

Enhancing Farmer's Financial Management Skills



Agricultural Finance Revisited



Enhancing Farmer's Financial Management Skills

Jennifer Heney

August 2000

Food and Agriculture Organization of the United Nations (FAO)

Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)

No. 6

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This is the last of the six volumes making up the series “Agricultural Finance – Revisited”. Although last, in many ways this is the most important, for the improvement of skills in managing money, and especially in handling financial intermediation, lies at the core of successful investment in rural areas, both on and off the farm.

The book examines the various measures open to concerned authorities to improve financial management. It attempts to do this all the way from school savings clubs for young children, to supportive actions geared to adult saving/investing/borrowing bank clients. Whilst attempting to be comprehensive in describing various techniques and approaches, it stops short of recommending client training on the part of banks. Whereas it is known that some such training takes place, it is considered that this is generally too expensive a procedure for most financial intermediaries. An exception could be in those cases where sensitization campaigns are especially geared to understanding a particular savings or loan product, and the benefits it conveys.

Since the subject matter of this volume will be new for many readers, a special effort has been made to include practical examples. In many cases these are such that they could be used as a model for a given technique, initiative or approach.

The full list of volumes in the series is given below.

1. Agricultural Finance Revisited: Why?
2. Agricultural Finance: Getting the Policies Right
3. Better Practices for Agricultural Lending
4. Sources of Funds for Agricultural Lending
5. Prudential Regulation and Supervision for Agricultural Finance
6. Enhancing Farmer’s Financial Management Skills.

R.A.J. Roberts
Chief
Marketing and Rural Finance
Service
FAO

J. Lange
Head of Division
Economic Development and
Employment Promotion
GTZ

Acknowledgements

The author would like to thank Richard Roberts and Anthon Slangen of the Marketing and Rural Finance Service in FAO for remaining patient and maintaining their faith in me during the preparation of this publication and for providing many constructive comments and suggestions.

I would also like to thank Sylvia Wisniwski and Michael Fiebig of GTZ for their inputs and encouragement and Malcolm Harper for his constructive suggestions and contacts. Thanks should also go to Anna Piepenstock for her preliminary work and to all the other people whose experiences have helped to provide the ideas and examples, which inform this document.

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Introduction

This is the sixth in a series of publications produced by FAO and GTZ under the general title “Agricultural Finance Revisited”. The motive for the series was explained in the introduction to the first book:

“The general purpose of the joint FAO/GTZ programme is to identify policies, structures and procedures which need to be taken into account to ensure that the farming sector, consisting of both farm enterprises and small farm households, has better access to effective financial services. An important step in this direction is to create an awareness among governments, private sector and international development and donor agencies, of the need to apply appropriate policies and to set required rules of conduct.”

In this sixth book, the policy area examined is that of education and training in financial management skills. The case is made that if farming families are more familiar with the requirements of formal financial institutions, can supply the right kind of information to them, have the right attitude to contractual agreements and can monitor money as it is acquired and spent by the family, then they become more attractive potential clients of the formal financial sector. Of course, it is understood that such efforts on the part of potential clients should be equally matched by efforts of financial institutions to be more accessible, less intimidating, more flexible and client-oriented in the services they supply, but these things are the subject of other books in the series. Here our concern is with the clients and the benefits of helping them prepare for the use of financial services.

Chapter 1 looks at the situation at the farm household level and considers the types of skills people have, those they lack and the problems that they face with regard to money management.

Chapter 2 looks at the types of actions that could be taken to help people improve their financial management skills and the benefits that they may gain from this, including an increased access to financial services. The benefits to financial service providers, e.g. of reduced costs and risk in lending, is also considered.

By examining a number of case studies, Chapter 3 looks at alternative ways of delivering information, education and training in financial management to rural households and the potential role of different types of organisation – government, non-government and commercial. The question of how the cost of advice or training can be covered is reviewed.

Chapter 4 summarises the main conclusions and policy recommendations for the key actors who have a role to play in enhancing the financial management skills of rural households. Reference is also made to the scope for co-operation between these organisations.

CHAPTER 1



Money Management in Rural Households

“Annual income twenty pounds, annual expenditure nineteen, nineteen, six, result happiness. Annual income twenty pounds, annual expenditure, twenty pounds, nought and six, result misery.”

Mr Micawber in David Copperfield by Charles Dickens

The first imperative for any human being is to continue living and everybody expends energy to find a way to satisfy the requirements of life in whatever circumstances they find themselves. Without rights to land and lacking other resources, people may have no choice but to simply exchange their own labour for the consumption items they need. In industrialised societies this is the way most people survive. If such people want to consume more or different items, they may have to improve the value of their labour and hope that someone will offer them more for their work. Other people are born into situations where they do have access to resources such as land and one option is to grow items for consumption or exchange for other goods. The variety and types of goods and services that people use and want has grown tremendously over the centuries. In consequence, the variety of ways in which people manage to survive is immense and frequently very complex. Few live in isolation and, thus, complex relationships develop between people, reflected in the ways that goods or work may be shared.

So how does money fit into this? Money is a means of facilitating exchange. Without money people are dependent on barter exchange to convert their particular endowment of goods and labour services into their preferred consumption items. This could be a long, complex and inefficient process. By introducing money the exchange of goods is simplified. It is no longer necessary to confine the exchange to a particular time and place. You can exchange your goods for money today and buy someone else's goods on another day and in another place.

Deferring the consumption of goods is known as saving. The process is essential if the availability of goods varies over time and it is also important to enable unanticipated or planned future demands for goods and services to be met. It is also a normal human trait to store up value. If

a person has no savings, the acquisition of goods cannot exceed current income unless someone else with savings is prepared to let that person use some of their savings. So deals can be struck between people with one a lender and the other a borrower. Savings can be in the form of commodities or money. Saving by accumulating money balances is convenient because it is easy to store and it is easier to convert money savings to goods whenever required. It is also easier to lend.

Let us build a picture of a rural household economy. There may be one, two or more people associated in a household. Each will be engaged in one or more types of activities. Some may do the same activity each day, others may be engaged in several different activities each day. Many activities will take place without using or generating money. Others will need or produce money. The way the household resources are managed will differ between and even within social groups, affected by custom, status and many other cultural factors. It may be that all the sources of income are mixed up, whether derived from farming or trading or other business activities or gifts or remittances or any other source, and used as though it had come from a single pool. Alternatively different members of a household may control different parts of the resource and income flows.

Box 1 describes a rural household in Gujarat in India. This is followed by a diagram of a household economy, which was produced in Zambia.

These two examples give us an idea of life in rural households with access to land, which will reflect the lives of tens of thousands of people around the world. The family members are mainly involved in private enterprise – small-scale production of basic goods and services, often supplemented by wage income. Their markets are local. In fact they compete to sell food, clothing, health care, shelter and simple luxuries such as alcohol to each other. So they operate in low value, saturated markets. Most of their activities are funded from family savings and informal loans. Money circulates rapidly in these households and they tend to buy in small quantities as and when needed.

The diagram in Figure 2 summarises the range of activities and flows of goods or money, which might be occurring in a rural household. Every day there are choices to be made about use of time, use of resources and

Box 1
A Household in Gujarat 1

Zarinaben Nurmhmd Momin is 18 years old and she lives in the village of Kulo. She lives in a large, complex household with fifteen other members of her family. They are her father and mother, her brother and sister-in-law, her three sisters, her nephew, her uncle and his wife and her five cousins.

The household generates the vast majority of its income from agriculture and animal husbandry. They have 5 hectares of irrigated land and 2 hectares of non-irrigated land. Their livestock are two oxen, 6 cattle and 4 female calves. This means they are able to plough their own land and have a supply of manure to fertilise it. They grow two crops – monsoon rice and winter wheat on the irrigated land while on the dry land they grow only wheat. One field is given over to green animal fodder. Everything is jointly worked and considered to be household property except for two cows which are owned independently, one by each of the two younger married couples. They are responsible for the sale of their animal's milk but do not derive an independent income from this.

The proceeds from all kinds of work are paid into the household fund. Zarinaben and her sisters earn money from embroidery and extra income comes from leasing out animals or agricultural equipment and selling manure. The money is managed by the head of the household. When Zarinaben or anybody else wants something they ask. If the request is reasonable and money available, it will be given. Thus, the management of the household's finances, although nominally controlled by the head, is seen as a shared responsibility. It is the duty of everyone to make sure money is not wasted.

use of money. This is further emphasised in Table 1, which shows the range of cash income sources that were recorded among farming households in two areas of Zambia.

How is financial management conducted in these households? Every one will differ, of course, but some common factors are likely. The first of these is that calculations will be done in someone's head and decisions will be based on this person's conclusions, possibly after discussion with other members of the household. The process will involve prioritising needs and balancing conflicting demands. For many meeting daily survival needs will be the dominant concern. This will include basic consumption of food but also essential inputs to maintain their production

¹ From "Poverty Alleviation for Rural Women", G. Griffith, 1994. Avebury.

activities. All families will be aware of longer term needs as well, e.g., providing for weddings, for old age and funeral expenses, for their heirs, and this will make saving very important to them.

Each individual is not only part of a family but also part of a wider community, which provides an additional dimension to the climate of deci-

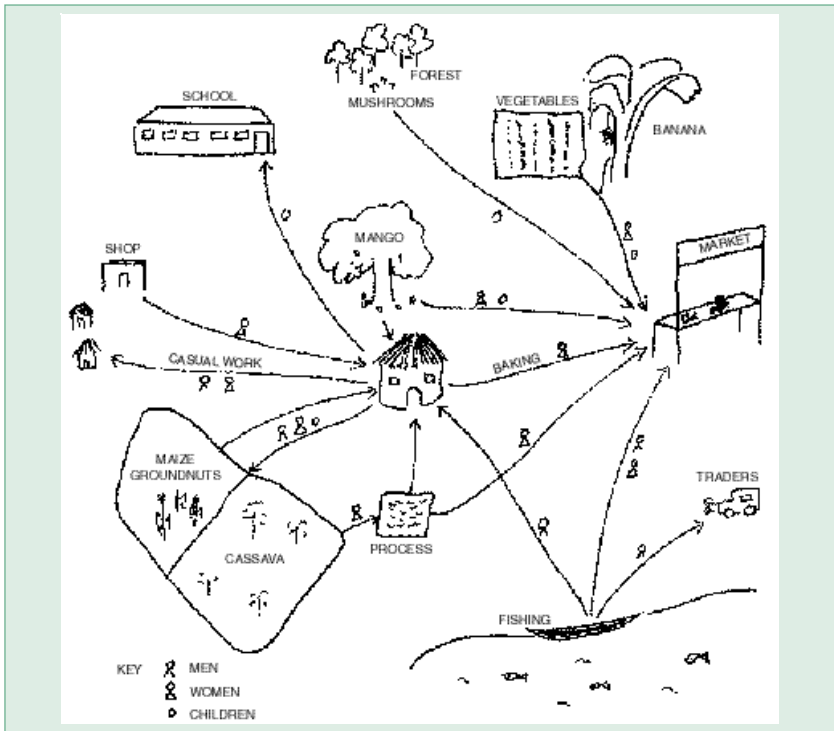


Figure 1: A Household Economy Diagram from Zambia

sion-making. Kinship structures may partially or wholly define someone's access to land and other resources. There may be certain financial responsibilities that go with being part of a kinship group and a person's power within society will probably be governed by his or her position within the group.

Gillette and Uphoff (1972) emphasise the significance of social organisation and patron-client relationships in rural communities:

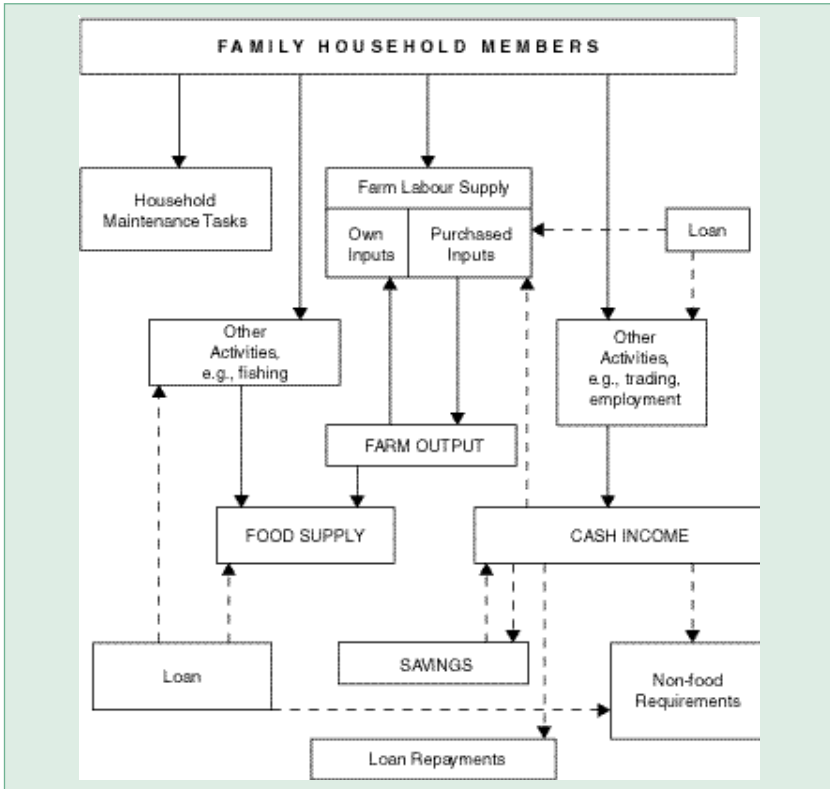


Figure 2: A Rural Household Economy

“The types of relationships, which normally exist at the village level, are characterised by multiple ties. In other words, a man who engages in an economic transaction with another may also be related to him by kinship ties, by political faction, by ritual responsibilities or by common membership in some form of voluntary association. The complex interaction of such multiple ties, not just some calculation of individual prof-

Table 1
Cash Income Sources in Farming Households in Zambia
MUMBWA AND KATETE CULTIVATORS; NOVEMBER 1967 – OCTOBER 1969

	Income by source										Total Income
	Crop Sales	Self- employ- -ment	Wages	Motive power hire	Alcohol sales	Capital transfer	Live- stock sales	Gifts	Miscell- aneous	Bush collect- ion	
Number of cultivators receiving income from this source	226	110	157	47	182	48	155	147	79	61	239
Kwacha ¹ per cultivator per year (n = 239)	102.0	50.0	37.2	18.7	14.4	9.6	9.6	3.2	2.4	1.2	248.5
Percentage of total income	41.0	20.1	15.0	7.5	5.8	3.9	3.9	1.3	1.0	0.5	100.0

Reference: R.A.J. Roberts (1972), "The Role of Money in the Development of Farming in the Mumbwa and Katete areas of Zambia".

¹ 1 Kwacha (K) = £Stg 0.58 (Oct 1969)

it, will shape the economic transaction. Someone who is politically dominant or holds a higher status in the kin group or is a ritual leader can often obtain more favourable terms in any given economic transaction than will a man who is not a member of a powerful kinship group or is subordinate in other relationships. At the same time, it must be recognised that the former has certain obligations to the latter, for protection, for employment, for sponsorship, for aid in times of emergency.”

They point out that the responsibilities of patrons often include the provision of production or consumption credit. Thus where insecurity is common, attachment to some more powerful figure or family can provide some margin of security. Gillette and Uphoff also identify the significance of attitudes and values on people’s decision-making. Every social group is characterised by different values relating to work and the division of labour, to time and thrift, to indebtedness and investment, to property and cash income. People will differ in the priorities they assign to various kinds of expenditures. Certain consumption items may be thought more important than investments, which could provide increments in income. As Gillette and Uphoff point out, living up to certain community norms for prestige may have economic advantages because someone who conforms to the standards of a higher group may be able to achieve some of the advantages of that group in its economic relations with others. Thus expenditures for “prestige” may have productive consequences for the individual concerned. Furthermore substantial economic gains may incur jealousy on the part of others and lead to economic or social sanctions against a progressive individual.

What a complicated set of factors to take into account when considering financial decisions! How does it differ from people operating in more fully commercial situations? One difference will be the clearer focus on successful income-generation or profit. The influence of full dependence on markets makes it imperative to calculate costs and returns to ensure long term survival. For continued commercial success, most entrepreneurs adopt a growth-oriented strategy and they are more likely to specialise in one particular activity, which they have found to be profitable. Most of their transactions will be conducted with money and the importance of keeping this securely and managing it effectively will be greater.

Studies of households reveal a gender difference with regard to enterprise strategies. Women tend to be more survival and security oriented in their strategies, largely attributable to their primary concern with feeding the family, their limited access to resources and lack of control over income. They may also have to contend with the threat of abandonment and divorce, which increases their concern with security. Women's enterprise strategies are thus characterised by diversification into small, unspecialised operations run by one or two relatives with a minimum of capital equipment. They have to work within the typically shallow markets that prevail in rural areas and this limits the quantity of any single product that one person is able to sell. Thus diversification to fill market niches as and when they arise is the most appropriate strategy for many women. Men, on the other hand, are more likely to pursue commercial, growth-oriented enterprise strategies. They generally have greater access to and control over resources, they have more freedom to travel to buy and sell in larger markets and they will probably be cushioned from the effect of taking more risks by the security strategies of other household members.

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Table 2 summarises information gathered during interviews with rural women in Tanzania about their income-generating activities (Tovo, 1991).

Ninety two percent of all the women interviewed had at least one income-generating activity and almost two thirds had two. Cases in which respondents described three or more were not uncommon, although the time spent on a third or fourth *miradi* (cash earning activity) tended to be limited. Tovo comments "As some *miradi* depend on seasonal inputs (e.g., selling surplus millet) and others on unreliable inputs (e.g., sugar), women tend to diversify their entrepreneurial activities to ensure a source of cash at any time".

The kind of financial management decisions someone makes will be affected by their survival strategies. Insights into this were gained during research conducted in Kenya by an anthropologist from World Education looking into the factors affecting the operation of women's group businesses. Kane, Walsh and Nelson (1991) observe "Women run their group businesses as they would their household enterprises,

Table 2

Income-generating Activities of Rural Women in Tanzania

Income-generating Activity ¹	Respondents Involved
Beer brewing and selling	56%
Cooking and selling food	41%
Growing and selling surplus agricultural produce	40%
Processing or selling fish	15%
Pottery	10%
Weaving and dyeing	7%
Animal husbandry	5%
Hairdressing	3%

¹ Other categories of income-producing activities not reaching 2% included: construction and carpentry, tailoring, restaurant, milling and hauling.

employing forms of social and economic calculation different from those required for a business to make a profit and provide regular returns to its members. Resources are invested in and withdrawn from household enterprises whenever the need arises; the requirements of consumption and diverse social obligations take precedence over the seemingly intangible questions of profitability and reinvestment that should govern a business.” World Education took this into account when developing training methods in collaboration with Tototo Home Industries, a Kenyan NGO, to help the women’s groups improve their enterprise success rate. They recognised that they had to draw out the existing components of the women’s experience, which were essential to good business practice and to distinguish and discourage those practices which were not.

The key areas that had to be addressed in the training were:

- The importance of profit as a business goal.
- Simple ways to calculate profit and minimise expenses.
- Ways to control cash and guard against unauthorised cash withdrawals.

- Simple book-keeping methods.
- Ways to improve marketing decisions and assess business opportunities.

This experience in Kenya highlights the essential point that although people in rural areas have considerable experience running enterprises, they do lack skills which are needed to run a viable, commercial activity. Cash control was a particular problem. Group members tended to remove money from the businesses whenever they needed some cash, without any regard to the effects on the business itself. As Kane, Walsh and Nelson say: “The practice of groups in this respect mirrors the situation in their members’ households. The products of domestic enterprises are typically consumed, pooled, distributed among kin or shifted from one enterprise to another at will. The combined contribution of seasonal or intermittent enterprises to the subsistence of the household and its wider social obligations is more important than the specific performance and notional profitability of any one venture. Accumulation can and does take place in this context but not in a form which is enterprise specific.”

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Money then, as stated earlier, plays an important role in people’s lives and managing variable flows is a major problem for most people. There is a need to save. Often there is a need to borrow. For direct transactions between a borrower and a lender to take place, there must be a meeting between two people whose preferences coincide, thereby creating some common ground for the negotiation of an agreement or contract. Unless such a meeting occurs by accident or is confined to immediate relatives and friends, there will be search and transaction costs involved in finding, meeting and negotiating with another person interested in entering an agreement to lend or borrow. Thus a niche exists for middlemen or brokers in the market for financial contracts. They can provide and process information and evaluate the promises of borrowers to deliver at a future date. This is the process of financial intermediation. Put simply, it is the passing back and forth of contracts among individuals who see advantage in exchanging resources. Intermediaries can go a stage further and issue contracts to lenders, which differ from those issued to borrowers. In this process intermediaries must balance customer preferences with customer concern and must overcome associated costs and risks.

According to K.P. Padmanabhan (1988) it was the development of financial instruments that facilitated the emergence of trade and commerce over the centuries. “Indeed, economic growth owes much to money, deposits, loans and financial intermediation.” He goes on to emphasise the importance of rural financial markets in the process of rural development. He explains “The rural financial market in a country is constituted by all those who take part in this process of rural financial intermediation. It includes formal institutions like commercial banks, development banks, co-operatives, etc., agencies in the informal sector like moneylenders and all rural households who supply surplus cash to lend or demand it as borrowers. The concept of a rural financial market embraces all the sets of relationships between buyers and sellers of financial assets who are active in rural economies. Such relationships arise from borrowing, lending and transfer of ownership of financial assets like debt claims and ownership claims. Financial intermediation allows pooling, transfer and disaggregation of these claims through time, space and people. Its usefulness increases rapidly as rural households begin to specialise in production, diversify consumption and make large investments.”

Financial services, which enable people to keep, borrow or transmit money more effectively are just as vital to those with very little money as they are to those with a lot of money.

“Where financial services are available, the poor use them if they can. Where they are not, they organise their own. Often they do both. They are prepared to pay a high price for these services, a clear indicator of how much they value them. Poor people lacking a savings bank that will accept small deposits will accept a negative interest rate for the privilege of storing their money with private deposit-takers. They will also pay high rates of interest to small moneylenders who help them take the future value of household savings as lump sum loans.” (Rutherford, 1996)

Rutherford suggests that the financial services, which enable people to amass usefully large sums of cash, are particularly important to the poor. He indicates that these services fall into two main types:

1. Those that build lump sums by foregoing income:
 - Savings and insurance do this by amassing or buying access to a future lump sum by foregoing income now.
 - Loans do this by providing a lump sum now in return for income foregone later.
2. Those that allow assets to be converted and reconverted into and out of lump sums of cash.
 - Mortgage and pawn are the main examples of this type.

There are many examples of financial services devised and managed by people themselves. The most common of all are small loans between neighbouring or related households, where repayment may be substituted by the obligation to reciprocate the favour at some time. Sometimes such reciprocal lending is expanded to involve several or all members of the community. Rotating savings and credit associations or ROSCAs are a very common mechanism for collecting small savings from many people and turning them into a lump sum for one person at a time.

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These informal mechanisms are primarily used to overcome short and medium term liquidity bottlenecks in the household. Anyone accepted by the community or social group can participate. They do not have to have a goal or a plan or a budget. To join a ROSCA or savings club only requires that a person accepts and adheres to the rules of the association and imposes the self-discipline of finding the weekly, monthly or seasonal contributions required. It is not necessary to calculate profitability or repayment capacity or present records to participate.

Making use of informal financial services offered by individuals aiming to make a profit from their activities, can also take place without any evidence of plans or financial circumstances being produced. It is usual, though, for someone who is accepted as a customer by this type of financial service provider to be well known to the person, particularly if a loan is involved. Box 2 describes some typical semi-professional money-lenders in Vietnam and is taken from Rutherford (1996).

Thus to make use of this type of financial service people do not have to change their current activities or life patterns. It is simply necessary to be known and to have a track record with which the lender is comfortable. To make use of pawn services, it is only necessary to have an asset

or item that someone will take as surety for a loan. Pawnbrokers do not even require detailed personal knowledge of a client.

Informal financial services are vital to the lives of many poor people in many countries. Is there any reason why they should want to use formal financial services? There are a number of factors, which may be of significance. These include:

- The safety of savings.
- The potential to transmit funds and to use cheques for payments.
- The potential to borrow larger amounts of money.
- Access to a wider variety of financial products.
- The availability of client records, e.g., statements and pass books.

During an interview, Mrs Li (see Box 2) indicated that a Vietnamese farmer wanting to dig and stock a fishpond costing around 10 or 12 million dong using borrowed capital, would have to take loans from three or four sources to raise sufficient funds. It is probable that this would have to include a formal institution such as the government-owned agricultural bank in addition to one or more moneylenders. The key question is would such a farmer be able to get a loan from the agricultural development bank?

Formal financial service providers are regulated and licensed. Most are businesses concerned to minimise risk and maximise profits. Issues that concern them are keeping costs under control and expanding their lending operations. This is done most easily in urban situations and many banks have been reluctant to operate in rural areas. There is clearly a market for financial services in rural areas and amongst poorer households. What would make a difference to the formal providers?

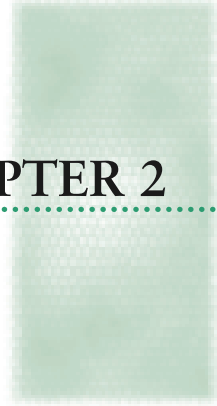
Box 2

Rural Moneylenders in Vietnam

Mr and Mrs Li have a shop and money-lending business (which she runs) in a village in mountainous northern Vietnam. According to Mrs Li there are six people in the village lending cash for profit. They are mostly retired officials who enjoy pensions or shop-keepers like themselves. They all charge 6% a month and lend only to households in their own or neighbouring villages of whose circumstances they have detailed knowledge. They restrict their loans to a maximum of 3 million dong (about \$300), even to households seen as reliable and successful, in order to spread their risks. Such loan ceilings are practised by all the local lenders.

Some things could not be changed, like distance and the vulnerability of farming to climate and natural hazards. Some things could be changed, such as people's awareness of opportunity, their ability to analyse alternatives, their appreciation of profitability, their skill in forward planning, their management of expenditure decisions, their confidence in explaining and justifying their plans to others, their ability to manage forms and records and so on. The next chapter will look at some actions that could be taken to help people improve their skills in financial management and enable them to command better access to a wider range of financial services.

CHAPTER 2



Improving Financial Management Skills

Four key areas, which offer potential for improving financial management skills, will be examined in this section. These are:

- (i) Literacy skills
- (ii) Analysing skills
- (iii) Planning skills
- (iv) Record-keeping skills

Literacy Skills

Literacy is simply a way of recording and communicating across space and time. Illiterate people are not ignorant - they have many skills and are knowledgeable about many things. Many have survived quite comfortably without literacy and may see no need to change. However, the need to read and write has become increasingly important in the modern world and it is particularly useful in respect of financial management.

Writing things down greatly helps people remember. Most people are particularly aware of the limitations of memory for keeping numbers in mind and for memorising daily events using numbers. When making calculations, people lose track of sub-totals in their head. Words and numbers are just symbols on paper and reading is the process of recognising the symbols and applying the accepted meaning to them. Thus the ability to both read and write quantities, amounts of money, names, instructions and so on, facilitates processes of analysis and exchange of information.

The procedures of formal financial institutions always involve written communication methods. At the very least it is useful to have personal identification, to be able to give your address and be able to sign your name. Depending on the financial service someone wishes to use, there may be a contract to understand, a passbook to manage, cheques to fill

in and sign, statements and letters to read and rules to follow. It is important to be able to read notices like times of opening or which service is offered at a particular counter. A lack of literacy is a major reason for the discomfort people experience in formal institutions and it places them at a disadvantage in dealing with the staff of the organisation.

In terms of managing transactions and financial affairs, the ability to write down details of people who owe you money, to read an invoice, to record daily takings or note and compare prices, would all be useful. If someone is interested in analysing the profitability of an enterprise or assessing the impact of changing some aspect of what they do, then being able to collect, record and add up information on expenditure and sales becomes vital. Literacy is the first step in improving financial management skills but how and what someone learns to read and write will affect the relevance and usefulness of the skill.

18 For example, learning to recognise and write numbers will be most use if related to units of money, weights or quantities of products, bus fares, road distances, field sizes, etc. Similarly the words people learn to read and write can be made relevant to the types of documents, notices, instructions and so on that they need to deal with. Many literacy programmes now also have an element of consciousness raising following the ideas of Paulo Freire who linked literacy strongly to social change. Freire coined the word “conscientization” to describe this process of awakening in which people are encouraged to analyse their situation, including the political dimension, and to see themselves as capable of changing it. This has value for financial management because, as we saw in Chapter 1, people’s decision-making is greatly affected by their attitudes, beliefs and social position and these may need to be reconsidered and challenged if a more profit-oriented approach is to be adopted.

There are some good examples of literacy teaching, which can improve financial management.

Figures for Book-keeping is a training package published by FAO in 1993. The material in the package was first developed by the FAO project “Integrated Development of Artisanal Fisheries” in Benin and developed further by the Women in Development Unit in FAO’s Regional Office in Accra with assistance from the Ghana Non-formal Education

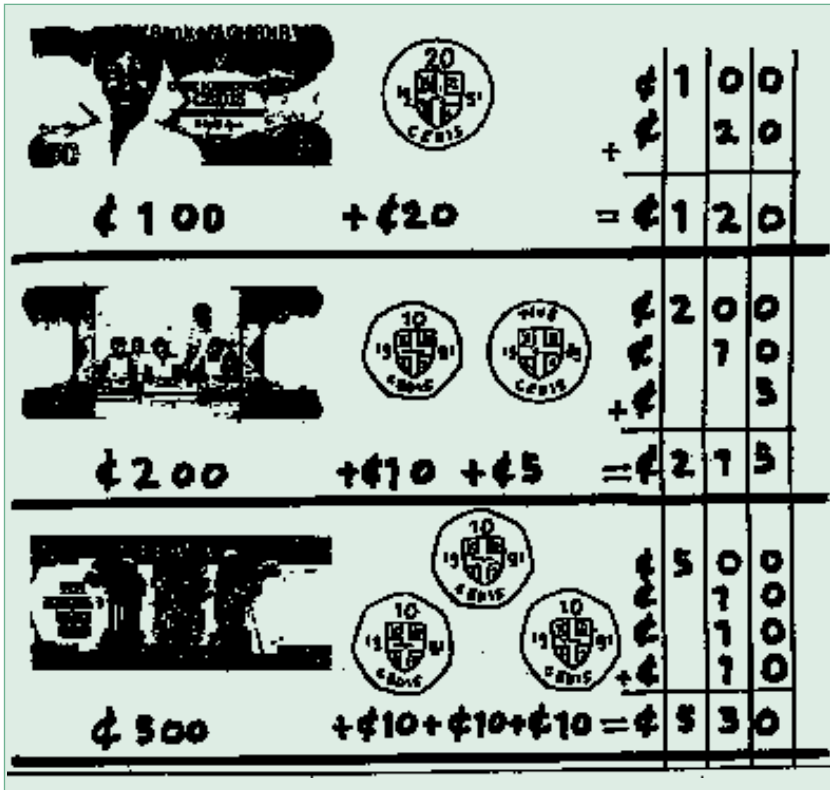


Figure 3: An Example from Figures for Book-keeping

Service. The main aim of the package is to teach Arabic figures, calculations and the use of money to women and men who work in agriculture, fisheries or forestry or have a small business. Figure 3 gives an example of some material.

The REFLECT approach developed by ACTIONAID is based on the theory of Paulo Freire and makes substantial use of Participatory Rural Appraisal (PRA) techniques. There is no textbook with this method. Each group of people or literacy circle “develops its own learning materials through the construction of maps, matrices, calendars and diagrams that represent local reality, systematise the existing knowledge of participants and promote the detailed analysis of local issues.” (REFLECT Mother Manual, 1996).

The introduction in this manual continues:

“These graphics can include maps of households, land use or land tenancy; calendars of gender workloads, illnesses or income; matrices to analyse crops, credit sources / uses or participation in local organisations. A graphic is initially constructed on the ground (using whatever materials are locally available) promoting everyone’s active participation. It is then transferred to a large sheet of paper / card using simple pictures. Words are then introduced on the graphics, initially as labels, later as commentaries. The graphics are used to stimulate discussion, participant-generated writing, related numeracy work and action to address local problems.”

Figure 4 shows an example of a graphic from the REFLECT Mother Manual which is used to initiate discussion on income and expenditure.

To develop this theme further, literacy group members can be encouraged to make a calendar showing the variation in income or expenditure on a monthly or weekly basis. This leads directly to opportunities to calculate actual income and expenditure for one or more months and determine the pattern of surplus or deficit. It is also possible to encourage reflection on specific expenditure items, e.g., fertiliser or beer or education. Thus a considerable amount of financial management skill can be derived from a literacy exercise using this method.

Figure 5 shows a map which could be used as the basis for examining the location of services in an area, including financial service providers, or for assessing alternative markets or employment opportunities. Numeracy work could include measuring distances, comparing market prices, working out the cost of transport and so on.

Analysing Skills

The element of “conscientization” included in literacy programmes is a step on the way to developing analytical skills. For someone to bring about a change in their life, it is necessary for them to take stock of where they are at this moment and form a clear notion of where they

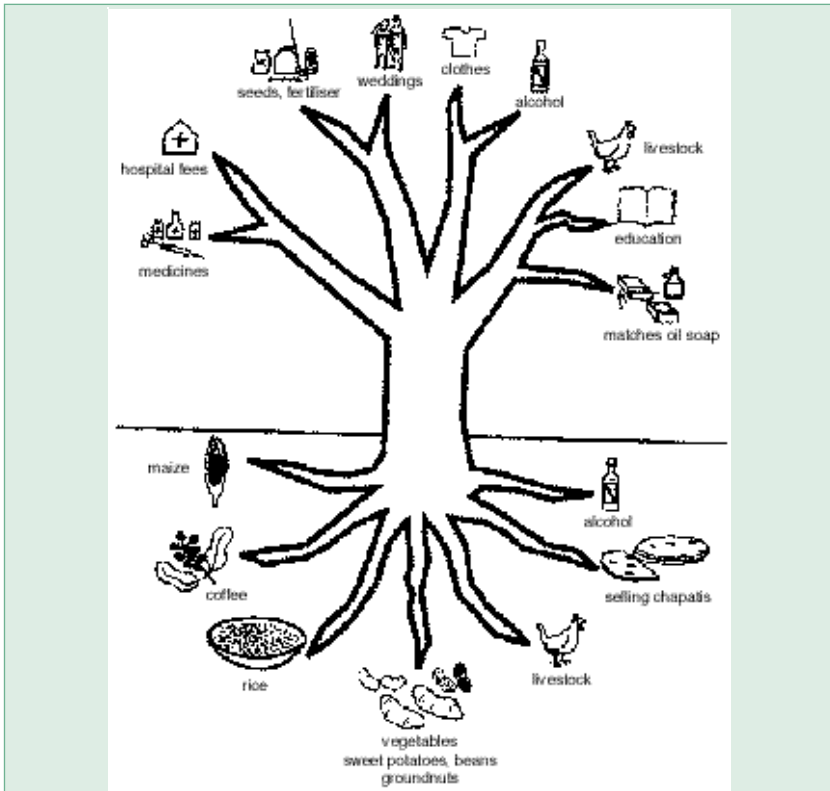


Figure 4: An Income and Expenditure Tree from the Reflect Mother Manual

would like to be. Then they have to work out how they could get there and whether their family and friends will support them in pursuit of that goal. They need facts and information about their current position. Then they may need to identify the reasons for a problem or find out if something they are engaged in now is actually losing money. They may need to look closely at their resource base or analyse marketing alternatives. They may need to assess their strengths and weaknesses and identify opportunities to do something new.

In “Consultancy for Small Businesses” (Harper, 1977), the author describes the situation of a number of small businesses in which the owners thought they needed a loan. “What they really needed most of

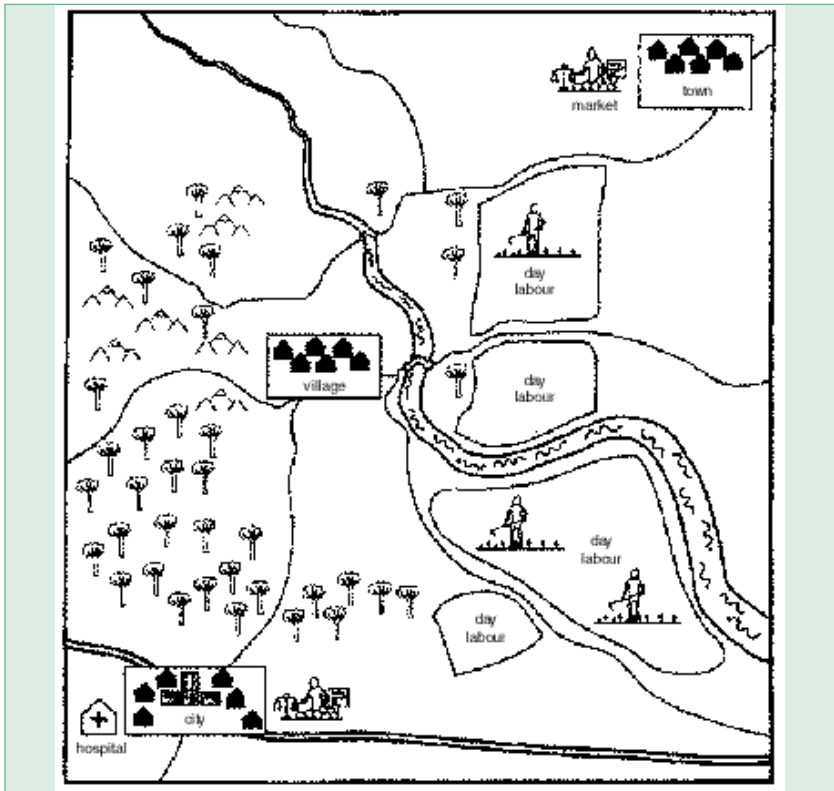


Figure 5: A Map of Opportunities and Services from the Reflect Mother Manual

all was management advice, which enabled them to analyse their situation and their own ideas. They were then able to restate their needs and to solve their problems more economically.” Harper explains that although each situation was different, in every case the first need was for investigation and analysis.

To analyse anything properly it is necessary to have information about the current position. Very few rural households such as are described in Chapter 1 have recorded information about their activities, partly as a result of literacy problems and partly because it would not be customary to keep written records. There may be apprehension about taxation

or local interference in their affairs if “too much” is readily known about their financial situation. However, there are ways to encourage people into an analytical process by using visualising techniques and participatory methods, which ensure they feel in control of the process.

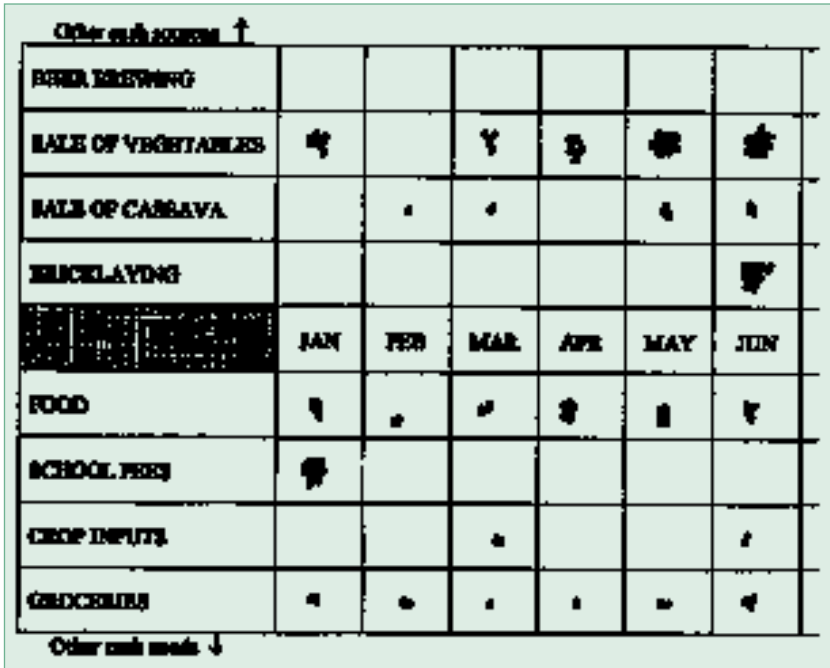


Figure 6: Extract from a Seasonal Calendar of Cash Income and Expenditure

A seasonal calendar, for example, can be used to examine patterns of income and expenditure over time and can be done in the first instance without the use of numbers and words. Symbols can be used for items of income and expenditure and beans can be used to represent quantities of money. An example is shown in Figure 6 with words replacing symbols for ease of interpretation.

To aid discussion about the availability or shortage of money it may be

possible to create a diagram showing the months or weeks of surplus cash and those of deficit. Two examples are given in Figure 7.

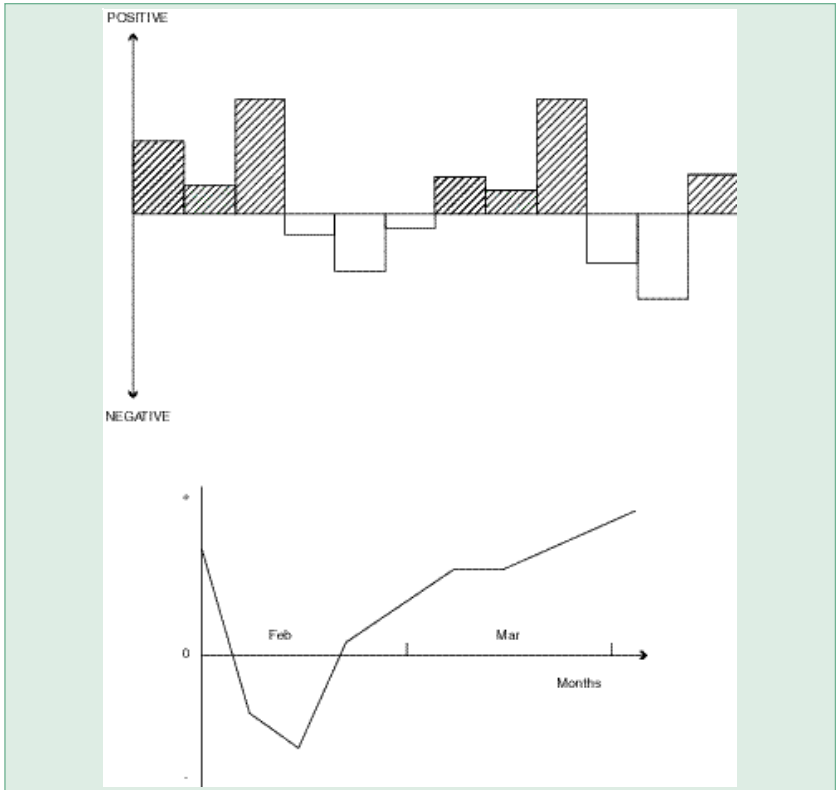


Figure 7: Diagrams Showing Patterns of Net Cash Flow

The household economy diagram shown in Figure 1 could be used to encourage an individual or family group to examine the range of money generating activities they are engaged in to determine which they think is most important or which has most potential for improvement. This could be followed by a simple calculation of enterprise gross margin or profit. Figure 8 shows an example of how to calculate profit from a small scale trading enterprise. This is taken from the FAO publication

“Simple Book-keeping and Business Management Skills” (Meijerink, 1997). Symbols are used instead of words.

Beatrice buys and sells oranges. After buying some oranges she pays someone to help her carry the fruit and for transport to the marketplace. She also pays someone to help her with the selling. These are her costs for one market visit:






☆		⊖	€
25-10-94		3 x 500	1500
25-10-94		3 x 100	300
25-10-94		1 x 700	700
25-10-94		1 x 150	150
			2650

Figure 8: How to Calculate Profit

If she sell all the oranges, this is her income:

☆		⊕	€
26-10-94		300 x 20	6000

This is how much profit she would have gained:

⊕	-	⊖	=	😊
6000	-	2650	=	3350

This is an extremely simple example. However, extending the principle of working out costs and returns to more complex enterprises is not that difficult. It does not matter if figures are not completely accurate – rough estimates can also provide scope for analysis – and it is not necessary to use the specialised language of accountancy.

Discussion about how much profit is being made might lead into discussion about how to increase it by, for example, cutting costs or selling at a higher price. Figure 9 shows the use of a matrix to help people compare their marketing decisions for different products. First the participants were asked to rank the markets in terms of current preference. Their opinions are represented by the beans on the left side of each box. Then they were asked to rank the markets in terms of profitability, represented by the seeds on the right of each box. The diagram shows the matrix in the process of completion. In practice symbols would be used instead of the words where literacy is a problem.

The kind of discussion points that can be derived from this exercise include:

- Reasons for the preferred markets.
- Whether the preferred market is also the most profitable.
- If not, what are the constraints to reaching the most profitable market?
- Is there scope for collective marketing to secure better prices or reduce transport costs?
- Are there seasonal differences in preferred markets?
- Do these differences offer any scope to improve profitability?

A similar exercise could be done for purchased inputs.

Seasonal calendars can be used to compare prices throughout the year. Mapping can stimulate discussion about market opportunities. Problems can be analysed with a causal diagram. Figure 10 is taken from Participatory Farm Management Methods for Needs Assessment: A Manual (Dorward, Galpin and Shepherd, 1997).

In this example, which is only an extract from a more comprehensive analysis of the problem of low profitability in cotton production, a scor-

	Local market	Headline	Visiting trader	Cooperative
Melons	1 4		2 3	5 6
Cassava	2 4	3 4	1 5	
Groundnuts	1 2	3	4	5 6
Beans	1		2	3
Fresh fish	1 2	3	4	
Dried fish	1	2	3	
Vegetables	1	2		
Fruit	1 2	3		
Chicken	1	2		
				etc.

Figure 9: Evaluating Market Decisions Using a Matrix

ing method has been introduced to indicate the relative importance of each cause. Thus, low yield is considered by the farmers to be more important than low quality as a reason for low profit and pests are a more serious cause of low yields than poor emergence. This should then lead to a focused discussion on pest control problems and so on.

One other area of analysis that is extremely useful is an appraisal of the way capital is being used. Harper observes in *Consultancy for Small Businesses*:

“We saw that one of the most common problems of small business people is that they think they need more money but are in fact using the

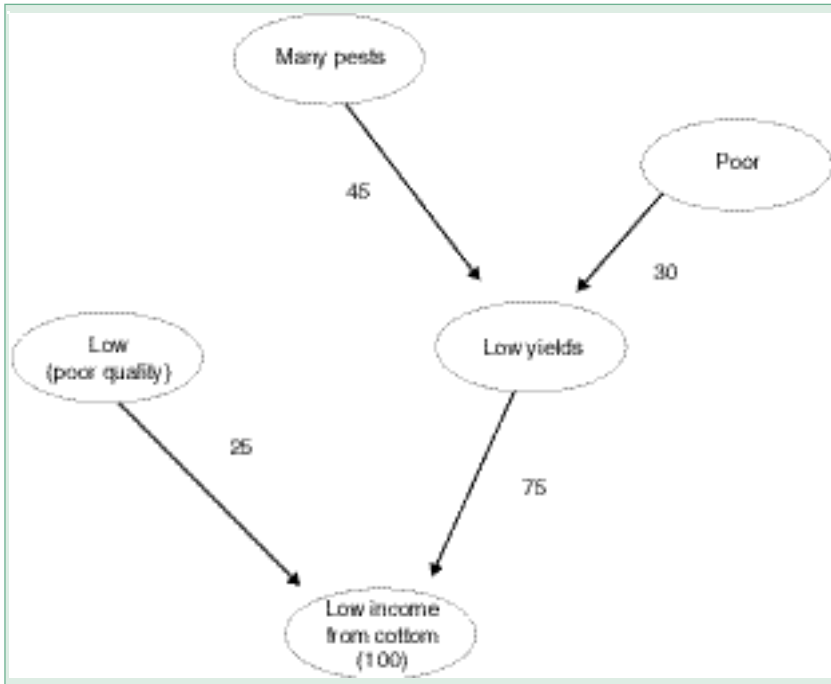


Figure 10: A Causal Diagram Analysing a Problem of Low Income from Cotton

money that they do have in the wrong way. The first object of any diagnosis must therefore be to discover how the businessman is using his capital.”

This requires the preparation of a balance sheet, which lists all the assets and liabilities of a business or household. The words assets and liabilities are accounting terms, which may appear difficult to understand but non-technical jargon can be used to explain their meanings. The booklet and film called *The Balance Sheet Barrier* (Jay, 1977) are very good examples of how to make things simple as illustrated in the extract below.

“There are two basic things you have to know about your money.
Where did it come from? Where did it go to?”

When you start a business there are only two places you can get money from:

1. Use you own.
2. Borrow someone else's.

When you start a business there are only two kinds of things you can spend your money on:

1. Things you mean to keep (*fixed assets*).
2. Things you mean to sell (*working capital or current assets*).”
(The Balance Sheet Barrier)

The book and film go on to expand these points using diagrams and cartoons. Similar techniques could be used anywhere and words can be replaced with symbols.

WHERE HAVE I GOT MONEY FROM?		WHAT HAVE I GOT IN MY BUSINESS?	
<i>Borrowed</i>		<i>Things to keep</i>	
Credit from traders	55,000	Implements	110,000
		Fruit trees	150,000
Loan from village bank	<u>400,000</u>	Grain bin	<u>180,000</u>
Total	455,000	Total	<u>440,000</u>
		<i>Things to sell or use</i>	
		Maize stored	280,000
<i>My own money</i>	630,000	Cassava in field	100,000
		Goat	<u>90,000</u>
		Total	<u>470,000</u>
		<i>Cash</i>	
		Money owed to me	10,000
		Savings	100,000
		Cash in the house	<u>65,000</u>
		Total	<u>175,000</u>
TOTAL AMOUNT	1,085,000	TOTAL ASSETS	1,085,000

Figure 11: A Balance Sheet

A balance sheet can be built up quite simply through questions and observation and it provides a useful picture or snapshot of the business at the moment of completion. It reveals what somebody has achieved

from their various decisions so far, what kind of resources are available for the future and how dependent someone is on borrowing.

Planning Skills

Members of a household depending on farming and other small enterprises can only improve their lifestyle by generating more profit. Thus analysing their activities and seeking ways to increase revenue or decrease costs is an essential first step. The difficulty of gathering facts will probably flag up the need for record-keeping, which will be covered in the next section of this chapter. If new ideas or solutions to problems have been identified, however, it is important to examine these closely to ensure they will lead to the desired results. This involves planning the implementation of the new or changed activity and calculating the financial implications with a budget.

The ideal first step in planning is for the person involved to clarify their objectives or goals. It was pointed out in Chapter 1 that people have many influences on their lives and are part of a complex social network. It is important for people to be aware of that and to decide how far they are prepared to change their current pattern of life in pursuit of a higher income.

Box 3 contains a case study taken from Consultancy for Small Businesses (*op cit*). It usefully illustrates the need for someone to see the relationship between social and business commitments more clearly and acknowledge that change and a new vision of the future may be beneficial.

If an idea for change involves producing more of a product or producing something new, an assessment of market demand is the next important step. No sensible budgets can be prepared without a clear idea of how much of a product or service can be sold and at what kind of price. The skill of market research is essential to all small scale producers, even if it is just observation in the local market or asking for people's opinions.

Box 3

The Carpenter Case Study

A carpenter made simple furniture and sold it from his shop to local people. He said that he could not quote for large contracts to make school desks and benches because he had not got enough money to buy the quantities of wood that would be needed.

When the carpenter's accounts had been computed, they showed that he was earning a reasonable profit every month, which was more than enough to pay for his simple way of living. In discussion with an adviser, he eventually admitted that he gave all his spare cash to various relatives who continually pestered him with requests for help.

The carpenter was persuaded that it was in the long term interest of his family as well as himself to expand his business and that, if he refused random requests for help, he would soon be able to offer more jobs and earn more money for everyone's benefit. He opened a bank account and made regular deposits. In a few months he was able to quote for and obtain school contracts and his business expanded rapidly.

The carpenter thought he needed more capital but his family would probably have taken away any more money that he could have obtained. He really needed to be helped to stand back and look at the long term future. He then realised himself that his family's long term benefit depended on short term sacrifices and proper financial management.

Once the potential is established, planning involves working out all the resources that are required to effect a change or new activity and listing them. Then a profit estimate can be prepared, usually as a partial budget. As with all other examples given so far, this type of budgeting can be done simply and without jargon. Correct words, however, once they are familiar, do help in communicating with others. So terms like variable and fixed costs and capital investment are useful once they are understood. Figure 12 contains a simple profit estimate for the production of tomatoes. An appropriate time period must be selected for this type of budget.

More discussion can be encouraged by using the method of partial budgeting shown below, which includes consideration of the effect on other

Income		
50kg tomatoes sold at \$2 per kg.	\$100	
Total income		\$100
Variable costs		
Seeds	\$ 10	
Fertiliser	\$ 25	
Chemicals	\$ 15	
Bags	\$ 10	
Fixed costs		
Market licence	\$ 5	
Transport	\$ 11	
A share of the cost of tools (depreciation)	\$ 4	
Total costs		\$ 80
Profit		\$ 20

Figure 12: A Partial Budget

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activities. This may be very important in a rural household where many activities are competing for people's time and attention.

+	-
EXTRA INCOME	INCOME LOST
New or extra things you will be able to sell or eat if you make this change	Things you will no longer have to sell or eat if you make this change
COSTS SAVED	EXTRA COSTS
Things you will stop buying as a result of the change	Things you will have to buy because of the change or new activity
You will only save a share of the cost of equipment that lasts longer than the budget.	Only include a share of the total cost of capital items that will last longer than the period of the budget.

A profit budget indicates how worthwhile a change may be if the quantities and prices assumed are realised. It is wise to recalculate the budget with different price and quantity assumptions to see if a profit will still be made. If the tomatoes in Figure 12 only fetched \$1 per kg. or only half could be sold, the enterprise would make a loss of \$30.

The final step in financial planning is to work out a cash flow budget. This shows when sales will bring in income and when inputs will have to be bought. When a new activity is being introduced, many people prepare a cash flow, which only includes the expenditure and receipts of the new enterprise. This partial cash flow is less useful than one which takes into account all household activities. A full cash flow budget can show someone whether they will have enough money to carry out their plan or if they will be short of money in any month. If borrowing is proposed to cover deficit periods, then the cash flow budget can help the person work out when repayment would be possible. In the absence of records, details of household expenditure usually have to be estimated. Figure 13 gives an example of a cash flow budget for a household in Eritrea who propose to purchase a dairy cow to improve their income. The figures for the new activity are shown in italics. Figure 14 shows how a loan and repayment schedule could be planned to make this proposal feasible. The example is based on data collected by ACORD in the Southern Zone Savings and Credit Scheme in Eritrea. Further information on this scheme will be given in Chapter 3.

Record-keeping Skills

To stay in control of money, it is usually necessary to write down what has been received and what has been spent. Memory is not good enough for proper analysis and planning.

It was noted in Chapter 1 that a common problem for people from rural households was the tendency to treat cash received as disposable income whereas it may be needed to meet business expenses. Other people have problems controlling the sale of goods on credit.

INCOME	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Crops	450	500	400									200
Wages		100	200	200								
Sharecropping	200						400	300				300
Gifts	100	200							200			
Milk		170	340	340	340	340	340	340	300	300	300	300
Sale of calf									800			
TOTAL	750	970	940	540	340	340	740	640	1300	300	300	800
EXPENSES	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Food	130	195	130	130	130	130	130	95	195	95	120	130
School	7	7	7	7	7	7	7	7	325	7	7	7
Clothes	200	400		100					300			
Animal feed	10	25	25	35	50	15	5	5	5	5	5	15
Tax	80											
Other	33	58	33	33	33	33	33	33	58	33	33	33
Savings	10	10	10	10	10	10	10	10	10	10	10	10
Dairy feed	180	180	180	180	180	190	200	200	180	180	180	180
Cow shed	200											
Cow	1000											
TOTAL	1850	875	385	495	410	385	385	350	1073	330	355	375
MONTHLY BALANCE	-1100	95	555	45	-70	-45	355	290	227	-30	-55	425
Cumulative Balance	-1100	-1005	-450	-405	-475	-520	-165	125	352	322	267	692

Figure 13: A Cash Flow Budget 2

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
MONTHLY BALANCE	-1100	95	555	45	-70	-45	355	290	227	-30	-55	425
Withdrawn from savings	200											
Proposed Loan	1000											
Proposed Repayments					-175	-175	-175	-175	-175	-175		
New Cumulative												
Balance	100	195	750	795	550	330	510	625	677	472	417	842

Figure 14: Loan Planning with a Cash Flow Budget²

There are many simple methods, which have been devised for people to keep records of money transactions even though they may be non-literate. It does require self-discipline and commitment to fill them in regu-

✱	⊕	₹	₹	⊖	₹
1-9-93	1000	8000	1-9-93	2 × 2000	4000
1-9-93	⊕	1000	1-9-93	₹ 1 × 2500	2500
1-9-93	⊕	600	1-9-93	⊖ 1 × 1200	1200
1-9-93	⊖	400	1-9-93	⊕	600
		10,000			8300
			1-9-93	1000	
				10,000 - 8300	1700
					10,000

Figure 15: A Simple Cash Book

² Figures taken from PRA and Microfinance: Conceptual and Methodological Problems with Appraisal and Impact Assessment of Micro-enterprises (Sorensen, 1998).

larly, so people have to have be motivated by a desire to improve their income level or perhaps get themselves out of debt.

Figure 15 shows an example cash book from Simple Book-keeping and Business Management Skills (*op cit*). Symbols have been used instead of words.

It is possible to help people keep records of money without writing numbers. For example, columns can be allocated to the local denominations of money and amounts taken or spent on certain items can be recorded by making a mark in the relevant column.

The cash book example above is a useful first step for improving record-keeping skills. A better structure still is to have an analysed cash book as in Figure16. This enables receipts and expenditure to be noted down under separate headings for each enterprise or type of commodity in addition to maintaining a running total of money received or paid. There are methods within this system for dealing with transactions that are partly in kind and separating cash transactions from those processed through a bank.

Date	Details	Total	Maize	Yams	Fish	Poultry	Wages	Cooked food
2/2	Crops sold at market	10.50		10.50				
5/2	Eggs sold at market	14.80				14.80		
10/2	Casual work for Mr Hamsa						25.00	
15/2	Crops / food sold at market	18.20	10.20					8.00
19/2	Fish sold to trader	15.00			15.00			


Figure 16: Receipts Page from an Analysed Cash Book

RECEIPTS	Budget Week1	Actual Week1	Budget Week2	Actual Week2	etc
Fish	75.00	92.00			
Groundnuts			200.00	212.56	
Rice	300.00	236.70		84.10	
Cooked food	120.00	98.30	120.00	105.80	

Figure 17: Monitoring a Budget

Learning to use an analysed cash book opens up the possibility of monitoring budgets more closely. Having made a plan and implemented it, taking the time to compare what has actually been bought and spent with what was predicted to be bought and spent is invaluable. Instead of sliding into ruin because major discrepancies were not noticed, the person who monitors cash inflow and outflow is more able to predict problems and take avoiding action.

Trading activities are often accompanied by the problem of managing debts. If goods are ever sold to customers on credit, a credit book should be kept with a record for each customer. By recording the value of goods supplied on credit and amounts paid back, the recovery of money owed can be controlled. Figure 18 gives an example of a page from a credit book, which is taken from Simple Book-keeping and Business Management Skills (*op cit*).

Name of customer: Akosua 












*		- 	+ 	= 	
14-12-93	 2 x 6000	12,000	0	12,000	
21-12-93	 10000	0	10,000	2,000	
21-12-93	 1 x 6000	6000	0	8000	

Figure 18: Recording Credit Transactions

Conclusion

This chapter has attempted to show a range of skills that could be introduced to rural households, which would bring their financial management practices in line with the expectation and interest of formal financial service providers. Literacy would bring confidence and the simple ability to manage the formalities of banking such as reading statements or writing cheques. Analytical skills would help people clarify their current position and future goals and enable them to perceive opportunity and compare alternative courses of action. Appreciation of markets and customer requirements becomes vital when managing a commercial enterprise, as does the understanding of costs and profit margins. Planning skills which predict results and consequences of different courses of action and the ability to record, monitor and control financial transactions would also provide financial organisations with much of the information they need to set up and manage client accounts.

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For anyone to attempt to learn these skills and to put them into practice in a consistent manner requires immense motivation. No one would go to so much effort unless they were determined to operate in the commercial world of trade and had the desire to improve their cash income by improving the profitability of one or more of their enterprises. Given the desire and motivation, this chapter has shown that methods exist and are adaptable to enable literate and non-literate people enhance their financial management skills.

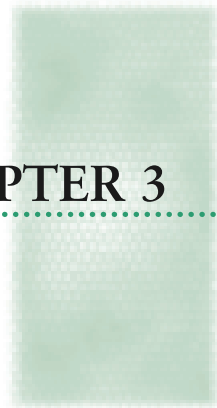
From the perspective of financial service providers, the rural market should be one of untapped potential. Huge numbers of potential customers live there in need of savings, loan and insurance products. So far most commercial banks have not considered it profitable to move into rural markets, regarding it as high risk and high cost. The field has been left to governments and donors to introduce microfinance services as part of poverty alleviation or rural development programmes. According to Harper *et al.* (1998), banks should be competing in these markets. “What is fundamentally needed is a change of attitude; bankers must learn to regard poor people not as objects of charity but as ‘an additional opportunity for investment with profit’ (Magill, 1994). Financial services for this market should be seen not as ‘a handmaiden

of non-financial objectives such as poverty alleviation, social co-operation or the empowerment of women' (Rutherford, 1995), but as worthwhile banking business in its own right. In this way, banks will profitably expand their customer base and, in the process, they will help the poor people to be less poor."

At least some of the banking industry's reservations about this potential customer base would be redressed, if levels of literacy and business management understanding were higher. Transaction costs would be lower if prospective clients came forward with the ability to provide details required by the bank and the confidence to explain them. Risks would be lower if clients optimised their market opportunities and controlled their financial transactions.

The next chapter will examine ways in which rural householders could be assisted to improve their financial management skills and which organisations could play a part in the process.

CHAPTER 3



Mechanisms for Promoting Improved Financial Management Skills

People learn throughout their lives. Learning is a natural, instinctive process and consciously or unconsciously we are learning new things all the time. Every action we take results in consequences and if these consequences are desirable, we are likely to repeat that action. In this way we build up experience and knowledge of actions and outcomes. We also learn from observing the consequences of other people's actions. Learning has different facets – it includes changes in knowledge, skills and attitudes.

In childhood most learning occurs at home, as children listen and observe the activities of the adults around them. In rural communities, children often have to work from an early age, contributing to the livelihood strategies of the family. Thus, as they grow up they absorb knowledge, learn skills and adopt prevailing attitudes. All countries now also offer formal education to children through a system of schools, which are generally owned, supported or run by the state. Attendance at school is usually compulsory but the law may not be enforceable and, in rural areas particularly, children may get little or no schooling.

If we are seeking a change in adult behaviour in terms of financial management, it is essential to consider first how school education can contribute to the process and then to examine the range of approaches that can be used to inform and encourage adults in their working lives. These include:

- Using mass media to raise awareness, e.g., radio programmes, television broadcasts, newspaper articles.
- Using theatre or other forms of entertainment to provoke discussion and raise awareness.
- Using posters, leaflets and booklets to provide information and raise awareness.
- Using community meetings to spread information, encourage debate and stimulate interest.
- Using self-help or study groups to teach new skills and provide opportunities to practice, e.g., literacy, business analysis, financial record-keeping.
- Using training courses to teach specific skills to groups of people.

- Using individual counselling to show individuals how to analyse their own problems, make informed decisions and improve their skills.

All these approaches could be used as part of a strategy to enhance the financial management skills of farmers and rural households.

School Education

Schools are places of enormous potential for shaping the attitudes, practical skills and knowledge of young people. It is here that horizons can be stretched beyond the family and village, where new ideas can be fostered and old ways challenged. However in many countries, education is seriously under-funded, rigid and uninspiring. Teachers often lack the most basic inputs, many lack motivation and use out-dated methods. As a result the education children receive may be of very low quality and bear little relevance to their daily life. Books frequently owe more to a colonial past than a dynamic future. Nevertheless it is through school that most people gain basic literacy and numeracy skills.

The ability to read, write and calculate is extremely useful when dealing with money transactions and financial institutions as explained in Chapter 2. Thus obtaining basic literacy skills as a child through the school education system is an important contribution to the process of enabling adults to develop their financial management skills. It is probable, however, that the usefulness of the literacy skills could be greatly enhanced by ensuring vocabularies and calculations are relevant to the future life of most pupils. Most curricula are geared to a system of producing pupils who can progress to higher levels of academic education and fail to acknowledge that the majority of pupils, particularly in rural areas, are likely to leave school after a few years to survive as small scale entrepreneurs, farmers or labourers. Thus maths is more likely to include probability theory than how to calculate profit and reading is more likely to be about visits to the zoo than the local savings and credit co-operative.

Some of the examples given in Chapter 2 of how to teach literacy and numeracy skills to adults in ways which enhance their financial management and analytical skills could easily be employed in school. The whole participatory approach to learning could transform many children's experience of school. It would shift the emphasis from simple knowledge transfer to one of concern for each child's personal development and ability to tackle life's problems.

Enterprise and financial management skills could be integrated into the school sector in the following ways:

- By adapting existing subjects.
- By introducing an additional subject into the timetable.
- By running workshops for interested students during the school year or during holidays.
- By taking advantage of enterprise or savings schemes sponsored by the government, banks or local businesses.

It has already been noted that maths and language teaching could be adapted to use examples that are directly relevant to the children's lives and future economic activities. Many schools also have productive subjects such as animal husbandry or vegetable growing, often supported by practical work in a school garden or farm. These could be linked to language and maths classes by getting the children to keep records, to calculate costs and profit margins, to prepare cash flow budgets and analyse results.

Introducing a new subject or running a special workshop would enable pupils to practise entrepreneurial skills by developing their own business ideas. They could even become micro-entrepreneurs and run mini-businesses as part of the learning process. Clem Sunter in his book "Never mind the millenium. What about the next 24 hours?" quotes the example of The Wykeham Collegiate in Pietermaritzburg, South Africa, where they teach girls as young as eight to play business games. They are encouraged to move on to selling crisps, soft drinks and other provisions on school property and then they start manufacturing items such as plastic jewellery that they sell to the public on open days. By the time they are in senior school the girls are able to prepare full business plans.

Some governments have tried to encourage a habit of saving by selling savings stamps to schoolchildren so that they get used to building up a lump sum in a savings account. Banks have also tried to encourage children to become customers by providing savings boxes and newsletters aimed at young people. A particularly innovative scheme has been introduced by Eagle Bank in Colorado to help children learn about banking and money management in school. The scheme is described in Box 4.

The case study in Box 5 describes how children as young as four are being encouraged to develop entrepreneurial skills in the Philippines.

Mass Media

Mass media approaches can be used to attract peoples' attention, make them aware of new ideas and stimulate interest. Thus stories, plays, discussions, reports and pictures could highlight issues of money management, introduce concepts of profitability and emphasise the role of savings. Using radio, newspapers, magazines and posters is a relatively cheap way of sending messages to large numbers of people but, of course, such messages can be ignored or forgotten or misinterpreted. There is no personal contact. However, the adoption of new financial management skills requires a new mindset among many rural people and the use of radio and other mass media to create a climate of interest in new ways of managing money, could be of great importance.

In the United Kingdom, the farming community can listen to a specifically targeted national radio programme called Farming Today, which is broadcast daily. Local radio stations often produce programmes aimed at matters of interest to the farm and rural communities in the areas they cover. Once a week there is a television programme dedicated to issues relating to farming and rural life. There is even a long-running drama programme called The Archers, which follows the life of a fictitious rural community. The central characters are farmers and the events, which affect their lives, mirror the real world and in the process create awareness of trends or problems of the day.

The Kids' Bank in Colorado, USA

Eagle Bank in Colorado is a locally owned, independent community bank. They introduced a Kids' Bank programme in local schools because they believe that if children are introduced to the concepts and skills needed to manage money, they will be better equipped for their future.

At each participating school, some older students volunteer to be trained to conduct bank business as administrators, tellers and even acting as marketing staff. These volunteers meet regularly with the Eagle Bank Kids' Bank co-ordinator, who is an accredited teacher. At these meetings they plan the advertising campaign and bank operating procedures. This helps these students develop leadership and mentoring skills and the activities build on their maths and English curricula.

Children who enrol with the Kids' Bank and open savings accounts can make deposits or withdraw money twice each month from student tellers right there at school. Eagle Bank provides a higher rate of return on all Kids' Bank accounts than is available with its regular passbook accounts. The entire programme is supervised by a special faculty banker provided by Eagle Bank.

The educational purpose of the Kids' Bank, which has been approved by the Colorado Division of Banking, is to provide a hands-on approach to learning about banking and money management. Students see others just like themselves operating the bank. They use actual bank documents and learn about such things as:

- Endorsing cheques.
- Handling cash responsibly.
- The importance of keeping accurate records.
- Reconciling monthly statements.
- Compounding value of interest.
- Bank terminology.
- The significance of writing legibly.

The Kids' Bank started out in one elementary school and has expanded to seven of the elementary schools in the area and the Middle School. Eagle Bank has even created a "kid-sized" teller window in the main branch. The programme is fun for the children who participate and encourages them to learn about handling money and the value of saving on a regular basis.

Source: Eaglebank web site – section on Youth Banking

An experiment in early childhood exposure to entrepreneurship in the Philippines

Two Philippine CEFE³ trainers recognised that children with few prospects in life need to learn how to be self-reliant and to determine their own future in order to overcome poverty and improve their standard of living. In 1987, with the support of the local church and the local community, they set up a pre-school in Old Balara in Quezon City near Manila.

The key objectives of the pre-school are:

1. To develop entrepreneurial orientation and skills among very young children aged four to six.
2. To develop a model and teaching aids for teaching entrepreneurship to pre-school children.
3. To organise family members of children attending the pre-school to initiate self-help activities.
4. To hold bazaars at which the children's products are bought and sold.

The entrepreneurial teaching is organised around two topics – what do people eat and what do people do? The children are taken on field trips to places where food is being cooked and sold. By observing people in the local market, the children become familiar with market transactions, the concept of money, pricing labels and marketing. They observe how food is produced, packaged and sold and the role of different people in the market. They also visit local manufacturing businesses such as shoemaking. When the children return to the classroom, they are encouraged to practise their own abilities as micro-entrepreneurs using role-plays, structured learning exercises and a mini-business activity. In the mini-business workshops the children produce traditional candies and discuss packaging, pricing and how they are going to sell the goods. They produce posters or pamphlets to advertise the products and sell them in bazaars at the school, to friends and relatives and maybe to small, local shops.

The teachers select picture books that tell stories about entrepreneurs and highlight issues such as developing talents, honesty, creativity and thrift. Numbers and count-

³ CEFE stands for Competency-based Economies through Formation of Enterprise. It is a training methodology designed to develop and enhance the competence of existing and potential entrepreneurs and the key personnel of enterprise-support institutions, so that they can foster an environment favourable to enterprise development.

Box 5 (continued)

**An experiment in early childhood exposure to entrepreneurship
in the Philippines**

ing are learned through games involving selling, buying and profit-making. The children visit community and supermarkets and have their own play shop in the classroom. An important feature of the teaching at the Old Balara pre-school is the way games and reality always complement each other. In addition workshops are conducted with the children's parents on how to set up and manage a small business. By 1997 526 children had attended the school and demand was outstripping the number of places available. Small informal businesses are now more highly regarded in the community and seen as a reasonable way of securing a living.

Source: Case Study Philippines – an Annex to Integrating CEFE Components into General and Vocational Training Systems – Options and Limitations
A discussion paper by A. Hilpert and S. Bauer published on the GTZ web site.

UK farmers can also buy good quality farm magazines, which include articles and features on production methods and new technology. They often incorporate case studies or stories about farmers' experiences and advice or features written by financial advisers. They can walk into any bank and pick up booklets or brochures with advice on financial planning or better business management. Many banks produce special booklets for farmers. For example, back in 1963 the former Westminster Bank produced a small booklet entitled Budgeting on the Farm and replaced it in 1965 with an enlarged version called Farming is a Business. This booklet set out to show farmers at a time when it was not common practice that keeping records, analysing accounts and budgeting could make a real contribution to the survival of their farms and way of life. The Royal Bank of Scotland used to produce a Farm Budget Book, which provided information and gross margins on the common farm enterprises as a contribution to helping farmers improve their planning.

Box 6 shows an extract from a booklet produced by agricultural advisors attached to a large input supplier and a commercial bank, which was available free of charge to farmers in the UK in the late 1980s.

2 Approaching the Bank Manager



If a farmer wishes to borrow, he will be asked to supply a certain amount of information about his business to enable the lender to advise and lend responsibly. The requirements could include:

1. Farmer's Statement of Assets and Liabilities.
2. Audited Accounts.
3. Proposition.
4. Budgets.

Farmer's Statement of Assets and Liabilities

One of the first things the potential lender will want to know about a business is how it is currently financed. Perhaps the easiest way of indicating this is for the farmer to complete an up to date list of assets and liabilities, a "Farmer's Statement", as demonstrated in the Case Study in the next chapter. It shows

Source: The Farmer and the Lender by J.D.Hope and M.E.Hutchings, published by ICI plc and Midland Bank plc 1985.

Leaflets and booklets can be prepared and made available in many locations where those who are literate and able to benefit from reading them can pick them up. Many members of rural communities can read and well prepared information leaflets in local languages and using visual illustrations to capture attention and explain concepts could play a useful role in promoting awareness of money management issues. Leaflets could be located in village meeting places, community resource centres, shops, co-operatives, schools, banks, government offices and so on. Posters could be used to draw attention to the availability of the leaflets or any other method that is being used to develop financial management skills, e.g., a community meeting or workshop.

Community Meetings

Open community meetings play a similar role to mass media approaches but provide the opportunity for people to share their experiences and opinions with others present at the meeting. This makes the experience a little more personal and enables people to identify with issues raised. Discussions in this kind of environment can help to change attitudes and may lead to group action to solve problems.

Community meetings are currently widely used in the design and implementation of rural development programmes. The advent of participatory rural appraisal (PRA) as a development philosophy has ensured this. In the early 90s PRA was simply a set of methods to help development professionals to learn about rural life and conditions from the people living there. It has evolved extensively since then and was defined in 1994 as “a family of approaches and methods to enable rural people to share, enhance and analyse their knowledge of life and conditions, to plan and to act” (Absalom *et al.*, 1995). Robert Chambers explains in the book “Whose Reality Counts?” that PRA has three key foundations:

1. A change in the behaviour and attitudes of development workers from one of dominance to one of facilitation.

2. A change in the methods used which shift the balance from closed to open, from individual to group, from verbal to visual and from measuring to comparing.
3. An emphasis on partnership and sharing of information and experience.

Thus in the field of financial management, community meetings based on PRA principles could be used to introduce many of the concepts outlined in Chapter 2, e.g., comparing markets, calculating the profitability of an enterprise, the role of financial service providers, the importance of clarifying goals, etc. Topical issues such as the effect of inflation, interest rates or government policies, which have a bearing on financial decisions, could be discussed. Some groups might be motivated to start savings and credit co-operatives as a result of discussion at a community meeting.

Box 7 describes how development workers in Zambia who are using PRA techniques to help communities solve nutrition and food security problems have been encouraged to use the same methods to help people understand and solve their money problems.

Box 8 describes how a game has been developed by the CAMPFIRE programme in Zimbabwe for use with groups of people in rural areas to help them plan and manage money better. The game provides a stimulus for discussion on many financial issues and participants effectively receive a form of training in book-keeping and budgeting.

Self-help and Study Groups

The potential for including financial management skills in the work of literacy groups was described in Chapter 2. Small self-help groups may be formed for many purposes ranging from tackling illiteracy to managing a local well to running a joint enterprise. Issues of money management will invariably arise in the activities of such groups and they then provide a vehicle for group promoters or facilitators to teach financial management skills to the members.

Using PRA Methods to Help Communities Discuss Money Management in Zambia

The project “Improving household food security and nutrition in the Luapula Valley of Zambia” was initiated in January, 1997. The executing agency is the Food and Agriculture Organisation of the United Nations, working through the Ministry of Agriculture, Food and Fisheries in Zambia. Funding is being provided by the Belgian Survival Fund. The project objectives are primarily to promote improved food crop production, to introduce improved food storage and processing techniques and strengthen the local knowledge base of communities, extension and other support services regarding household food security issues. The methods being used include participatory problem identification and planning sessions in villages and the establishment of community food and nutrition teams to bring support staff and communities closer together. A Community Development Fund was also established to provide a source of loans and grants to the communities.

Zambia has a long history of problems with loan recovery in rural areas. So a decision was taken to train the field support staff involved in this project to consider household money problems more holistically and employ the participatory techniques with which they were familiar to help groups and households examine money problems more closely. This strategy was initiated in November 1998. A workshop was run for all key project staff from the Ministry of Agriculture, Food and Fisheries and the Ministry of Community Development and Social Services. Credit Officers from the organisation contracted to manage the loan fund also attended the workshop.

Participatory methods of talking about money were introduced during the workshop under a series of themes:

Money in the household

Making more money

Planning money

Managing money

Money in the community

Mobilising local money

Maximum use was made of diagramming and visualising processes, including mapping, matrices, calendars and charts. Many methods are suitable for use with non-literate people.

**Using PRA Methods to Help Communities
Discuss Money Management in Zambia**

A set of guidelines was produced to remain with the staff so that they had a permanent reference source in the field. These guidelines are still being developed and refined with a view to producing a document entitled "Talking About Money – A Guide for Development Workers" which can be used by any field staff with or without special training. The aim is to encourage the development of analytical, planning and recording skills amongst rural households which would enable them to identify their financial service needs better, manage variable cash flows better and improve their household food and income security as a result. It is also intended to promote a greater understanding of the role of money savings in village communities and the possibilities of developing locally run savings and credit groups.

The credit officers were introduced during the workshop to the idea of taking the whole household economy into account when considering loan requirements and repayment potential just as in the example from Eritrea. They were shown how to construct cash flow budgets and how to present them to clients more visually using bar charts. The extent to which the credit officers and extension staff adapt their regular working practices to using these techniques depends partly on their personal motivation and partly on the commitment of their managers to encouraging them in the new approaches.

Source: Consultant's reports produced under the supervision of Marketing and Rural Finance Service, FAO, Rome following missions to the Project undertaken in August 1997 and November 1998.

Consultant: Jennifer Heney **Technical Supervisor:** Anthon Slangen

Agricultural extension is often conducted through small groups. The approach enables extension staff to reach more people and makes it possible for the participating farmers to learn from each other by exchanging experiences. In a number of countries farmers have taken the initiative to form study groups to learn from each other. They may visit each other's farms to discuss problems or experiences with new methods or technologies. They may invite extension staff to talk to them about particular subjects which interest them.

In south-east Asia farmer field schools have become a widespread method of extension. The aim of a field school is to help farmers gain

Using a Game to Improve Financial Management Awareness in Zimbabwe

CAMPFIRE stands for the Communal Areas Management Programme for Indigenous Resources and it seeks to place the proprietorship of natural resources, especially wildlife, with the people living most closely with them. Under CAMPFIRE, rural district councils with appropriate authority for the management of wildlife, enter into contracts with entrepreneurs for the consumptive (hunting) or non-consumptive (tourism) use of their wildlife resources. Revenue from these contracts is then disbursed to wards and villages in the areas. It soon became clear that the management of the financial benefits derived from wildlife was a serious problem for the communities involved and they requested the project to provide financial management training. The communal areas with wildlife are very isolated and many people have been unable to attend school. Literacy levels are, therefore, low. To address this problem and in recognition of the new approaches to training based on PRA (participatory rural appraisal) techniques, a CAMPFIRE game was developed, which emphasises active learning.

The CAMPFIRE Game is based on the board game “Monopoly”. At the start the participants are given a sum of money and their objective is to move round the board renting wards. Once they have control of the ward, they can develop its wildlife potential by building either hotels or hunting camps. Other players “visiting” these properties are required to pay rent to the owner. Other payments are introduced through a set of “Chance” cards, which may require the player to pay school fees, undertake repairs and maintenance to infrastructure or receive money from the sale of wildlife products.

The game involves each player making many financial transactions, either paying or receiving money. These transactions are used to develop the participants book-keeping skills. Each player keeps a cash-book, issues receipts and writes payment vouchers. Periodically the trainer can stop the game and request that the players balance their books. If someone’s book does not balance, they can practice going through their records and rectifying errors. Apart from practising the mechanics of book-keeping, the CAMPFIRE game provides an opportunity for participants to develop analytical skills such as identifying sources of income, which investments were successful and which were not and how much money they spent and on what. Another stage of the game requires the participants to use their records to develop budgets. During a new game the players have to manage their finances based on their budgets and they have to keep a full set of financial records.

Using a Game to Improve Financial Management Awareness in Zimbabwe

The CAMPFIRE game does not replace formal training sessions in book-keeping, analysis and budgeting, but it does provide a simulation tool which allows participants to practise their skills. Because it is a participatory tool, it is facilitator intensive. The game has been adapted for use in similar projects in Namibia and Zambia. Funding for the development of the game was provided by NORAD.

Source: A board game for financial management training. A paper by Ivan Bond published in PLA Notes 33 in October 1998.

the knowledge, critical skills and self-confidence to make decisions about farm management based on their own observations and experience. A field school consists of 15 to 30 farmers divided into smaller groups of five or six to undertake experiments and practical activities in the field. The groups usually meet weekly and are encouraged to write up the results of their experiments and discussions to present to other groups in the school. The field school approach has primarily been used to develop and spread knowledge of integrated pest management practices.

PRADAN (Professional Assistance for Development Action) is a non-governmental organisation working in India. One of their staff members is currently working on a participatory methodology to help farmers analyse their situation by looking at assets, cash flows, gaps, opportunities and vulnerabilities. The idea is to help them make better decisions about production, borrowing, spending, investments and so on. The whole idea arose from the seemingly irrational decision-making, which they often encounter. For example, a farm family, after getting access to assured irrigation from a water-lifting device, may not cultivate and may instead invest their labour in wage employment even though the former is a superior economic decision. Another farmer may forgo a crop because he could not put together the small sum needed to buy inputs and yet he owns a goat, which could have been sold to raise the needed cash. The money, which should be derived from the crop, ought to be enough to buy back several goats.

Improving Financial Awareness through Adult Literacy Groups in Bangladesh

REFLECT is a new approach to adult literacy pioneered by ACTIONAID, an international non-governmental organisation. The approach was first piloted in three projects in Uganda, Bangladesh and El Salvador and has since been taken up in more than twenty countries around the world and by many different organisations. In a REFLECT programme there is no textbook. Each literacy circle develops its own learning materials through the construction of maps, matrices, calendars and diagrams that promote the detailed analysis of local issues.

Bhola Island is in the southern-most part of Bangladesh. The people living there are mostly farmers. Women live in the private sphere, staying in the home compound of their father or husband. Very few have the chance to go to school, so very few are literate. ACTIONAID started a long term development programme there in 1983 which included all-women savings and credit groups or “shomitis”. The organisation realised that these groups could not become independently managed because the women did not have the literacy skills needed. They also observed that the women were not permitted independent management of their loans and cash income.

A REFLECT literacy programme was started in ten shomitis in 1994. They met for two hours on each working day. The facilitators were young women chosen by the communities. They received ten days initial training from ACTIONAID and then met fortnightly for exchange workshops. ACTIONAID paid the women the standard rate used locally for such work. The learning materials they developed addressed a wide range of issues including agriculture, health, savings and credit, intra-household decision-making, gender relations and analysis of village social structures.

An analysis of the programme showed that after a period of ten months, participants were able to read and write better than participants in conventional programmes. Women were beginning to use their numeracy to manage their own passbooks. The wider impact of the programme was found in evidence that analytical skills had improved, e.g., women were able to plan new coping strategies such as bulk buying, storing or diversifying. They also had more control over loan use and were investing the money more effectively.

Source: The REFLECT Mother Manual. D.Archer and S.Cottingham.
ACTIONAID March 1996.

PRADAN find these situations particularly common in remote villages far from commercialisation. They recognise that from the farmer's point of view there may be many reasons for their decisions, which to them seem perfectly rational. The question PRADAN is attempting to answer is whether one can help them visualise a different point of view, whereby, e.g., selling a goat now to invest in a more remunerative future crop does not look irrational. They believe it is possible by helping them conduct exercises in a group, which simulate and visualise scenarios for individual households. The development of a methodology began in 1999 and PRADAN propose to train their staff to use it with farmers.

So self-help groups, study groups or field schools could all provide a means of helping people to develop their analytical and financial management skills. Box 9 describes an application of the REFLECT approach to adult literacy teaching, which was used in Bangladesh. Whilst learning to read and write, participants in the programme also developed many other skills including financial analysis.

Box 10 describes how the agricultural extension service in Burkina Faso used a group approach to introduce farm management skills to farmers.

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Training Courses

Specially arranged training courses or workshops are another means of adult education. All aspects of financial management suggested in Chapter 2 can be addressed through formal training. Courses can be offered ranging from a half-day duration to several weeks. To attract people to attend such courses the training objectives must be very clear, they must be offered at convenient times in convenient locations and the benefits must be evident to potential participants. Even so it requires considerable motivation on the part of a rural householder to consider attending a formal training course. One advantage of this approach is the ability to help people practice particular skills, e.g., financial record-keeping, preparing a profit statement or cash flow budget, in a supervised situation. Training workshops are probably the most cost-effective

Farm Management Group Counselling in Burkina Faso

In Burkina Faso agriculture is dominated by small-scale family farming. In the west of the country where soil and climate are favourable, agricultural modernisation has been rapid. However, from the late 1980's worsening terms of trade for cotton, maize and livestock have created problems for farmers. It was felt that farmers needed to be able to calculate profit margins and compare different production techniques or levels of intensification and that the agricultural extension service was failing to provide this sort of advice. In 1992 a new approach was developed for the extension service called Farm Management Group Counselling. It is a participatory approach, which focuses on farm household economics first and technical innovations second.

Participatory training is the first characteristic of the Farm Management Group Counselling method. Sessions are held every two weeks and last about three hours. They are devoted to training in farm diagnostics, learning simple principles of farm management, making input/output calculations and going on field visits. Farm management data are gathered by the participants during the sessions and recorded in a specially designed farm records notebook. Handouts on improved practices, written in the local language, are explained and discussed by the group. These practices are examined in relation to the situation of a specific, individual farm managed by one of the participants and analysed by the group. In this way participants learn to make informed choices based on financial calculations, which take into account their own constraints and preferences.

When this group counselling approach is first introduced, it is aimed at literate members of the community. Subsequently leading members of the group are encouraged to become local "farmer-animators" and extend the approach to non-literate members of the community. Impact studies indicated that success factors for farmers included:

A better understanding of income and expenditure – "we now know where our money has gone and how much";

A knowledge of how to measure production and yield and calculate input levels and costs;

An improved ability to plan and estimate food production, consumption needs and marketable surpluses.

Farm Management Group Counselling in Burkina Faso

The Farm Management Group Counselling method was developed by some researchers from INERA (Institut d'Etudes et de Recherches Agricoles) and SNVA (Système National de Vulgarisation Agricole) in Burkina Faso. Technical assistance came from CIRAD (Centre for International Co-operation in Agricultural Research for Development) and operation costs were financed from 1993 – 1996 with a grant from the French Ministry for Co-operation. After the pilot phase it was agreed that the new approach could easily be integrated into the regular activities of the agricultural extension service, SNVA. The approach does not require more personnel or funding, except for specific action research and training in the beginning.

Compared with the current extension practices, Farm Management Group Counselling introduces a new economic dimension, provides tools to farmers and field extension workers about how to analyse farm production, use of inputs, revenue and expenditure in a participatory way and how to link these findings with appropriate introduction of innovations. In this way field extension workers become real farm management advisers who learn how to handle variability of farming practices and how to adjust their advice to the specific needs and potentials of individual farmers. In the future it is thought that field extension workers could become employees of the growing Farmers' Organisations in Burkina Faso. These are independent bodies who will be asked to support their members for improvement of farm incomes, making use of simple understandable instruments of farm management.

Source: Using Farm Management Group Counselling (FMGC) to Improve Agricultural Extension Efficiency. A paper by G.Faure, P.Kleene, S. Ouedraogo and G.Raymond published on the Worldbank Extension web site.

tive way of helping adults learn particular financial management techniques.

Box 11 describes a training course, which is available to micro-entrepreneurs in South Africa. It is aimed primarily at people living in an urban environment but the concept could have application in rural areas. The training can be delivered in different parts of the country by a number of training organisations and there is a close link with the

Box 11

A Training Course for Micro-entrepreneurs in South Africa

The Start-Up Fund was set up in 1995 by a chartered accountant who had been working for an NGO, which was providing business training to micro-entrepreneurs in township areas of South Africa. The Fund aims to provide loans to people who have completed the business training course and wish to develop their small enterprises. The training course is known as the “Township MBA” and it provides people with the basic business skills they need to improve their incomes.

The course involves working through a series of eight workbooks, which are available in the local language, with the support of a trainer who answers questions and offers encouragement. The workbooks cover the following topics:

- Market investigation
- Using a calculator to manage my business
- Buying
- Costing and pricing
- Selling
- Working out a business plan
- Money management
- Stock control

The workbook on money management is particularly important to micro-entrepreneurs. It teaches them to complete a weekly money management form, which has sections to record daily takings, payments and expenses, capital purchases and debtors. Also on the form is a section for the person to work out how to dispose of the net income for the week. They estimate how much is needed for next week’s working capital and loan repayments (if any) and, therefore, how much is available for spending or putting aside as savings.

To register for the training course only requires a nominal payment from the applicant. After completing the training, the person opens a bank account and can then receive a loan from the Start-Up Fund. Initial loans are kept small and increase once the first ones are successfully repaid. Clients must repay the loan capital and an additional charge, which is partly used to make a contribution to a Group Indemnity Trust (GIT), partly to cover administrative costs and partly to make a contribution to the Start-Up Training Trust (SUTT) to cover the costs of the township MBA

Box 11 (continued)

A Training Course for Micro-entrepreneurs in South Africa

course. Occasional business clinics are run to enable users of the Fund to come and discuss any business problems they may have.

The Start-Up Fund with the supporting GIT, which was sufficient to cover any likely level of defaults, and the SUTT, which paid the full cost of training and follow-up, were designed to be self-sustaining without any subsidy. By the end of 1996 the Fund had supported loans to about 4,800 micro-entrepreneurs. At least twenty training organisations were involved in providing the initial client contact, the training and the follow-up or mentoring and their services were paid for from the SUTT.

Source: Profit for the Poor Chapter 17. Malcolm Harper ITP. 1998.

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banks, as people who successfully complete the course can open a bank account and become eligible for a loan. This provides a useful example of co-operation between financial and non-financial service providers. Trainees who go on to get a loan have to make a contribution to a fund when they repay the loan, which partly covers the cost of the training. In Paraguay the government has introduced an innovative scheme to encourage more micro-entrepreneurs to undertake training courses. Anyone who is interested in training can obtain a voucher from the government and use it to help pay for a course. They are free to choose the training that they believe is most relevant to their needs, provided the training provider has been officially recognised by the programme. It is hoped this system will encourage greater interest in training and replace the perception of it as simply a means to obtaining a loan. It is also hoped that competition for customers between the training providers will ensure the development of relevant and practical courses that fulfil genuine needs of small business operators.

Box 12 describes the initiative of an organisation in Uruguay who have been experimenting with the application of CEFE (Competency-based Economies through Formation of Enterprise) training methods in rural areas. The CEFE training approach, developed by GTZ, is based on a principle of interactive, group work involving action and experiential learning, complemented with a substantial component of personal reflection, individual experience and personal development planning. In

Training for Agricultural Entrepreneurs in Uruguay

FUNDASOL (Fundación Uruguaya de Cooperación y Desarrollo Solidarios) is an organisation, which aims to strengthen the development of small businesses in Uruguay. Since 1986 they have been experimenting with applying CEFE (Competency-based Economies through Formation of Enterprise) training methods in rural areas. They have worked with groups of farmers with a view to improving the ability of farmers and their immediate families to function as agricultural entrepreneurs. The process is implemented in stages, starting with awareness-raising activities to get the farmers to commit themselves to changing their situation. After this efforts are made to raise their capabilities in several respects:

1. What they know about the situation of the market and products.
2. Their knowledge and command of producing and processing technologies and how these can be appropriately modified and incorporated into their family businesses.
3. Their knowledge and ability of organising themselves to process and market what they produce and to gain access to funding.
4. Knowledge of the resources they need and techniques for deciding whether to continue as they are, launch a new business, urge action by their co-operatives or conclude an agreement with a manufacturing or trading company.

The training process involves four phases that are systematically repeated throughout the production cycle. Phase 1 involves analysing each farm business, defining one or more objectives, drawing up a plan of action and estimating the resources required to implement the plan. Phase 2 is when actual production takes place. This is the phase in which the farmer should apply accounting methods to monitor their costs, co-ordinate equipment, deal with input suppliers, etc. Training in phase 2 can include both management and production techniques. Phase 3 covers marketing and selling the products produced. In Phase 4 analytical techniques are applied to assess the economic results of the business and draw conclusions for confronting the next cycle. The farmer-entrepreneur should identify strengths and weaknesses, opportunities and risks, and then formulate new objectives and plans based on this analysis.

a continuous process of developing technical, personal and interpersonal skills, CEFE training focuses on what is achievable within the individual's social and economic setting. A wide range of teaching and

Training for Agricultural Entrepreneurs in Uruguay

FUNDASOL have not yet devised a system for financing this training programme beyond its pilot stage in rural areas. They think that it would not be possible for the farmers to finance the programme. International co-operation offers one solution or government could contract private development agencies to implement programmes.

Source: Business Training for Farmers. A paper written by Raul Bidart and published in *Brainstorm* (the CEFE magazine) Vol 2 1998.

learning instruments have been designed for use in CEFE training and the method has been utilised in many parts of the world. Transferring the method to rural communities is at an early stage of development.

Individual Counselling

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Individual counselling or one-to-one discussion has many advantages as a means of adult education. It clearly addresses the unique needs and situation of the individual involved and enables the advisor or counselor to take these unique circumstances into account when giving advice or information. The exchange of ideas that is possible in one-to-one discussions is very beneficial in helping people reassess situations and change their attitudes to problems and solutions. When dealing with money issues, these are intensely personal and few like to discuss their affairs in detail unless they are with someone they trust. Developing this kind of trust is possible with individual counselling. It is obviously possible to teach practical financial management skills like book-keeping in a one-to-one situation but it is costly in terms of time.

Agricultural advisors, business development consultants and financial advisors rely heavily on discussions with their clients on a one-to-one basis as their main method of work. When someone wants to borrow money, a financial institution has to assess the situation and plans of that individual in order to arrive at a sound decision about whether to lend money or not, how much to lend and when it should be repaid.

Whenever such discussions take place there is an opportunity to facilitate learning.

Unfortunately the attitude of those who work in banks or as consultants or extension agents has been inclined towards one of professional arrogance more often than not. Thus a loan applicant is usually expected only to answer questions not participate actively in data analysis and budget preparation. Profit calculations and cash flow budgets are more likely to be in the filing cabinet of the financial institution than in the hands of the entrepreneur. This seems a wasted opportunity when the financial management skills of the clients could be enhanced by explaining and involving them in the calculations and decisions relating to their own businesses. Similarly in follow-up visits to clients there are opportunities to enhance learning by encouraging record-keeping and budgetary control measures as part of the loan review process.

The staff of financial institutions have more reason than most to help individuals improve their financial management skills. However agricultural extension agents could also play a vital role in this process in rural areas. The main problem is that their skills in farm and financial management techniques are likely to be woefully inadequate. This is a situation that could be rectified by training so that extension staff could not only introduce money management issues into community or group discussions but also use similar techniques to help individuals and households.

Box 13 describes how an NGO sponsored savings and credit scheme in Eritrea has evolved an approach to loan appraisal which involves the clients in the process and takes the whole household economy into consideration when evaluating the financial proposal. It is in an early stage of implementation but already the families who have participated have noted that they now get something out of discussions with the scheme staff, which they did not before.

Box 14 describes the partnership credit system of the Sudanese Islamic Bank, which is an example of a financial institution working closely with its individual clients to help them develop their businesses successfully.

Involving Clients in Loan Appraisal in Eritrea

The Southern Zone Savings and Credit Scheme was started by ACORD in 1993 in the Highlands of Eritrea. It was originally organised on a Grameen style group approach but gradually moved to a looser federation of semi-autonomous village banks run by the members themselves. By 1998 the groups had more than 4,000 members in rural and urban areas – mostly peasants and small traders. Problems with late payments by many clients led the scheme organisers to try and develop a loan appraisal system which would give more realistic repayment schedules and which could be understood and implemented by both the clients and the savings groups' committees.

The scheme organisers recognised the need to take into account the household economy as well as any new investment projects when planning for a loan. They also thought that participatory rural appraisal techniques could be adapted to create easily understood methods of analysing household economies and investment proposals. The method they developed took into account the fact that many clients were illiterate and non-numerate and did any planning by mental arithmetic.

The method has four steps:

1. Preparation of a tree diagram showing household income sources and expenditures (see Figure 4). The income sources and expenditures are written on cards of two different colours. The household members then line up the cards in order of priority in two columns. Prices or values are then assigned to each item. Householders can specify the amounts in daily, weekly, monthly or annual amounts. All amounts are then converted to annual figures.
2. The income and expenditure amounts are broken down into twelve monthly columns to create a cash flow budget, including a cumulative net cash flow figure to show months of surplus and months of deficit cash supply.
3. Household members are asked to explain their ideas for a small short-term investment scheme. Then they produce a cash flow budget for this activity using the same visualisation methods as before.

Involving Clients in Loan Appraisal in Eritrea

4. Finally the two cash flow budgets are combined and this is then used to assess the amount of loan needed and the repayment schedule. Bar charts are often drawn to help people visualise the effect of alternative cash flow decisions.

All the diagrams and budgets which are produced are left with the household. The facilitator copies the essential information down in a notebook and enters it in the client file in the office. The process is seen as a training exercise, whereby households, often for the first time, try to plan their economic activities in a systematic way. The group members who have so far experienced the process feel that they now get something out of their discussions with scheme staff and are very positive about the process. They did not like the previous practice where the staff would extract information from them and do the feasibility studies in the office.

Implementing this method requires two or three sessions of about two hours to be spent with the client household, in addition to any travel time incurred by scheme staff. This time is regarded as an investment by the staff as it is believed that group leaders familiar with the approach will be able to introduce the method to other members themselves. The new approach was only implemented in 1998 so there is as yet no long term evidence of the success of the approach.

Source: PRA and Micro-finance. A paper by Christian Sorenson Programme Co-ordinator – ACORD – Eritrea 1993-98.

Who delivers? Who pays?

The range of case studies provided in this chapter, clearly demonstrate the potential for both government and non-government organisations to play a role in helping rural households to enhance their financial management skills through a variety of approaches. No one mechanism is better than any other and to bring significant improvement to the large numbers of people who might benefit, there are grounds for employing all available methods.

Working with Individual Clients in Islamic Banking in Sudan

The prohibition on charging interest in the Islamic banking system has led to the development of a number of alternative investment operations. One of these is musharaka or partnership credit. In Sudan the Sudanese Islamic Bank (SIB) is targeting its activities towards “productive families”, defined as those having the will and experience to conduct small scale economic activity and supply goods and services to their community. The Bank aims among other things to promote banking awareness, to help in developing a positive attitude to saving and to encourage citizens to operate through banking channels.

When someone approaches the Sudanese Islamic Bank with a proposal for partnership finance, the branch first collects information about the person and his or her experience in the field of work. Then someone from the investment and family affairs section visits the family and prepares a socio-economic survey. After this a suitable form of finance is suggested. In the case of musharaka, it is a joint venture between the Bank and the client or partner. Both partners contribute to capital in the form of fixed assets or operating expenses and share profits and losses in specific ratios, fixed before the start of the operations.

The Sudanese Islamic Bank has financed a number of young and inexperienced farmers in rural areas based on partnership financing. The Bank provides most of the agricultural inputs – tractor hire, water pumps, fuel, seeds, etc. – in addition to marketing and storage facilities. The farmer contributes his land, labour and management, plus some of the running costs. The Bank’s participation in the farming enterprise starts from the moment the proposal is first studied and they are thus very familiar with the details. The contributions, disbursement and sales proceeds are controlled jointly and payments are made according to the contract. In this way the farmer learns something about how to manage his or her financial resources properly. Partnership arrangements are flexible and various kinds of advice and assistance can be provided through either partner. For example, the Bank can provide advice and assistance regarding savings and household financial management.

Source: Dr Badr-El-Din A. Ibrahim, writing in *Partnership Financing for Small Enterprises* ed. Malcolm Harper ITP 1997 and in correspondence.

All the methods involve costs. People must be employed to prepare materials, write articles or shows, attend meetings, run training courses, facilitate group activities, teach or act as advisors. Wages are, therefore, the major cost but other costs include the purchase of materials, transport, renting facilities, maintaining buildings, running administrative systems and so on. Who should bear these costs and why should they do so? There are essentially four possibilities:

Governments.

Non-governmental development agencies.

Commercial organisations.

The recipients of the new skills.

All governments are committed to economic development and improved living standards for their populations. Using tax revenues and borrowed money they try to achieve their vision of social progress by regulation, facilitation and direct provision of services. Most recognise the importance of literacy and increasingly they recognise the importance of entrepreneurship as it becomes clear that large swathes of their populations must survive as small-scale entrepreneurs in the absence of employment opportunities. This is the rationale for the state provision of schools and advisory services such as agricultural extension or small business support programmes.

The key issue for any government, local or national, is how to prioritise their expenditure. There is never sufficient money for any government to fund all the activities they might consider useful in the pursuit of improving the lives of their citizens. Also many activities that are funded may not achieve the desired results and require improving, discontinuing or changing in some way. Some government-funded programmes may be financed on an indefinite basis such as schools or the agricultural extension service; others may be short term with the government hoping the desired impact can become self-perpetuating, e.g., raising awareness through radio programmes, posters or leaflets.

In the field of improving financial management skills of rural households, governments could have an impact by promoting changes in school curricula and teaching methods and ensuring that agricultural extension workers had more appropriate knowledge and skills, without committing substantially more resources than at present.

Non-government development agencies are largely financed through grants or donations from a variety of sources. Some are very large international organisations; others may be very small local organisations. The rationale for each one's existence depends on the objectives of its founders, which may include churches, chambers of commerce and private charitable foundations. Many of these organisations are concerned with poverty alleviation and have been drawn into money management issues as part of that work.

The case studies cited in this chapter, show that non-government development agencies have a prominent role to play in efforts to improve the financial management skills of rural households. In general their initiatives have evolved from a perceived need stimulated by the other development activities they are undertaking, e.g., promoting savings and credit groups, tackling malnutrition or enhancing protection of wildlife. Many of the initiatives are very recent and few have been operating long enough to provide an opportunity to evaluate their success. Most appear to depend on adult education through community meetings, self-help groups, training workshops and advisory work with individuals or households. PRA methods are widely used by these organisations.

One advantage for non-government organisations is their greater flexibility and ability to respond to local issues. Expenditure can often be reallocated if the funding agencies agree that the new activity contributes to the overall aims of the organisation. However, their funding is not necessarily secure and can often be short term, tied to the life of specific projects. So the key role of these development agencies is often to develop new materials and approaches and train the staff of other, permanent organisations to carry on with the work.

Commercial organisations are sometimes involved in providing technical assistance and training for their customers. The rationale for this comes in the advantage a company has when its customers can purchase

and use products profitably. This means they are likely to remain customers and may perhaps expand their purchases. The cost of supplying technical advice to customers is usually covered by mark-up on product prices. In terms of financial management, banks are the most common suppliers of help and advice. Examples have been given of how they may produce simple booklets to explain financial analysis or budgeting to their business customers, including special material for farmers. Their other main opportunity is to provide advice during interviews relating to loan applications.

There is logic in financial service institutions providing financial management training. It helps customers make successful use of the institution's products such as loans or savings accounts. It should also help to widen the customer base if more rural households are familiar with the use of bank accounts and other financial products. The cost of supplying the training, whether by booklets or staff guidance during meetings with clients, would have to be met from the institution's income. This means adjusting interest rates or levying specific charges. In some ways the provision of training and careful advice to potential borrowers may reduce costs if the amount of default is minimised.

The means by which commercial organisations are able to finance the provision of advice and training is in effect a way of getting customers to pay for their own learning. It is hidden in the price of services or commodities. Few rural households in less industrialised countries would consider it possible to pay directly for advice or training, other than the payment of school fees, which is widely accepted. In industrialised countries, however, farmers have adapted to paying for advice as government financed extension services have been withdrawn.

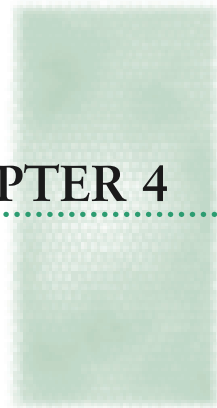
The methods of improving financial management skills that might willingly be paid for by the recipients themselves are attendance at a training course and individual counselling. One thing is certain that no one will pay for advice or training unless it will clearly benefit him or her directly. Two examples have been given in which micro-entrepreneurs have been encouraged to pay for training. In one case the incentive was obtaining a loan; in the other the government provided vouchers to meet part of the cost of training. CEFÉ training methods place much emphasis on individual reflection and analysis, which makes it very personal to

each participant. This increases its relevance and perceived usefulness to potential trainees.

Individual counselling addresses the needs of individuals as no other method can. Since the business advice provided by this method is tailored exactly to the individual person, it is the main method which may eventually be “sold” to the person as a service. This is the rationale of small business consultancy services, which operate on a profit-making basis. If the government would wish to see farm business advice “sold” to rural households one day, the extension staff will have to make the shift to individually tailored farm management advice. People will need to believe they can make more money or improve their lives in other ways as a result of advice or information before they will pay for it.

It has now been established that helping people to analyse their livelihood strategies, to clarify their goals, to make financial plans and to manage their financial affairs could make an important contribution towards helping them to improve their lives. Armed with better knowledge and self-confidence, they will have a greater chance of understanding and using financial services effectively. To promote this change in large numbers of rural households, there will need to be concerted action by many organisations involved in education and development work. These actions will be summarised in the final chapter of policy recommendations.

CHAPTER 4



Policy Recommendations and Key Actors

The purpose of all the publications in the Agricultural Finance Revisited series is to identify policies, structures and procedures which would help to ensure that rural households, largely dependent on farming, have better access to effective financial services. On the one hand this could mean increasing or adapting the type of financial services offered. On the other hand it could mean helping the people in the households to have the confidence and skills to access the services that are already available.

This particular book has concentrated on the households themselves and argues that better literacy, better analytical skills, better understanding of enterprises, better awareness of goals, better budgeting, better management of savings, better knowledge about financial services – in other words better financial management skills – would enable them to approach and make more effective use of available financial services. Examples have been given of how these skills can be improved even among people with low levels of literacy and a range of organisations and methods for delivering the improvements have been described.

The key actors are: governments, non-governmental organisations and financial institutions. Taking each of the key actors in turn, recommended policies are outlined below. Implementing some or all of these would make a significant contribution to improving the prospects for many rural communities.

Governments

Policy Measure	Actions	Scope for Co-operation
Ensure all language and maths teaching in rural primary schools uses examples relevant to the lives of the pupils and includes enterprise and money management.	Provide new teacher guidelines. Commission new books Link teaching to field visits and school farm or garden. Encourage teachers to study methods in other schools.	With local entrepreneurs and agricultural officers. With adult literacy groups. With local development projects.
Seek opportunities to develop a responsible attitude towards saving and planning money among school children.	Introduce savings schemes in schools. Encourage children to plan and undertake micro-enterprises at school and at home.	With banks.
Introduce micro-enterprise and financial management as subjects in schools, vocational and higher education.	Curriculum development. Teacher training. Adapt or develop appropriate training materials.	With CEFE training programmes. With enterprise development projects. With banks.
Encourage rural entrepreneurs to attend training courses.	Introduce training voucher scheme to place choice of training in hands of entrepreneurs.	With training providers.
Promote awareness of the importance of financial management and the role of financial services amongst the rural population.	Include topic in relevant radio programmes. Distribute posters and leaflets highlighting key financial issues for families to consider.	With commercial and international broadcasters. With financial institutions.
Ensure agricultural extension staff are competent in farm and financial management techniques and methods of helping farm families to improve their financial management,	Improve farm management component of diploma and certificate courses at agricultural colleges.	With international organisations producing relevant materials. With banks and other potential sponsors of the annual handbook. With CEFE trainers.

Policy Measure	Actions	Scope for Co-operation
including the use of PRA approaches.	Revise and improve in-service training of extension staff on financial issues. Provide field guidelines for staff to use. Produce annual handbook of useful financial information for rural enterprises.	With local NGOs involved in development.
Ensure agricultural extension staff see themselves as farm business consultants of the future.	Staff development in extension planning and consultancy techniques.	With small business consultancy services.
Ensure that small business development programmes do not ignore the rural sector.	Initiate studies of enterprise development prospects in rural areas. Modify training programmes to suit rural households.	Between Ministries, e.g., Agriculture, Commerce, Co-operatives. With NGO small enterprise projects.
Improve loan appraisal strategies in government sponsored credit programmes in rural areas.	Introduce analysis and budgeting of the whole household economy as part of loan appraisal. Base loan amounts and repayment schedules on cash flow budgets. Use loan appraisal and supervision processes as opportunities to teach financial management.	With financial institutions and NGO sponsored savings and credit schemes.
Promote co-operation and information sharing between financial institutions, development agencies and government departments, regarding the promotion of enterprise skills.	Establish forum for interested parties to meet for discussion Encourage collaborative approaches to training and working with rural communities.	

Non-Government Development Agencies

Policy Measure	Actions	Scope for Co-operation
Ensure field staff of rural development projects are familiar with farm and financial management techniques.	Provide in service training. Provide field guidelines for staff to use.	With government agricultural extension service.
Use PRA methods to help rural communities to assess the problems and issues relating to money that influence their lives.	Run workshops to ensure facilitators are familiar with using PRA techniques to explore money issues.	With donor organisations. With other NGOs. With agricultural extension staff and other government departments.
Incorporate money management into the planning of community development projects.	Use games or PRA techniques to introduce money management issues. Ensure appropriate business planning techniques are used for income-generating projects.	With other NGOs. With government departments. With financial institutions.
Promote improved adult literacy using methods relevant to community context and livelihood strategies.	Adopt the REFLECT approach to literacy training. Ensure people's awareness of financial issues and financial services is increased. Liaise with schools to share and develop teaching materials and approaches.	With other NGOs. With financial institutions. With teachers in schools.
Assist self-help groups to understand money issues and improve financial planning and recording skills.	Train group promoters in financial management. Acquire or develop suitable materials for groups to use for planning or recording financial transactions.	With other NGO or government development workers. With financial institutions.

Policy Measure	Actions	Scope for Co-operation
	Encourage groups to save and use financial services.	
Increase the use of innovative methods of teaching financial management skills.	Prepare a resource list of games and materials for teaching financial management. Encourage projects to experiment with and develop the resources.	Between all types of development agency.
Adapt entrepreneurial training to be able to meet the needs of rural households.	Evaluate existing training courses. Develop new material and approaches to course delivery.	With CEFE trainers. With all types of organisation involved in small enterprise development.
Improve loan appraisal strategies in NGO sponsored savings and credit programmes.	Introduce analysis and budgeting of the whole household economy as part of loan appraisal. Base loan amounts and repayment schedules on cash flow budgets. Use loan appraisal and supervision processes as opportunities to teach financial management.	With financial institutions and government sponsored savings and credit schemes.

Financial Institutions

Policy Measure	Actions	Scope for Co-operation
Improve staff understanding of rural enterprises and money management in rural households.	Conduct staff training courses, which involve field- work and discussions with rural families.	With NGOs. With CEFE trainers. With agricultural extension workers.
Develop communication and facilitation skills of staff to improve their ability to work sympathetically with rural households.	Provide PRA training to staff. Provide guidelines on using visual techniques to explain money issues.	With NGOs.
Promote role of financial services in rural areas.	Prepare simple booklets on financial management techniques and the role of financial service providers. Distribute booklets through extension services, projects and local NGOs. Contribute articles to local newspapers.	With adult literacy programmes. With NGOs. With training institutions.
Promote financial awareness in school education.	Encourage school children to visit financial institutions. Provide leaflets suitable for distribution to children. Promote savings schemes in schools.	With teachers and government education departments.
Promote the development of entrepreneurial training courses for rural areas.	Participate in development of financial atraining materials. Provide speakers and opportunities for trainees to learn about financial services. Encourage successful trainees to become clients.	With CEFE trainers. With schools. With training institutions.

Policy Measure	Actions	Scope for Co-operation
Use participatory loan application procedures.	Develop loan application methods, which incorporate simple financial analysis and budgeting. Use participatory methods to complete forms and explain analyses to clients.	With NGO savings and credit programmes.
Develop loan appraisal methods that are appropriate for rural households.	Incorporate the whole household economy in budgets.	With NGO savings and credit programmes.
Use follow-up meetings with clients to encourage the adoption of budgetary control principles.	Base loan amounts and repayment plans on cash flow budgets. Ensure copies of financial plans, which form part of loan application documentation, are given to the client for future reference. Provide advice on financial recording. Supply forms for budget / actual comparisons.	With NGO savings and credit programmes. With agricultural extension staff.

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