separate document as well as relevant reference sheets that allow the participants to consult more elaborate readings and background information of the different topics.

Learning objectives of the module

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

- To support ABC and VC actors on money matters and on how to use money wisely
- To understand the basic principles related to earning, spending, budgeting, saving and borrowing
- To promote the use financial products and services with confidence
- To strengthen ABC and VC actors' skills and behaviours to take informed decisions on more productive and responsible spending, and borrowing

The workshop outline

The workshop comprises 7 sessions, including introduction and

synthesis/evaluation. Session 1: Learning about each other
Session 2: Introduction to financial education
Session 3: Saving and saving options
Session 4: Equity or debt financing
Session 5: Budget and budgeting
Session 6: Developing the ToR for the field coaching
Session 7: Synthesis and evaluation

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

Session 1: Learning about each other

Introduction

This short introductory session tends to create a positive beginning, know each other better, build a team and share the training goals and plans.

Learning objectives

At the end of the session, the participants will:

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

Procedure and tools

The session consists of:

- Welcoming the participants
- Agreeing on the language to be used during the training programme
- Introducing yourself
- Explaining the objectives, the topics covered and set-up of the workshop. This can be followed by a short listing of the participants' expectations.
- Informing the participants about the tentative training schedule per day, e.g. the training start and closing time, refreshment and break time, facilities and supports provided. The training schedule can be adjusted to respond to the needs and availability of the participants
- Agreeing on the ground rules to be followed during the workshop
- Agreeing on the reporting procedures

➢ ***Step 1***

a) Welcome the participants to the training programme.
b) Agree on the language to be used during the training programme.
c) Evaluate the sitting arrangements and discuss the possibilities of changing from time to time.

➢ ***Step 2***

Introduction of participants: Let the participants introduce each other. Ask participants to briefly interview the person sitting next to them, their name, residence, key experience, as well as their expectations for the workshop. The "neighbours" then present each other to the group in plenary (give 1 minute per presentation).

➢ ***Step 3***

Explain the programme and its objectives; it is important to stress the need for active participation and mutual learning.

➢ ***Step 4***

Request each participant to write on a card, one expectation from the training.

➢ ***Step 5***

Establish ground rules as follows:
Propose some rules (e.g. timeliness). Ask the group to add do's and don'ts. Request two participants to list them on flipcharts and stick them on the wall for the duration of the course. Participants may even suggest penalties (such as a fine, dance or a song). Then we will hang out the poster with the commonly agreed rules.

Advice Facilitator's notes

- Keep the training goals throughout the training
- Keep the ground rules posted

Useful tips
Being adults, experience sharing will make a big contribution to what you come up with during the training.

Key training methods
- Individual contributions
- Group discussions
- Exercises

Session 2: Introduction to financial education

Introduction

In this session the participants will be introduced to the concept of financial education and its importance to ABC and VC activities. The idea is to draw the attention of the participants to the fact that managing your money can protect yourself, while expanding business activities.

Learning objectives

At the end of this session, the participants will be able to:
- Explain the concept of financial education and it importance
- Set SMART financial goals and explain how to reach them
- Describe what a business financial plan is, and how it can help achieve financial well-being

Procedure and tools

In this session we first deal with the meaning and role of financial education and then we introduce the concepts of setting priorities for saving and well identified savings goals. The participants need to be aware of this, in order to orient ABC and VC actors correctly in how to fund their activities.

The session comprises the following steps:

- Step 1: Importance of financial education
- Step 2: Identify financial goals & discuss the importance of setting goals and how to reach them
- Step 3: Review and summarize key learning points of the session

➢ *Step 1: Importance of financial education*

This step starts with a plenary brainstorming session. The question is:

What does financial education mean to you as an individual?

The facilitator writes the answers on a flipchart.

> ***Advice for the facilitator***
>
> Make sure the following terms are mentioned: financial management, earning, spending, budgeting, planning, understanding available financial services (savings, credit, insurance) and knowing how to use them, financial negotiations.
>
> These terms are important because they help to highlight, the role of financial education in the daily work of the participants, and ABC and VC actors.
>
> Reconvene saying that low income people, many of whom have little formal education and come from rural areas, lack financial know-how and informed decision-making skills on budgeting, financial planning of income and expenditures, and use of savings, credit and insurance. This leads to higher risks of indebtedness, labour exploitation and overall unproductive use of their resources. Drawing the attention of low income people to managing their money can help them build their assets, protect themselves and expand their life opportunities. This is the role of financial education.

The step continues with a second plenary brainstorming session. The question is:

Why financial education is important for ABCs and VCs actors?

The facilitator writes the answers on a flipchart. Answers can include the following:

- Transition from small scale business to large scale business
- Independence
- Need to start a (new) business
- Expanding business

If participants say that financial education is more important for some actors than others, ask them why. NOTE that in some cultures, financial management is women's responsibility; pay attention to the gender aspect in financial education.

> ***Advice for the facilitator***
>
> Reconvene saying that most of ABCs and VCs actors are in transition from small scale business to larger scale business. Their role in financial management is thereby often increasing. Most of them are already engaged in some income generating activities. Due to their changing role in the ABC or the VC, it is essential to equip them with financial knowledge and management skills to help them:
>
> - To set financial goals and make plans for realizing them,
> - To understand why saving is necessary and how to save, when to take on a debt and how to manage a loan, how to make a budget, how to protect themselves against risks (using savings or insurance for example).
>
> With these financial knowledge and skills, ABC and VC actors will be able to make informed decisions about their future.

➢ *Step 2: Introduce Money Management*

This step starts with a plenary brainstorming session. The question is:

What do you understand by managing money?

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

Advice for the facilitator

The answers could be:

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

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

➢ *Step 3: Benefits of goal setting*

Ask the participants to explain what they understand by the term goal, giving examples.

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

➢ *Step 4: Identify financial goals*

This steps starts with a story. One participant is asked to read out Fatima's story (see exercise 1a). The other participants listen and write down Fatima's goals.

Summarize the answers of the participants.

The step proceeds with exercise 1b. Following the general discussion related to the exercise, the facilitator introduces the concept of financial planning.

Advice for the facilitator

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

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

This is called **financial planning**

This step is concluded with a plenary brainstorming on the importance of setting financial goals.

- ***Step 5: Qualities of a good goal***

Explain the concept and importance of a SMART goal.

> ***Advice for the facilitator***
>
> Example: Goal – I want to buy a new tractor
>
> SMART goal
> - **Specific** – I plan to save for a down payment on a new tractor
> - **Measurable** – I plan to save Shs 10,000 for a down payment on a new tractor
> - **Attainable –** I plan to save Shs 10,000 for a down payment on a new tractor by saving Shs 2000 from every pay-check
> - **Realistic –** It is realistic to save Shs 2, 000 from each pay-check for a down payment on a tractor because I usually waste the money on unnecessary items.
> - **Time Bound –** I plan to save Shs 5, 000 for a down payment on a new tractor by saving Shs 2, 000 from each pay-check for two years.

Step 6: Review and summarize key learning points of the session

Using a daily diary template, ask the participants to write:

- What they have learned from this session?
- What they will put into practice and why?
- What means they would need to put this into practice?

Ask participants to share their goals with their business partners this evening and discuss with them.

Ask them to keep their financial goals in mind as they will refer to them in the next sessions.

Additional reading

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

Session 3: Savings and savings options

Introduction

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

Learning objectives

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

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

Procedure and tools

In this session we first deal with the definition of savings and the different ways people save. Then participants will discuss the advantages and disadvantages of savings before determining the safest mechanism of saving, according to their opinion. The next step consists of an overview of the many saving products offered by financial institutions, and the characteristics to be considered in their choice. Finally, participants will discuss about how to match savings goals with savings products.

The session comprises the following steps:

- Step 1: Review concept of savings using common traditional sayings
- Step 2: Understanding the reasons for saving
- Step 3: How can we build savings
- Step 4: Identify savings mechanisms available in the community
- Step 5: Discuss advantages and disadvantages of different savings methods
- Step 6: Determine which savings mechanism is the safest
- Step 7: Identify the features that influence choice of savings services
- Step 8: Identify savings products
- Step 9: Match savings goals with savings products

➢ ***Step 1: Review concept of savings using common traditional sayings***

This step starts with a plenary brainstorming session. The facilitator writes the following sentence on a flipchart:

"Fill up a pitcher with dew drops and it becomes double in five years".

The participants are asked to write down on individual hard cards, in key words, what they understand by this saying.

> ***Advice for the facilitator***
>
> Get the participants to mention the principles of savings including
> - "savings a little bit at a time",
> - "savings regularly", and
> - "savings allow building up a significant amount over time".

Then, ask the participants to identify other sayings meaning the same thing. Examples include: "Hundred men's sticks make a full load for one man", "One spit dries, hundred spits flow".

Explain that the only way to save is by spending less than you earn.

➢ ***Step 2: Understanding the reasons for saving***

This steps starts with a ball game. Ask the participants to stand up and form a circle. When they catch a ball, they need to give a reason why ABC and VC actors save.

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

Advice for the facilitator

There are many reasons for which ABC or VC actors save and that most of the reasons fall into one of the following three categories:

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

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

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

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

➢ ***Step 3: How can we build savings***

This step starts by asking the participants to explain how one can build savings. Their responses are noted on a flip chart.

> ***Advice for the facilitator***
>
> **Save before spending**
> - Pay yourself first by setting aside some money in a savings fund every time you receive your income.
>
> **Earn more money**
> - Diversify your sources of income e.g. salary, farming, business
> - Grow more crops
> - Invest in income generating activities e.g. business, rental houses
>
> **Spend less money**
> - Spend less on wants (Needs are things that are required for survival, wants are things that we would like to have but are not required for survival)
> - Avoid the temptation to spend by carrying less cash with you
> - Look for bargains before buying
> - Carrying your lunch to work instead of eating at a restaurant.

➢ *Step 4: Identify savings mechanisms available in the community*

This step is introduced with an interactive discussion on the participants' views regarding:
- The ways people save in their community.
- Where do ABC and VC actors keep their savings? Why?
- Who, women or men, are more committed to savings? Why

The participants' views are summarized on a flip chart. Thereafter, for each category, participants are asked to raise their hands if they have used the different ways of savings and tally them to know their most common methods of savings.

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

➢ *Step 5: Discuss advantages and disadvantages of different savings methods*

This step is guided through exercise 2. The exercise takes 30 minutes. Thereafter, each group presents its findings during a plenary session which is followed by a discussion.

Advise for the facilitator to use during the plenary discussion

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

➢ ***Step 6: Determine which savings mechanism is the safest***

In plenary, the facilitator will ask the participants to consider each service as presented in exercise 2 and give a score of 1, 2 or 3, depending on how safe they think the service is. "3" is safest and least risky and "1" is least safe and most risky.

Encourage discussion if there is any disagreement.

➢ ***Step 7: Identify the features that influence choice of savings services***

In plenary, brainstorming session is organized and the facilitator asks the following question:

What are the important characteristics of savings services to consider when selecting a service?

The participants state their views briefly on cards (1 idea per card). All cards are posted and similarities and differences are discussed in the plenary session.

Advice for the facilitator

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

➢ ***Step 8: Identify savings products***

This step consists of a plenary discussion based on the participants' own experiences of putting savings in a bank, microfinance banks or credit cooperatives. Some of the participants are asked to describe their experiences and more specifically the different choices of savings products they had to make.

Advice for the facilitator

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

➢ ***Step 9: Match savings goals with savings products***

In this step we will match "goals" with product options. Ask participants to review the goals they developed and written out in the earlier sessions.

Then each participant works individually, answering the question:

Which savings product will best meet your short-term and long-term goals? Clarify!!

Following the individual work (10 minutes), a plenary exchange is organized. Participants' attention is specifically given to those in the business, enterprise or family who have greater responsibilities to save, and who have the right to withdraw the savings.
The facilitator should bring out the fact that at some microfinance banks and savings and credit cooperatives, it is possible to open a savings passbook for business investments.

➢ ***Step 10: Review and summarize key learning points of the session***

Review what we have discussed and explored during this sessions and put in your daily diary:

- What have you learned in this session?
- What do you find interesting and useful for your financial management?
- What are you going to put into practice?

Additional reading

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

Session 4: Equity or debt financing

Introduction

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

Learning objectives

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

- Define the term "debt".
- Identify the principal reasons to borrow money, ways to expand a business effectively, pros and cons of equity and debt.

- Identified the responsibility associated with taking a loan.
- Distinguish good loans from bad ones.

Procedure and tools

In this session we first deal with the identification of the principal reasons of borrowing. For each reason, there are different choices to access financial resources such as taking a loan or using own money (business profits or savings). So at the next step we will discuss on what financial resources ABC and VC actors can access to start or expand their business activities. We will then debate pros and cons of equity and debt financing. After that, participants will be introduced to the characteristics of bad and good loans. This will help to know factors that need to be considered before borrowing.
Session 4 comprises the following steps:

- Step 1: Reasons to borrow money.
- Step 2: Access to financial resources
- Step 3: Pros and cons of equity and debt financing
- Step 4: Good and bad loans

➢ ***Step 1: Reasons why people borrow***

This step starts with a brainstorming session on the possible reasons for ABC and VC actors to borrow money.

The participants individually state their views briefly on cards (1 idea per card). All cards are posted and classified by the facilitator into 3 categories of reasons.

Advice for the facilitator

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

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

The discussion then deals with possible loans that generate income.

Advice for the facilitator

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

➢ *Step 2: Access to financial resources*

This step starts with a question basically consists of implementing exercise 3.
After the exercise, each group presents its findings in a plenary session followed by a discussion on the similarities and differences.

Advice for the facilitator

Equity	**Debt**
• Own Savings	• Loan from Micro finance
• Income from Business	• Loan from friends
• Income from selling assets	• Loan from money lenders

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

➢ *Step 3: Pros and cons of equity and debt financing*

In this step, we will debate on the advantages and disadvantages of debt and equity. Ask participants:

Which option, equity or debt financing, is a better option for ABC and VC actors?

Divide participants into two groups and make a simulation exercise (see exercise 4).
Summarize the debate by saying that both equity and debt have advantages and disadvantages.

Advice for the facilitator

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

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

➢ *Step 4: Good and bad loans*

This step starts with a provocative question:

Are all loans good?

Ask some of the participants to present their real life experience and through a question-answer session, you will find out what is a so-called "good" or "bad" loan.

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

Thereafter, the discussion focuses on what one needs to know before borrowing.

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

➢ *Step 5: Review and summarize key learning points of the session*

Review what we have discussed and explored during this session and write it down in your daily diary:
- What have you learned in this session?
- What did you find interesting and useful for your financial management?
- What are you going to put into practice?

Summarize the key points
- Principal reasons why people borrow
- Financial resources to expand your business
- Equity or debt financing
- Good and bad loans

Additional reading

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

Session 5: Budget and budgeting

Introduction

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

Learning objectives

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

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

Procedure and tools

In the first part of this session, we will discuss the concept of budget and how to make a budget. In the second part, participants will describe the step to formulate a budget and define ways to address difficulties of staying within a budget. Finally, they will highlight how much saving money is an important part of keeping a budget.

Session 4 comprises the following steps

- Step 1 The concept of budget
- Step 2 How to make a budget
- Step 3 How to stay within a budget.
- Step 4 Analyse savings potential
- Step 5 Review and summarize the key learning points of the session

➢ ***Step 1: Discuss the concept of budget***

This step starts with an open question:

What is a budget?

The answers are summarized on a board and then compared with the following definition of budget, written by the trainer on a flipchart.

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

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

- ***Step 2: How to make a budget***

This step starts with an exercise on the different steps to create a budget (see exercise 5a). The objective is to find the process of budget creating.

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

The step continues with a brainstorming session on the possible sources of income and expenditures.

Two flipcharts are placed, one with the title 'sources of income', and one with the title: 'causes for expenditures'

The participants are asked to write their ideas on cards (1 idea per card). Thereafter the facilitator reads out the cards and posts them on the respective flip chart. After this plenary brainstorming session the participants work individually and answer the following questions, based on the lists on the flipcharts:

What can be the sources of ABC and VC actor's income?
Which one is regular or irregular?

The facilitator then orients the discussion, through the following inquiries:
- Who has more sources of income? Why?
- What can be the causes ABC and VC actor's expenditures?
- Which one is regular or irregular?

Advice for the facilitator

SOURCES OF INCOME

Regular sources
- Salary
- Income from business (milk, vegetables, fruit selling…
- House rent

Irregular sources
- Sale of assets (cattle, gold…)
- Seasonal employment
- Bonus, overtime
- Remittances

SOURCES OF EXPENDITURES

Regular expenditures
- Food
- Transport
- Small medical expenses
- Input for production
- Social events
- Education

Irregular expenditures
- Medical expenses after accident or illness

Then the facilitator explains that first the sources of income and expenditures are identified, and that subsequently a budget for one crop season needs to be formulated. The amount of each source of income and expenditures needs to be estimated. This will be done through exercise 5b and worked out in groups.

After the groups exercise, 1 or 2 groups present their findings (preferably groups that have

obtained quite different outcomes. During the plenary exchange, the facilitator orients the discussion, asking the participants:

What do you think of this budget?
Is it a surplus budget or a deficit budget? Why is it so?
What are the major causes of surplus?
What are the major causes of deficit?

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

The facilitator then encourages a discussion on the use of surplus and options to balance deficits.

The following question is first posted on a flip chart:

If you have a surplus in your budget, how would you use it?

Answers are noted on the board and discussed.

The next question posted on the flip chart is:

If you have a deficit in your budget how would you balance it?

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

- ***Step 3: How to stay within your budget***

This step starts with a brainstorming question:

What makes it hard to stay within a budget?

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

The step will continue with a story. One participant is asked to read out Katia's story (see exercise 5c). The other participants listen and write down what Katia did to stay within her budget. Summarize the answers of the participants.

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

➢ ***Step 4: Analyse savings potential***

This step is introduced by asking the following question.

Why to include savings in the budget?

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

Then ask participants to review the budget done in exercise 5b and find ways they can save money.

What decisions have you made to save in this budget?

In plenary, ask the participants to put 2 points, one on each card.

1) To cut their expenses, or
2) To increase their income

When completed, ask the participants to copy the revised budget in their note books.

➢ ***Step 5: Review and summarize the key learning points of the session***

Review what we have discussed and explored during this session

- What are the key points that we discussed in this session?
- What have you learned from this session?
- What will you put into practice?

Summarize key points

- Importance of making a budget
- Main components of a budget
- Things to consider while preparing a budget

Additional reading

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

Session 6: Developing ToR for field coaching

Introduction

In this session, participants will develop together the ToR for the field coaching on FE with the cluster actors.

Learning objectives

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

- Provide specific support to cluster actors to respond to the financial challenges the actors are facing and show them the means of satisfying their financial needs.

Procedure and tools

We herewith provide some essential steps in conducting the field coaching on FE. The facilitator will not impose this process and the following steps on the participants but introduce these in an interactive way, based on the participants' experience of the coaching sessions of Learning Cycle 1.

1. Briefly review the last coaching session and act on any outstanding issue or clarify any decision that was pending.
2. Have a brief exchange on the cluster actors knowledge and experience with issues of finance that are or have been crucial for the activities of their clusters, hence the need to understand issues of finance.
3. Identify the various categories of cluster actors (e.g. producers, processors, traders, other services providers) and the main financial challenges facing each of these actors (take into consideration the period of the year they need the finances most, and for what activities and estimated volume of amount).
4. Prioritize the financial challenges identified according to the extent to which it affects their activities.
5. Identify the corresponding (relevant) actions that can be taken to find solutions to some of the financial challenges prioritized (e.g. if it is funds for buying inputs, can they arrange for input credit and pay later when their produce is harvested? Can they by themselves institute regular savings towards the acquisition of some of their inputs? Do they need to borrow from somewhere else to settle the issue? If Yes, from where and when? What will be the conditions? What will be the advantages and disadvantages of this borrowing? At the end: will the borrowing be beneficial or result in more problems?
6. Explore options of possible saving and credits in the immediate vicinity of the ABC (e,g. microfinance institutions and others); what are the types of products available, who has which experience?
7. Lead the cluster actors to draw budgets for their activities. The budget developed should be used as a guide to direct seeking for the funding and utilizing them judiciously.

NOTE: *At this level, the role of the coach is no longer limited only to the identification but will go beyond the coaching session. He/she may need to contact the institution identified, find out about the general conditions under which the institution operates for accessing the financial products and inform the stakeholders about it. The coach also needs to help the actors during the negotiation or developing or putting in place relevant documents or documentations that may be required. If finding challenges, the 2SCALE Specialist of Access to finance may be contacted to support the process. If you have financial institution in your cluster, they can also*

Things to observe during the coaching:

1. Do not invite more than 12 actors for any of the coaching sessions. This means you need to identify the key actors and invite them accordingly. This is because the number invited has budget consequences concerning their T & T and lunch, but also effectively coaching a group of more that 12 is not easy.
2. Observe the time available for the coaching session. Due to the limited time envisaged it is important for each coach to prepare very well for technical delivery, materials that may be needed. Presentations must be brief, straight-to-the-point yet should be as much as possible interactive.
3. Encourage participants to be punctual so that you can start on time.
4. Note that reports on the coaching must be submitted within three days after the coaching. The reporting must follow the guidelines that were giving to you in the last training workshop.

Session 7: Synthesis and evaluation

In this session, participants will summarize the main points in each topic and evaluate what has been done. This will consist of:

- Recalling the aims of the training and the learning objectives of participants in plenary. This will help to know what expectations have been met or not.
- Reviewing the main element or point covered by each session. Each participant will write out on card three subjects that are useful per session. All cards will be posted and classified in order to present a map of synthesis.
- Carrying out a written evaluation by distributing a training evaluation form to each participant and by giving them 5 minutes time to complete. The evaluation form will address the issues of the program and the used to conduct the training, the understanding of each topic, the duration of the training, the overall organization of this training and suggestions to improve other financial education training. The forms will be collected for analysis by the trainers and organizers after.

Indicative program of the workshop

Day 1

Time	Session/Step/Contents	Tools/Materials/aids/exercises/readings
Morning	Review and reflection of learning cycle 1, introduction to CASE	Field reports, coaching certification forms flip charts, markers and pin board
Lunch break		
Afternoon	**Workshop on Financial education** **Session 1: Learning about each other** **Session 2: Introduction to financial education**	Flip charts, markers and pin board Coloured cards, ball Exercise 1 Reference sheet 1

Day 2

Time	Session/Step/Contents	Tools/Materials/aids/exercises/readings
Morning	**Session 3: Saving and saving options**	Flip charts, markers and pin board, coloured cards Exercise 2 Reference sheet 2, 3 and 4
Lunch break		
Afternoon	**Session 4: Equity or debt financing**	Flip charts, markers and pin board, coloured cards Exercise 3 and 4 Reference sheet 5, 6, 7 and 8

Day 3

Time	Session/Step/Contents	Tools/Materials/aids/exercises/readings
Morning	**Session 5: Budget and budgeting**	Flip charts, markers and pin board, coloured cards Exercise 5 Reference sheet 9, 10, 11 and 12
Lunch break		
Afternoon	**Session 6: Developing the ToR for the field coaching** **Session 7: Synthesis and evaluation**	

Appendix 1: Budget template

A. Income (Money In)	Amount shs
Farm income	
Salary income	
Rent income	
Business income	
Other	
Total Income	
B. Expenses (Money out)	**Amount**
Rent	
Water	
Electricity	
School fees	
Food	
Loan repayment	
Other	
Total Expenses	
C. Surplus or Deficit	

Notes

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

Appendix 2: Setting goals

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

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

What I am saving for?	How much do I need?	By when do I need it?	How much to save per month?
1. A house	$ 50000	5 years	1,000

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

2SCALE

MODULE 2

Financial Education Guide

- Facilitators' Guide
- Exercises
- **Reference Sheets**

2SCALE consortium:

BoP INNOVATION CENTER
DEVELOP ▸ LEARN ▸ ACCELERATE

ICRA

IFDC

Supported by:

Ministry of Foreign Affairs of the Netherlands

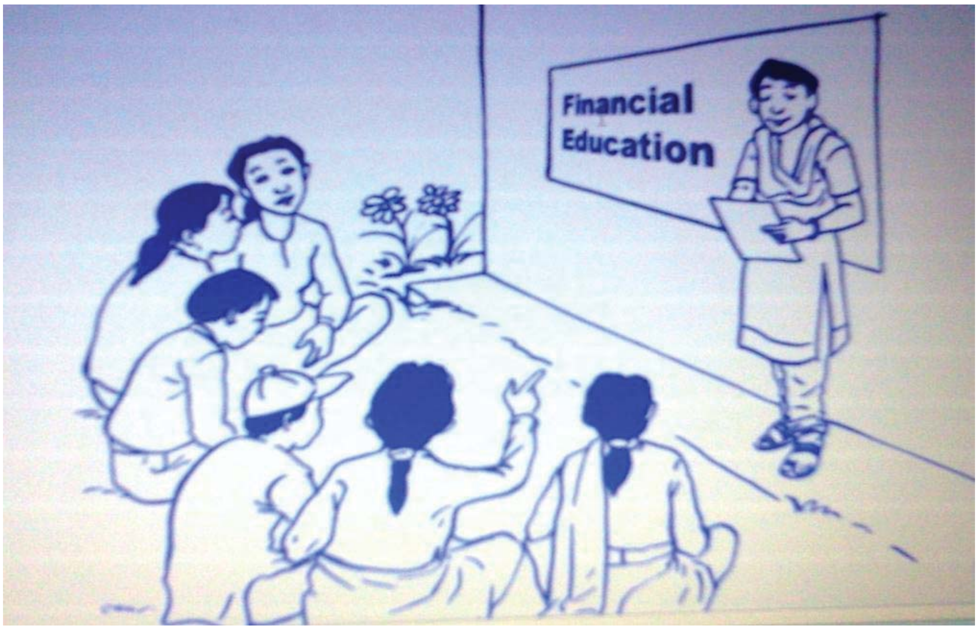
Publication of this manual was supported by the Dutch Ministry of Foreign Affairs.
The manual was developed by technical experts of IFDC and ICRA, partners within the 2SCALE Project. The contents do not necessarily reflect the views of the Dutch Ministry of Foreign Affairs.

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

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

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

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



Reference sheet 2: Rules of thumb for savings

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

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

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

Reference Sheet 3: Important factors for deciding where to save

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

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

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

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

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

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

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

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

Reference sheet 4: How to make a savings plan

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

1. Set savings goals.
2. Figure out how much you need to save over what period of time to meet your savings' goals. Set a savings target.
3. Figure out how much you are earning over this period of time, the regularity (or irregularity) of your earnings, and how much you can expect to save on a regular basis.
4. Identify which expense you can cut back on (for example, video rental, cigarettes, or tea breaks) and reallocate this amount to your savings.
5. Decide where you will save. Identify places to save, available savings products, and their pros and cons.
6. Plan how much and how often you will save. For example, you could put a specified amount aside in an envelope when you are paid or at the end of each business day and keep it in a safe place until you are able to take it to the bank. Go to the bank on a fixed day of the week or month. If you are a wage earner and your employer is linked to a bank, consider a deduction from your pay check that is automatically deposited into your savings account.
7. Keep track of your savings. Monitor progress towards your savings target on a regular basis by checking the amount you have saved and how close you are to your goal. Check bank statements, pass books, or other sources of information on your savings.

Reference sheet 5: Components of credit

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

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

Reference sheet 6: The costs of borrowing

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

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

Choosing a lender

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

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

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

Questions to Ask a Lender

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

Reference sheet 7: How much debt can you afford?

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

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

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

Reference sheet 8: Controlling debt

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

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

Warning signs:

Debt is out of control!

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

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

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

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

The Bottom Line

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

Reference sheet 9: How do you make a budget?

1. Keep track of your income and expenses

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

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

Figure 1: Josephine's Cash Flow Statement November 2003

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

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

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

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

2. Create budget categories that are appropriate for you

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

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

Figure 2: Possible Budget Categories

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

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

3. Set your financial goals

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

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

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

4. Allocate your income across your budget categories

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

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

1. Your money beliefs

Figure 4: A Simple Budget Allocation

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

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

Figure 5: Rate Yourself: True or False?

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

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

2. Your money personality

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

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

3. The "financial phase" of your life

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

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

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

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

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

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

For setting financial goals:

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

For spending:

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

For saving:

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

For investing:

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

2SCALE

MODULE 2

Financial Education Guide

- Facilitators' Guide
- **Exercises**
- Reference Sheets FEG

2SCALE consortium:

BoP INNOVATION CENTER
DEVELOP ▸ LEARN ▸ ACCELERATE

ICRA

IFDC

Supported by:

Ministry of Foreign Affairs of the Netherlands

Publication of this manual was supported by the Dutch Ministry of Foreign Affairs.
The manual was developed by technical experts of IFDC and ICRA, partners within the 2SCALE Project. The contents do not necessarily reflect the views of the Dutch Ministry of Foreign Affairs.

Note: Before starting each exercise and the group work verify if all of you have understood the exercise well.

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

- The objective of the exercise (what is expected and why?)
- How to proceed to answer the question as a group?
- How to “visualise” your discussion (using poster paper or pin board and coloured cards)
- How and who will chair the session?
- How and who to present the results during the plenary session?
- Who is in charge of the final electronic write up

Exercise 1a

Plenary sessions

Ask one participant to read out Fatima's story; get other participants to listen and note down Fatima's goals.

Story of Fatima

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

Group discussion

The participants are sub-divided into mixed gender groups of 3 to 5 persons each and discuss the following topics:

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

Exercise 1b

Thereafter, the participants remain in groups and first work individually to answer the question: What are your goals for a happy future?

They can write the answers or draw pictures.

Once finished, the participants share their goals and discuss similarities and differences. Each groups makes a list of similar goals and goals that clearly differ, and try to relate these to gender, age, background, profession, or social group/network.

Each group then presents its findings in a plenary session.

The discussion then focuses on the goals that require priority/

Consider the following:

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

Exercise 2

Divide the participants into 4 small groups:

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

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

Exercise 3

Divide the participants into 3 or 4 small groups. Each group treats the following question:

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

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

Exercise 4

Ask participants the following question:

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

Divide participants into two groups based on their answers.

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

They will enter a debate, one group trying to convince the other that taking a loan is better than using your own money. The other group tries to argue that using one's own money is a lot better than taking a loan. Give the groups some time to prepare prior to debating.

Exercise 5a

Ask participants to form groups of 3 or 4 persons each. Give each group a set of budget step cards in random order. Ask them to organize the cards into the sequence they think is right for creating a budget. Give them 5 minutes for this activity.

"Steps to Create a Budget" Cards

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

Exercise 5b

Divide the participants into 3 or 4 small groups. Within each of the groups, one volunteer will share with others of the groups – on the basis of some solid experience – , the different sources of income and of expenditures and the corresponding amounts for a specific crop. Each group will chose a different crop. All income and expenditure should be totalled.

Budget form

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

Ask participants to deduct the total expenditure amount from the total income for the example and write down the amount (either positive or negative) under surplus/deficit.

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

Exercise 5c

Ask participants to listen to the following story. At the end of it, ask them to tell how the person manages to stay within his/her budget.

Katia's Story

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

What did Katia do to stay within her budget? *[Remembered what was planned in her budget and stayed with the plan; put savings out of reach so it was not easy to spend; set aside some money for unexpected expenses.]*