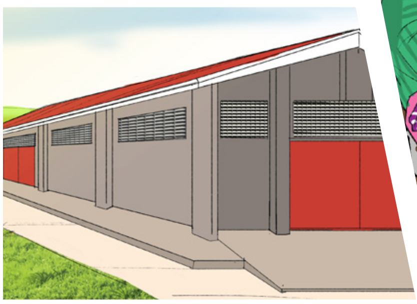
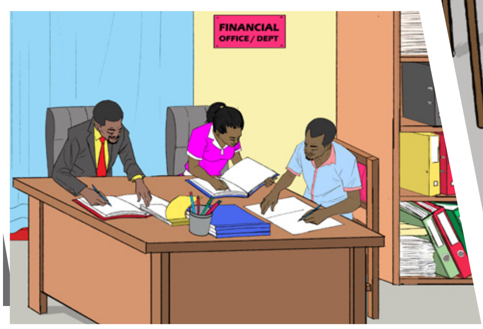
Trainer's Manual

BUSINESS SKILLS
TRAINING AND COACHING





Farmer Organisations

PART 3

german cooperation
DEUTSCHE ZUSAMMENARBEIT

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

As a federally owned enterprise,
GIZ supports the German Government in achieving its objectives
in the field of international cooperation for sustainable development.

Published by:
Deutsche Gesellschaft für Internationale Susammenarbeit (GIZ) GmbH

Registered offices Bonn and Eschborn, Germany

Friedrich-Ebert-Allee 36 + 40
53113 Bonn, Germany
T +49 228 44 60 - 0
F +49 228 44 60 - 17 66

Dag-Hammarskjöld-Weg 1 – 5
65760 Eschborn, Germany
T +49 61 96 79 - 0
F +49 61 96 79 - 11 15

E info@giz.de
I www.giz.de

GIZ Country Office, Uganda
Plot 23 Nakasero Road,
P.O Box 10346, Kampala Uganda,
Telephone: +256-414-303901
Email: giz-Uganda@giz.de

Content and Design Consultants
Kansiime Monica
kansmona3@gmail.com

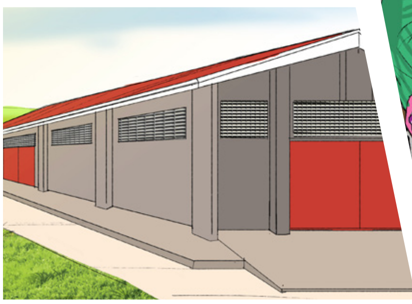
Stefanie Taylor
staylor.consult@gmail.com

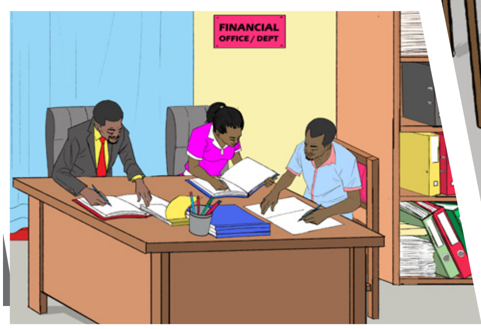
Photo credits:
Lugugo Joshua, Illustrator

Kampala, Feb 2023

Trainer's Manual

BUSINESS SKILLS
TRAINING AND COACHING





Farmer Organisations

PART 3

german
cooperation
DEUTSCHE ZUSAMMENARBEIT

giz Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH

Table of contents

Table of contents

Acknowledgements

Farmer Organisations (FOs) have yet to realise their full business potential in Northern Uganda and other parts of Africa. Only economically viable, inclusive and sustainable businesses owned by the entrepreneurial FOs and their members can improve services and resources, better market access, and ultimately increase incomes from farming, reducing the widespread dependence on external resources.

The FO Cycle Training and Coaching methodology builds upon a model developed by GIZ Malawi and draws substantial inspiration from recognized GIZ methodologies such as Farmer Business School (FBS), Cooperative Business School (CBS), Module d'Affaires d'OPA and SME Business Training and Coaching Loop.

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) "Promoting Rural Development in Uganda" (PRUDEV) Programme adjusted the FO Cycle Training and Coaching methodology to fit the local context, and it was piloted with 16 Farmers' Organisations in 7 districts in Northern Uganda in 2021-2023 to develop business-oriented farmer organisations (FOs) that engage with agro-commodity markets.

The 3-part training and coaching cycle is designed to be implemented over 9 to 12 months, focusing on Farmer Organisation business skilling. It adopts a systematic training and coaching approach that seeks to realize the potential of growth-oriented FOs. The training involves using simple planning and management tools, including action plans, simple business plans and financial management tools.

A good mix of FO executive board members, FO committee leaders, lead farmers, Community-Based Trainers and change agents should be included in the training and coaching to ensure awareness and uptake of skills and ideas at all levels of the FO.

Depending on the prior knowledge and skills of the FO, more or less time can be spent on different topics within each part of the training. The aim is to tailor appropriate, engaging and supportive training to help an FO move to the next level of productivity and success.

This manual should not be viewed as a standard reference with correct terminology. The team that developed this manual deliberately decided to compromise on technical language or terms to ensure easy understanding and application of the Business Skills Training and Coaching amongst the targeted audience.

Acronyms

FO	Farmer Organisation
GIZ	Deutsche Gesellschaft für Internationale Susammenarbeit GmbH
IT	Information Technology
PRUDEV	Promoting Rural Development
SMART	Specific, Measurable, Achievable, Relevant, Timebound
SWOT	Strengths, Weaknesses, Opportunities and Threats
FBS	Farmer Business School
CBTs	Community-based Trainers
CBS	Cooperative Business School
CAs	Lead Farmers or Change Agents
UGX	Uganda Shillings
Kg	Kilograms
SME	Small and Medium Enterprises

Introduction to the trainer's guide

Welcome to Business Skills Training and Coaching for Farmer Organisations! This is the trainer's guide for the third and final part of the training.

This training guide must be used hand-in-hand with the Part 3 Participant's Handbook, which contains information for participants to read and space for them to write/draw at different points during the training sessions. As the trainer, you will use the Trainer's Guide and you should have access to the Part 3 Participant's Handbook. Training participants should each have only the Participant's Handbook.

Before conducting the Part 3 training, you likely want to train participants using the Part 1 and 2 training guides. Each of the training parts have their own accompanying Trainer's Guides and Participant's Handbooks.

How to use this trainer's guide

Part 3 is divided into two modules:

Module 1: Financial statements

Module 2: Reviewing and updating the business plan

Each module contains several training sessions. Each session in the guide is organised in a similar way. Key features in a session are highlighted on the next page. Take some time to study the organisation of the sessions so you will be prepared to train.

Session 4:
Creating goals and an action plan for the FO

Session objectives:
- To set SMART goals for the FO for the next 6 months
- To create an action plan for achieving each SMART goal

Materials:
- Flipchart paper
- Markers
- Pens/pencils

Time:
- 3 hours

Activity 1: What are your personal goals? (15 minutes)

1. Ask participants to find the personal goal brainstorm on page xx of the Participant Handbook. Read each brainstorm question aloud and then give participants time to think about, write or draw their answers.
2. After 7-8 minutes, ask a few volunteers to share some of their goals with the whole group.

Activity 2: Setting SMART goals for the FO (45 minutes)

1. Ask participants how they would define a "goal" and why it is important to set goals when you are trying to achieve something. Use the information in the Facilitator's Notes box to check their answers.
2. Introduce participants to SMART goals and give an example of a SMART goal using the information in the Facilitator's Notes box.
3. Help the group set 5-6 SMART goals for things that are important to the FO, which they will aim to achieve within the next 6 months. These may be related to the services, investments and products they decided to pursue in the last session. Help the group set:
   - At least one **production goal** (how much the group will produce/sell, etc.)
   - At least two **non-production goal** (goals for recruiting new members, fixing equipment, offering a new service, making an investment, marketing, etc.)

Note: Not everyone must share – only those who are willing.

4. Write each SMART goal the FO decides on a flipchart paper and hang it at the front of the room. If participants want, they can also write down the FO's SMART goals on page xx of their Participant Handbook.

Facilitator's notes

Guidelines for creating a vision

A vision should be:
- concise (average 14 to 15 words)
- clear
- memorable
- forward thinking
- ambitious
- creative
- specifies what success looks like for you
- linked to business goals

Key messages
- Companies, including FOs, need to determine their core values so that they know what shared values everyone in the company/FO agrees to and must abide by.
- Example core values that an FO might choose are: integrity, transparency, quality, sustainability, honesty, entrepreneurial, forward-looking, gender-equality, inclusion and accountability.
- A vision is a shared understanding of where we want to be and what we want to strive for in a certain period of time. It is a compelling and inspiring image of a desired future that an FO seeks to achieve.
- A vision guides the FO with regards to what it would like to achieve together. It is necessary for the FO to have a common purpose because it helps focus the FO. It can also inspire change and motivation among FO members. It guides the type of leaders to elect and members to have in the FO.

This box has the introduction information about a session. You should read it before the session, but you do not need to read it out loud to participants.

All sessions have at least one activity, and usually more than one. They say how much time should be spent on each activity.

All activities have step-by-step instructions for how to conduct the activities.

Some activities include a note for the trainer with extra information that will help guide you during the session. You do not need to read it out loud to participants.

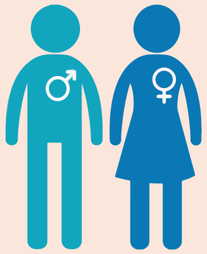
Some activities require participants to use their Participant's Handbook. The relevant page number is always provided.

Some activities have important technical information. You should read these to yourself before the session. You may need to read this information aloud to participants, or just use it to guide discussions. Follow the instructions in each activity.

All sessions have key messages to share with participants at the end of the session. These key messages are the main messages that participants should understand by the end of the session.

Cross-cutting themes

Throughout the sessions, you will also find boxes with icons highlighting 4 cross-cutting themes. You can highlight these cross-cutting themes at any relevant point during the training, but these boxes are there in specific places as a reminder.



Gender

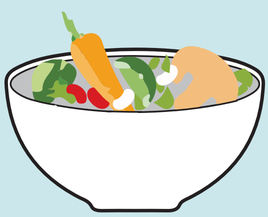
Men and women should have equal opportunities and respect in the FO. Women's participation should be especially encouraged because they are hardworking, committed, and skilled, yet are often overlooked in favor of men who may be less skilled and committed. As the facilitator, you should remind participants to take women's opinions into consideration and take advantage of their valuable contributions.

Youth

Youth should have opportunities to participate and lead in the FO. Youth often have many beneficial qualities, including: 1) time to spare when they could work towards FO goals; 2) willingness and confidence to try new, innovative things; and 3) may be more familiar with or willing to learn technology. Youth are the future of Uganda, so they should be included in revitalising the agricultural sector so that it is more profitable and sustainable.

Greening

Climate change is impacting the entire world. In Uganda, the effects of climate change are especially damaging because they are causing extreme weather like droughts and flooding which negatively impacts agriculture and people's livelihoods. As possible, highlight opportunities for the FO to get involved in greening – which means being environmentally friendly and sustainable.



Food security

FO members are involved in agriculture, yet many of their families may be vulnerable to food insecurity. This is often because it is tempting to farm only cash crops or sell all their food crops to generate money for the business. This is a dangerous practice when there is poor personal financial management and the money generated by the farm is not enough to buy food year-round. FO members should be encouraged to consider how they can promote food security in their families and communities (by keeping and selling some produce locally).

Training methodologies

This guide uses a variety of participatory techniques, designed to get participants active, talking and involved in the training. Some of the training methodologies used include:

Engagement with the Participant Handbook – Participants are often asked to look in or work from their Participant Handbook. The Handbook includes images, important technical information, discussion questions, information like case studies needed for the training activity and space to write/draw their ideas. You will request when participants should look in their Handbook and give them instructions about what to do with it.

Discussion and group work – Participants are often asked to discuss in pairs or groups to help them combine their knowledge and think collaboratively. This helps participants discover their own wealth of knowledge rather than being 'taught' by the trainer. You must encourage a judgement-free environment where participants feel comfortable to share their ideas and ask questions. Encourage participants to respect each other and work together harmoniously.

Experience sharing – Some activities and discussion questions utilise the rich experiences of the participants by asking them to share testimonies and good practices. These can be beneficial for the person who is sharing to reflect on their own experience and for others in the group to learn from different group members' experiences.

Games – A few activities in the guide are in a game-style format. These games are important activities for sharing knowledge, but they also get participants moving, talking, and having fun while they are learning.

Creating FO goals and plans – Each training part engages participants in the creation of important goals and plans. In Training Part 1, they create FO goals and a corresponding action plan to follow to achieve them. In Training Part 2, they update their goals, draft a business plan, and create a new action plan to achieve the business plan. In Training Part 3, they update their business plan and action plan to achieve it. These outputs are important for the overall success of the FO and helps guide them as they start to become more entrepreneurial.

Training tips

Read sessions thoroughly before training them. It is very important that you, as the trainer, are familiar with all parts of each training session, including the objectives and key technical knowledge that participants should know by the end of the session. Your confidence and accuracy delivering the session will improve after you have read the session through several times.

Prepare all materials before arriving for a training session. Preparation is key for delivering an effective training session. Having all materials ready will help the session to go smoothly and keep your audience's attention. Before conducting a session, check which materials you must have on hand for the session (as listed in the introduction box at the beginning of each session), and ensure all participants have their Participant Handbook.

Set ground rules with participants at the beginning of the training and remind them of what they agreed to in subsequent sessions. This will set expectations that all participants agree to respect. Ground rules might include turning off mobile phones during training, respecting other participants' views and participating actively.

Encourage active participation. As much as possible, get participants involved in a hands-on, practical way. This is because people receiving a training remember 10% of what they read, 20% of what they hear, 30% of what they see, and 80% of what they personally experience. It is therefore more important to encourage discussion and group work rather than passive listening, to help participants absorb and comprehend new information.

Be objective. As a trainer, it is not necessarily your role to tell participants the 'right' way to think. Being judgmental or closed-minded about other people's ideas is the fastest way to get them to stop talking and refuse further discussion, which is something we do not want to do. Allow participants to share their ideas, consider what they are saying seriously and work with them towards changing their mindset, if necessary, rather than criticising them.

Organising participants for training

Target audience

Business Skills Training and Coaching for Farmer Organisations targets members of smallholder Farmer Organisations (FOs). A training should include up to 25 participants, who are all from the same FO.

Typically, the profile of a group attending this training would include:

- Representatives from the FO's committees including from the Production Committee, Marketing Committee and Procurement Committee
- Representatives from the FO's leadership/board
- Community-based Trainers (CBTs) who are members of the FO
- Lead Farmers or Change Agents who are members of the FO
- Both women and youth

Expectations for Farmer Organisations (FOs)

The FO is responsible for:

- Selecting up to 25 members and leaders (from a variety of roles within the FO) to fully participate in the three parts of the Business Skills Training based on the participant selection criteria above
- Ensuring that participants selected are ready and willing to drive organisational development processes
- Securing an appropriate training venue
- Facilitating the sharing of information/decisions from the Business Skills Training and Coaching for Farmer Organisation with the broader FO membership

Expectations for individual participants

Each participant is responsible for:

- Transporting themselves to and from training sessions
- Organising their own refreshments and snacks. This can be done individually or as a group
- Arriving at each session in time for signing-in and getting ready for training
- Actively contributing in each session
- Actively participating in a way that is respectful to the trainer, other participants, and their contributions
- Returning to the session on time after breaks
- Keeping their Participant Handbook in good condition and bringing it to each training session

Organising training sessions

1. **Consider participants' available time**

   When you meet with the FO for the first time, agree a schedule with them for all of the Part 1 sessions. Training should be conducted over a period of time that is comfortable for both you and the participants. This will help ensure participants' attendance and enthusiasm. Do not force participants to meet on days when they are unavailable or for long periods of time that they cannot manage with their work and other responsibilities. Be especially cognisant of creating a training schedule that can fit into women and youth participants' time constraints.

2. **Keep the agricultural calendar in mind**

   Keep the agricultural calendar in mind when planning training sessions. For example, modules related to planning for FO success (Part 1: Module 1, 2 and 3) should be conducted before the agricultural season starts so that the FO can start off the season on a strong foot.

3. **Consider participants' existing knowledge and learning needs**

   Use your discretion as a trainer about what your participants need in terms of the time spent on different training sessions. If the FO is more advanced in a topic discussed in the training, you may be able to skip it or spend less than the suggested time on it. If the FO is struggling to understand a topic, spend more than the suggested time to ensure that they fully understand before moving on. You are the trainer, and you can adjust the training as you see fit to suit the needs of your participants.

4. **Example training schedule**

   The training schedule on the next page is one possible configuration for Part 1 of the training. It suggests 7 days of training, usually for about 4 or 5 hours each day (a total of 33 hours, 55 minutes). Ideally Part 1 would be conducted over the course of 2-3 weeks, however, participants should ultimately tell you when and for how long they can meet for training.

Training checklist

Before starting a training session, check the following:

- Ensure participants are aware of (and comfortable with) the training time and venue.
- Read the instructions for the session(s) you are planning to train.
- Organise all necessary materials for the session(s) you are planning to train.
- Organise a participant's list.
- Ensure participants have their Participant Handbooks.

Table 1: Possible Training Schedule Configuration

Training Day 1	Training Day 2	Training Day 3	Training Day 4	Training Day 5
Total Training Time: 2 hours, 35 mins	**Total Training Time:** 3 hours, 45 mins	**Total Training Time:** 5 hours, 30 mins	**Total Training Time:** 3 hours, 30 mins	**Total Training Time:** 3 hours
Module 1: Financial statements • Session 1 • Session 2	**Module 1: Financial statements** • Session 3	**Module 1: Financial statements** • Session 4 • Session 5 • Session 6	**Module 2: Reviewing and updating the business plan** • Session 1 (Activity 1 and 2)	**Module 2: Reviewing and updating the business plan** • Session 1 (Activity 3) • Session 2

MODULE 1:
Financial statements

Module introduction:

In this module, participants will learn about financial statements which are important for an FO to keep and analyse so it can effectively monitor its financial health.

First, participants recap what they learned from Part 2 of the training and reflect on how their FO's progress towards their business plan and action plan are going. This helps get participants back into the mentality of training and working to improve their FO.

Then, over four sessions, participants learn about three types of financial statements: cash flows, income statements and balance sheets. They will learn the purpose of keeping these financial statements, what they look like and what financial records the FO needs to keep in order to accurately create them.

Participants will then learn about some methods for analysing the financial statements, which is a critical step for the FO to be able to understand the financial health of their FO and have the information they need to make necessary changes to improve their business.

Module outline:

Session 1: Recap and reflection

Session 2: Introduction to financial statements

Session 3: Cash flow statements

Session 4: Income statements

Session 5: Balance sheets

Session 6: Financial statements analysis

Module objectives:

By the end of this module, participants should be able to:

- Understand the importance of preparing financial statements for the FO
- Recognise the key features of a cash flow statement, an income statement and a balance sheet
- Prepare a cash flow statement for the FO
- Analyse financial statements for the FO

Training materials needed:

- Flipchart paper
- Markers
- Pens/pencils
- A small ball to toss (made of paper or anything else safe and easy to throw)

Total time needed for module: 11 hours, 50 minutes

Session 1:
Recap and reflection

Session objective:
- To recap what participants remember learning in Part 2 of the training
- To reflect on the successes and challenges the FO faced working towards their goals and business plan since the last training session

Materials:
- Flipchart paper
- Markers

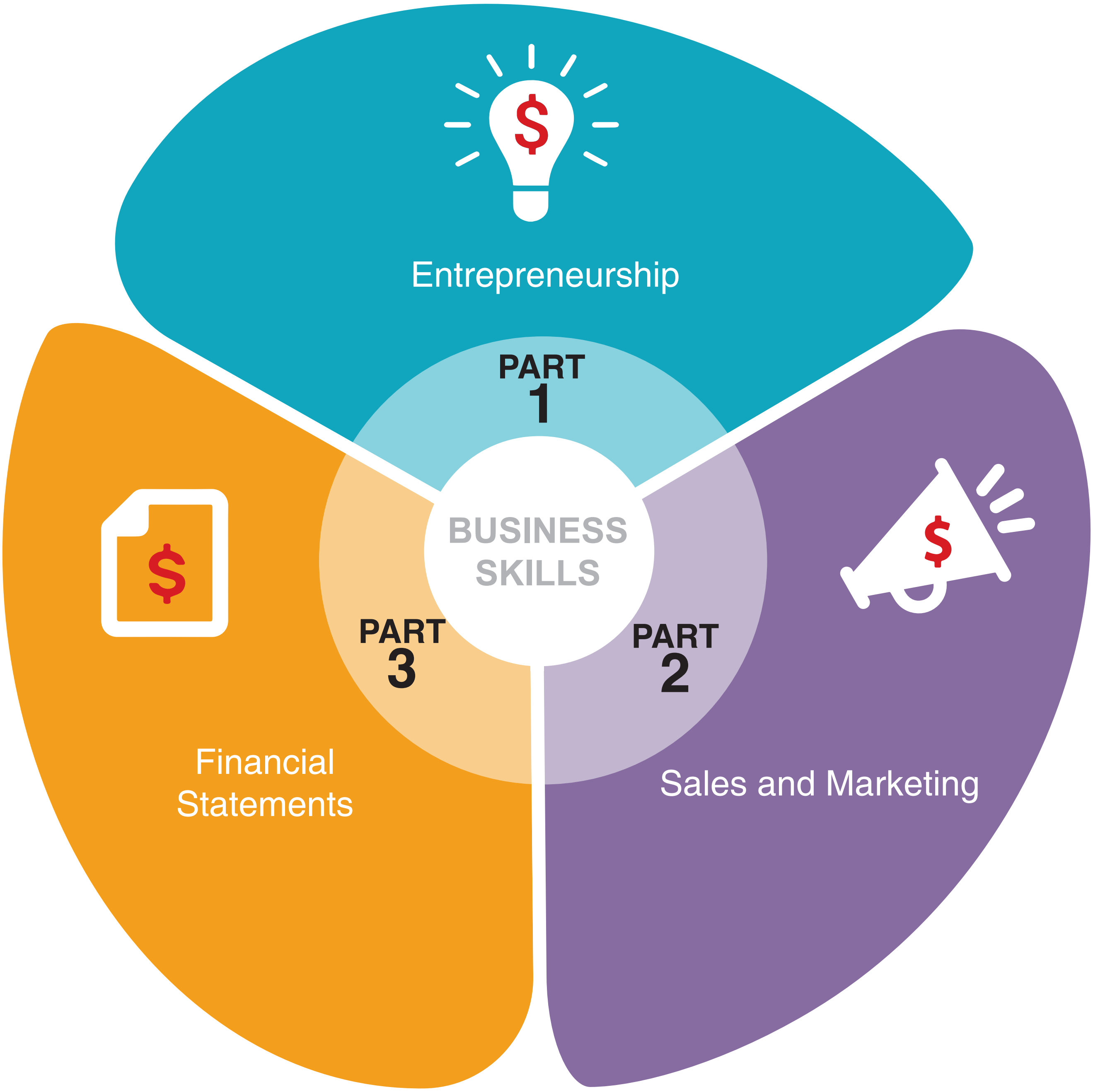
Time:
- 1 hour, 35 minutes

Activity 1: Review Part 2 of the training (45 minutes)

1. Welcome participants back for Part 3 of the training in the Business Skills Training and Coaching for Farmer Organisations – the final part of this training.
2. Ask participants to stand in a circle.
3. Explain that the whole group is going to do an activity to share how they used the information they learned in Part 2 of the training to improve the FO.
4. Explain the following instructions for the activity:
   - One person will start to count off by saying "1". The next person will say "2" and so on around the circle up to the number 6.
   - On the seventh person, the person must say "BOOM" rather than "7".
   - The counting then continues on around the circle from 8 up to 13 and on "14" the person must say "Boom" instead.
   - This continues around the circle as quickly as possible, with each multiple of 7 replacing the number with "Boom".
   - If someone forgets and actually says the multiple of 7 rather than "Boom" (or hesitates too long), **he/she is "out" and must first tell the group one thing they are proud of doing to help improve the FO since attending Part 2 of the training.**
   - This person then steps out and the game starts again from 1.
   - The group will keep playing until everyone is "out" and has shared what they have done to improve the FO. The final winner also shares what he/she has done to improve the FO.

Note: It is OK to switch up which number's multiple to say "Boom" on if participants get the hang of the game too well. You can do multiples of 4, 6, 8, etc. instead to keep the activity interesting.

5. Remind participants about the purpose and components of the Business Skills Training and Coaching for Farmer Organisations. Highlight the components of the Part 3 training which they will learn about today and in the coming days/weeks. Use the facilitator's notes to guide your introduction.



Facilitator's notes

Overview of the business skills training and coaching for farmer organisations

This business skills training and coaching for Farmer Organisations was initially designed by GIZ Malawi, before being adopted and piloted by GIZ's PRUDEV programme in Northern uganda. It promotes business capacity development, service provision, financial viability and profit generation of Farmer Organisations.

The training and coaching is designed to be implemented over a period of **9 to 12 months** and its focus is on Farmer Organsiations. It adopts a systematic training and coaching approach that seeks to realise the potential of **growth-oriented FOs**.

The training involves the use of **planning and management tools** that include action plans, simple business plans and financial management tools.

A good mix of FO board leaders, FO committee leaders, lead farmers, community-based trainers (CBTs) and change agents should be included in the training and coaching to ensure awareness and uptake of skills and ideas at all levels of the FO.

There are three parts of training:

- **Training Part 1** explores **entrepreneurship** and how training participants and the FOs they belong to can be more entrepreneurial so that they make more money and improve their way of life. Participants create a **vision and set goals** for their FO and then develop an **action plan** to achieve them. Participants also learn about healthy **group dynamics**, and good **leadership and governance** in an FO. Their task before the next part of the training is to try to realise their FO's goals and action plan.
- **Training Part 2** explores **sales and marketing** including finding a market and making a profit from FO products. Participants also learn about **financial management and record keeping** for the FO so that they can monitor profitability. Participants learn about how to create a **business plan** and then they draft a business plan for their FO. They make a **new action plan** so that they can take steps to work towards their business plan.
- **Training Part 3** reviews **financial statements** including the cash flow, income statement and balance sheet. Participants understand why these statements are important and **how to interpret them**. Then participants **review and update their business plan**, based on their experiences trying to implement since the end of Part 2 of the training. They also **update the action plan** so they can continue to take steps towards achieving it.

Depending on the prior knowledge and skills of the FO, the trainer will spend more or less time on different topics within each part of the training. The aim is to **tailor an appropriate, engaging and supportive training** that will help an FO move to the next level of productivity and success.

6. Divide participants into small groups of 3-4. Ensure that each group has at least one person who can read and write.
7. Give each small group a flipchart paper and markers. Ask groups to draw illustrations or write words on their flipchart about what they remember learning in Part 2 of the training. If they are struggling to remember what they learned, guide them to look at page 11 of the Participant Handbook to see a graphic showing some of the broad topics from Part 2 of the training.
8. After 10 minutes, ask each small group to present one or two things they remember learning from Part 2 of the training

Activity 2: FO goals and business plan reflection (45 minutes)

1. Divide participants into small groups of 3-4. Ensure that each group has at least one person who can read and write.

2. Explain:
   - In Part 2 of the training, the FO revised their SMART goals and created a business model canvas and business plan as well as an action plan for achieving them.
   - It is an important skill for FOs to get in the habit of setting goals, creating a plan of action for achieving them, and then routinely reflecting on how progress is going.
   - Now you are going to practice reflecting on the FO's progress towards the goals and business plan since we last met for training.
3. Ask groups to discuss the reflection questions on page 11 of the Participant Handbook.
4. After 10 minutes of group discussion, bring the whole group back together and ask different groups to give their opinions on the reflection questions:
   - Has the FO achieved any of the goals it revised in Part 2 of the training (during Module 3, Session 2)?
   - Has the FO worked on the business plan since Part 2 of the training?
   - What has helped the FO to execute the business plan and achieve goals?
   - What has prevented or hindered the FO from executing the business plan and achieving goals?
   - What should the FO do differently in the future to achieve their goals?

Activity 3: Networking meeting information (5 minutes)

1. Share any upcoming business linkages or peer networking information with participants. Ensure to share:
   - What the networking opportunity is
   - Where it will be
   - When it will be
   - Why they should join
   - Three targets they want to achieve during the event
2. Encourage participants to write down the date, time and location of the next event on page 12 of the Participant Handbook.

Key messages

- Part 3 of the Business Skills Training and Coaching for Farmer Organisations continues on from what you learned in Parts 1 and 2. In the third part of the training, you will learn about financial statements including how to create them and how to analyse them. You will also revise your FO's business plan and accompanying action plan.
- Members and leaders of an FO should be in the habit of revising the FO's business plan, and routinely reflecting on whether it is making good progress on it. Routine reflection will help the FO be responsive in case anything is going wrong so it can correct any problems before too long.

Session 2:

Introduction to financial statements

Session objectives:

- To understand the meaning of financial statements and why they are important for an FO to keep
- To recognise three types of financial statements an FO should keep

Materials:

- Flipchart paper
- Markers

Time:

- 1 hour

Activity 1: Financial statements quis game (30 minutes)

1. Divide participants into small groups of 3-4.
2. Explain:
   - We are going to play a quis game to see what you already know about financial statements.
   - I am going to read out a question. As a group, discuss the answer.
   - After discussing, choose one person in the group to be your "spokesperson".
   - I will ask the spokesperson from one group to answer. Spokespersons from other groups will have the chance to say if they agree or disagree with the answer. If they disagree, they can share their ideas.
   - I will then reveal the correct answer and the groups who answered correctly will win a point.
   - Groups can change their spokesperson throughout the game or keep them the same.
   - The group at the end of the game with the most points will be declared the winner.
3. Play the quis game with the following questions. Use the information in the facilitator's notes box to check participants' answers.
   a. What is the definition of financial statements?
   b. What period of time do financial statements for a business usually cover?
   c. What are the financial statements that all cooperative societies must prepare?
   d. How frequently should an FO report on their finances (management accounts)?
   e. How frequently should FOs have their financial statements audited?

f. Why are financial statements important for FOs?

g. How do you think the records your FO has been keeping are related to financial statements?

Facilitator's notes

a. What is the definition of financial statements?

- Financial statements are reports that summarise the financial performance and financial health of an FO over a financial period.
- Financial statements indicate the amount of profit generated or loss incurred by an FO during a specific time period.
- They also show the cash flows (in and out) of the FO business and the cash at hand.
- The financial statements also present a summary of the total assets, liabilities and the net worth of an FO as at a particular point in time.

b. What period of time do financial statements for a business usually cover?

- Normally, financial statements cover a 12-month period (one financial year) but they can cover only 1 month, quarterly (3 months), or half a year (6 months).

c. What are the financial statements that all cooperative societies must prepare?

- Cash flow statement
- Income statement (also called a profit and loss statement)
- Balance sheet (also called a statement of financial position)
- A statement of changes in equity for the period
- Notes, comprising significant accounting policies and other explanatory information
- Comparative information from the preceding period

d. How frequently should an FO report on their finances (management accounts)?

- Once per month.

e. How frequently should FOs have their financial statements audited?

- Once per year.

f. Why are financial statements important for FOs?

- They help to enhance accountability thereby building trust within the FO.
- They are used for assessing the performance of an FO's business.
- They help you understand if you have achieved your FO's goals.
- They help you reflect on what went well and what didn't (and why) so the FO can work to do better.
- They can be used as a basis for making investment decisions.
- They can be used to determine the amount of dividends to pay members.
- They can be used to attract external funding such as from banks and donors.

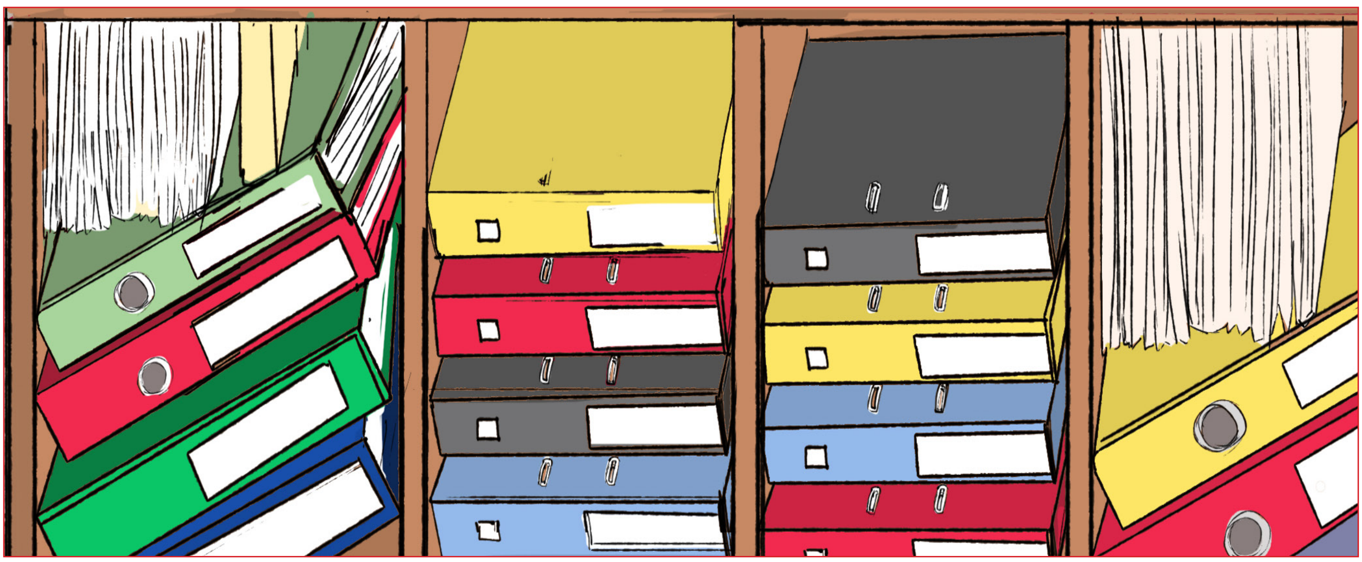
Facilitator's notes

g. How do you think the records your FO has been keeping are related to financial statements?

- Financial reports cannot be created accurately without accurate financial records which have been updated **immediately** after every transaction throughout the year. For example:
    - Cash flow statements require knowledge about the FO's monthly expenses and income. This means the FO must at least keep a detailed receipt/cash book and expenses register.
    - Income statements require knowledge about the FO's revenue and expenditure. This means the FO must keep a detailed sales register, expenses register, cashbook/bank statements, and loan information/statements, among others.
    - Balance sheets require knowledge about the FO's assets, equity and liabilities. This means the FO must keep detailed: fixed assets register, cashbook/bank statements, loan information/statements, records of other liabilities, shareholding information, stock/inventory records, etc.

Activity 2: Introduction to financial statements (30 minutes)

1. Ask participants to turn to page 13 in the Participant Handbook.
2. Explain: This visual shows some of the different types of financial statements we are going to learn about in this module.
3. Ask participants the following questions about the financial statements shown in the visual. Use the information in the facilitator's notes box to check their answers.
    - Have you ever heard of these financial statements?
    - What can these financial statement tell you about your FO?
    - Has your FO ever prepared any of these financial statements for the FO?
    - Has your FO ever analysed these financial statements to understand more about the health of the FO's business? What did your analysis tell you?



Facilitator's notes

Financial statements

a. Have you ever heard of these financial statements?

- Answers will vary.

b. What can these financial statements tell you about your FO?

- Cash flow statement: This shows the amount of cash coming in and going out of the FO's business on a monthly basis. It is a good indicator of the FO's liquidity, or the available cash the FO has access to each month to pay their expenses.
- Income statement: This shows the amount of income/revenue the FO generated, the expenditures it incurred, and the profit earned. The bottom line of the statement usually shows the FO's net earnings or losses. This tells you how much the FO earned or lost over a period of time.
- Balance sheet: This shows the condition (wealth or value) of the FO at a certain point in time. It shows how the assets of the FO have been financed.
- Statement of changes in equity: This shows the total comprehensive income for the period, with reconciliations between the amounts of each component of equity at both the beginning and the end of the period. This is important for understanding how the FO's equity has changed since the last financial statement preparation.
- Notes on accounting policies and other explanatory information: This presents information about the specific accounting polices used for preparing the financial statements, and any important information not presented elsewhere in the financial statements.
- Comparative information from the preceding period: The FO should have comparative information from the financial statements prepared in the preceding period so they can compare the newly prepared financial statements to the last financial statements prepared. This can help the FO determine the health of the FO and if it is moving in the right direction or not.

c. Has your FO ever prepared any of these financial statements for the FO?

- Answers will vary.

d. Has your FO ever analysed these financial statements to understand more about the health of the FO's business? What did your analysis tell you?

- Answers will vary.

Key messages

- Financial statements are reports that summarise the financial performance and financial health of an FO over a reporting period.
- If an FO does not regularly prepare financial statements, they will not be able to see the profit or loss incurred by the FO, how much cash the FO has on hand, or the total assets, liabilities and net worth of the FO.
- Financial statements should be prepared regularly to help guide FO decision-making processes.
- The financial statements that an FO must keep and analyse are 1) cash flow statement, 2) income statements, 3) balance sheets, 4) statement of changes in equity, 5) notes on accounting policies and other explanatory information, and 6) comparative information from the preceding period.

Session 3:

Cash flow statements

Session objectives:

- To understand the importance of generating a cash flow statement
- To recognise each part of a cash flow statement
- To practice making a personal cash flow statement and a cash flow statement for the FO

Materials:

- Flip chart paper
- Pens/pencils

Time:

- 3 hours, 45 minutes

Preparation:

- Before Activity 3, ask participants to bring any financial records they have been keeping about their FO's income and expenses (receipt book/cash book and expenses register). These documents will help them create a cash flow statement for their FO in Activity 3.

Activity 1: Cash flow statement basics (45 minutes)

1. Ask participants to turn to page 14-15 in their Participant Handbook where they will find an example of a cash flow statement for an FO.
2. Explain: In the last session, we discussed that a cash flow is a financial statement that the FO should keep. It shows the amount of cash going in and out of the FO's business on a monthly basis.
3. Ask the following discussion questions to get participants thinking about the importance of generating monthly cash flow statements. Use the information in the facilitator's notes box to check their answers.
   - Why is it important for an FO to be aware of their cash flow?
   - What can an FO do to help manage their cash flows?
   - Is it possible for an FO to be making a profit, but still have a problem with cash flows?

Facilitator's notes

The importance of generating cash flow statements

a. Why is it important for an FO to be aware of their cash flow?

- An FO needs cash on hand to operate. It needs cash to make purchases, pay rent, pay salaries and pay members for their products.
- If an FO does not manage its cash flow well, it can get into a bad situation where it needs cash but doesn't have enough to operate smoothly.
- Producing a monthly cash flow statement helps an FO make sure that its cash position is well monitored and managed. If the FO notices that the cash flow is poor, it can take steps to manage the cash flow going forward.

b. What can an FO do to help manage its cash flow?

- When the FO gets significant cash inflow (when they sell their crops at the end of a season), they should plan for how this cash can cover them during parts of the year when income is low. This means they must carefully make a budget and stick to the budget to ensure they can cover their expenses during the leaner months when income is low but money is still needed for various expenses.
- The FO can compare their planned budget to their income statement, which shows them their actual income and expenses. This can help them monitor if they are sticking to their budget and operating in a lean way and not spending more than necessary.
- The FO can keep track of customers who are timely payers and try to do more business with them. Over time, it can eliminate selling to customers who delay paying for a long time.

c. Is it possible for an FO to be making a profit, but still have a problem with cash flows?

- Yes. An FO might be making a lot of sales, but if those sales are not paid for by the customers in a timely manner, the FO can face a cash flow problem.
- The FO might also have a thriving business that requires frequent expenses, but if there is not a match between what the FO is spending (what is flowing out) and what the FO is getting in cash (flowing in), then they may have a cash flow problem.
- Profit is NOT synonymous with having cash for operations in the FO.

4. Walk participants through each part of the cash flow statement example on page 15 of the Participant Handbook. Use the facilitator's notes box to point out and explain each part of the cash flow.

Facilitator's notes

Understanding cash flow statement features

Cash inflows

- **Opening balance** – this is the amount of cash the FO has on hand/available at the start of the month.
- **Income** – list each type of income (product/service sales, membership fees, member shares, grants, loans, etc.) and the total amount of CASH received that month. Do NOT include sales made on credit (sales for which the FO has not yet received payment).
- **Total cash inflow** – add together all of the income (cash inflows) for the month.

Facilitator's notes

Understanding cash flow statement features

Cash outflows

- **Inputs** – this is an itemised list of all the purchases the FO made on inputs for the month. Do NOT include purchases made on credit (purchases which the FO has not yet paid for).
- **Operational costs** – this is an itemised list of all the costs the FO made to maintain its operations. Do NOT include expenses made on credit (expenses which the FO has not yet paid for).
- **Investments** – this is an itemised list of all investments the FO made, such as buying a new piece of equipment. Do NOT include purchases made on credit (expenses which the FO has not yet paid for).
- **Total cash outflow** – add together all of the cash outflows for the month.

Net cash flow

- This is the cash flow for the month. It takes the total cash outflow (expenses/money spent during the month) and subtracts it from the total cash inflow (income/money that came in during the month).
- If the number is positive, it indicates the amount of available cash the FO has on hand, which it generated during the month.
- If the number is negative, it indicates the FO is spending more than it is currently bringing it. This could quickly cause the FO to go into debt.

Closing balance

- This is the total cash the FO has available. It adds together the opening balance plus the net cash flow for the month.
- If the opening balance was higher at the start of the month, it might help to counteract a negative net cash flow for the month.
- If the opening balance was not very high at the start of the month, it might not help counteract a negative cash flow for the month.
- If the closing balance is positive, it means the FO still has cash on hand.
- If the closing balance is negative, it means the FO has spent more money than it had on hand. This can become a dangerous situation if it persists long-term

5. After introducing each part of the cash flow, ask the following discussion questions. Use the facilitator's notes box to check their answers.
   a. Which months did the example FO have a positive cash flow? Why?
   b. Which months did the example FO have a negative cash flow? Why?
   c. How did this FO remain with a positive closing balance in all four months despite the negative cash flow in two of the months?
   d. What impact can FO membership fees have on the FO's cash flow?
   e. What should an FO do if it discovers its cash flow is consistently negative?

Facilitator's notes

Cash flow discussion questions

a. Which months did this FO have a positive cash flow? Why?

- It had a positive cash flow in March and June.
- This happened because more members were paying their membership fees during these months, and the FO was generating money from bulk input sales to members (in March) and from selling the FO's produce (in June). The higher income during these months helped the FO have a positive cash flow.

b. Which months did this FO have a negative cash flow? Why?

- It had a negative cash flow in April and May.
- This happened because fewer members were paying their membership fees, and the FO was in the middle of the growing season, so they were not making money from bulk input purchases or from selling the FOs products. These were leaner months for generating income.

c. How did this FO remain with a positive closing balance in all four months despite the negative cash flow in two of the months?

- The FO had money in savings. The FO had a lot of cash available at the end of March, so this cash was able to carry the FO through the leaner months of April and May until it was able to have a positive cash flow again in June.
- This demonstrates the importance of planning ahead and budgeting so the FO has cash on hand within the FO even during leaner income months.

d. What impact can FO membership fees have on the FO's cash flow?

- Membership fees are an important source of income for many FOs.
- If most members are paying their membership fees in full and on time, then an FO's cash flow will benefit. This means the FO will be better able to operate smoothly to make necessary payments and buy inputs it needs to do business.
- However, if most members are not paying their membership fees in full and on time, then the FO's cash flow will likely suffer. This means the FO may not have the cash on hand it needs to operate smoothly and make purchases it needs to operate. This can significantly impact the FO's business over time.

e. What should an FO do if it discovers its cash flow is consistently negative?

- A cash flow is a helpful tool for understanding what money is coming in and what money is going out during the month. If the cash flow is consistently a negative number, the FO likely has a big problem, and the business will suffer if it cannot correct it to get the cash flow under control (to be a more consistently positive number).

Facilitator’s notes

Cash flow discussion questions

An FO can do the following to help correct a poor cash flow:

- The FO can make more effort to ensure it is collecting FO membership fees in full and on time.
- It can increase sales to customers who pay on time.
- It can decrease sales to customers who do not pay on time.
- It can look to see where it can decrease expenses.
- It can save more during positive cash flow months, to cover up for leaner months of the year when its income is lower and the cash flow may be poorer.
- It can look for other business ventures that can bring in income during months when it typically makes less income.

Activity 2: Personal cash flow statement preparation (1 hour)

1. Explain:
    - Before we start with creating a cash flow statement for the FO itself, we are going to practice creating a cash flow statement for our personal financial management.
    - Normally cash flow statements are done at the end of the month/quarter/year, but in this case we can estimate our personal financial cash flows based on what we know about our income and expenses throughout the year.
    - This can help to give you an idea of what your cash flow is like throughout the year, but it is also a good idea to get into the habit of making a cash flow statement at the end of each month to see how your income and expenses contributes to your real cash flow.
2. Ask: Why do you think cash flows are important for individuals to keep track of for their own personal money?
    - Cash flows can help you manage your money.
    - They can help you see which months of the year you have the most/least expenses, and the most/least income.
    - This knowledge can help you plan better and ensure you have saved enough for months when expenses are high and/or income is low. This planning will help you be able meet your needs without going into debt or causing the family to suffer.
3. Ask participants to find the blank template for a personal cash flow statement on page 16 of the Participant Handbook.
4. Ask participants to work individually or in small groups of 2 or 3 to make a personal cash flow statement for themselves. As they complete their individual cash flows, they should consider:
    - What starting balance they currently have saved in cash (in cash, on Mobile Money, or in a bank account). They should not include money they have in investments such as land, animals or businesses because this money is not easily accessible as cash.
    - What income streams they usually have and in which months they usually receive income (cash inflows)

- What expenses they usually have and in which months they usually spend money on different expenses (cash outflows)

5. After making their individual cash flow statements, ask different participants to reflect on the following questions:
   - What did you learn about your income and expenses from doing this cash flow statement?
   - Are there some months when your expenses are high and your income is lower?
   - How can a cash flow statement help your personal financial management?

Activity 3: FO cash flow statement preparation (2 hour)

1. Explain:
   - As a whole group, we are going to create an estimated cash flow statement for your FO.
   - If you have been keeping good records for your FO (receipt book/cash book, expenses register, etc.), then the numbers used in the cash flow statement can be exact.
   - If you have not been keeping good records for your FO, then we will have to estimate the numbers to use in the cash flow statement and you will have a better understanding of why keeping records on a daily basis is vital for being able to create financial statements for the FO.
2. Ask participants to gather any of the FO's financial records they brought pertaining to their income and expenses (i.e. receipt book/cashbook and expenses register).
3. Ask participants to turn to the cash flow statement template on page 17 of the Participant Handbook.
4. As a whole group, help participants complete the template together. You can complete as many months of the template as you have time for during the activity. Encourage the group to work together to finish completing the cash flow statement after the session, if you don't finish all of the months during the session.
5. After making their FO's cash flow, ask different participants to reflect on the following questions:
   - What did you learn about the FO's income and expenses from doing this cash flow?
     - What months does your FO usually need the most cash on hand for expenses?
     - What months does your FO usually make the most income?
   - Does your FO usually have a negative or a positive cash flow? Why?
   - What can your FO do to have a more consistently positive cash flow?
   - What impact do/could membership fees have on your FO's cash flow?

Key messages

- A cash flow statement is a financial statement that the FO should keep. It shows the amount of money going in and out of the FO's business on a monthly basis.
- If an FO does not manage its cash flow well, it can get into a bad situation where it needs money but doesn't have enough to operate smoothly.
- Producing a monthly cash flow statement helps an FO make sure that its cash position is well monitored and managed. If it notices that the cash flow is poor, it can take steps to manage the cash flow.

Session 4:

Income statements

Session objectives:

- To understand the purpose of the income statement
- To recognise the different parts of the income statement

Materials:

- Paper
- Pens/pencils

Time:

- 1 hour, 45 minutes

Activity 1: Income statement brainstorm (45 minutes)

1. Bring participants to an open space in the training room.
2. Explain the instructions:
   - We are going to do an activity called a "Walking Debate" to find out what you already know about the next type of financial statement – the income statement, which is sometimes called the profit and loss statement.
   - I am going to read a statement.
   - If you feel the statement is TRUE, move to the RIGHT of me.
   - If you feel the statement is FALSE, move to the LEFT of me.
   - If you are not sure, stand somewhere in the MIDDLE.
   - When everyone has moved, we will discuss the correct answer and debate a bit if people have different opinions.
3. Do the activity using the following statements. After reading each statement, let participants move and then ask a few participants to explain their choice. Then give them the correct answer.

Statements

1. An income statement shows the amount of income/revenue the FO generated.
    - TRUE. Showing the total income/revenue the FO generated is a key part of the income statement.
2. An income statement DOES NOT show the expenditures incurred.
    - FALSE. Showing the total expenditures of the FO is a key part of the income statement.
3. The bottom line of the income statement usually shows the FO's net profit. This tells you how much the FO earned or lost over a period of time.
    - TRUE. This is calculated by subtracting the total expenditures from the total income/revenue.
4. An FO only needs to make an income statement once every 10 years.
    - FALSE. An FO should make an income statement at least once every year, and it must be audited.
5. An income statement basically tells you the same things as a cash flow, so you only need to do one or the other.
    - FALSE. A cash flow shows you the cash an FO has on hand at the end of every month. A cash flow does not show you the net profit of the FO, but an income statement does. An FO should generate monthly cash flows and yearly income statements to understand different aspects of their business.
    - An income statement is also different from a cash flow statement because it includes non-cash transactions such as sales on credit while a cash flow statement only includes cash receipts and payments.
6. An income statement can be used to assess the performance of the FO's business.
    - TRUE. An income statement shows the net profit of the FO, so it can be used to assess the performance and profitability of the business.
7. The FO can use the income statement to devise strategies for increasing profits.
    - TRUE. It details the FO's income and expenses, so the FO can use its information to either 1) devise strategies to increase income without dramatically increasing costs, or 2) reduce costs without dramatically reducing the revenue generated.

Activity 2: Income statement basics (1 hour)

1. Ask participants to turn to page 18-19 in their Participant Handbook where they will find an example of an income statement for an FO.
2. Walk participants through each part of the income statement example on page 19 of the Participant Handbook. Use the facilitator's notes box to point out and explain each part of the income statement.

Facilitator's notes

Understanding the income statement

Total revenue

- This is calculated by totaling the income from sales, membership fees, and any other income for the FO.

Total direct costs

- This is calculated by totaling the direct costs associated with earning the revenue. For example, input costs for growing the crops, costs for transporting the harvested crops, and labor costs for producing the crop are all examples of direct costs.

Gross profit

- This is calculated by subtracting the total direct costs from the total revenue.

Total expenditure

- These are all the other expenditures that are not directly related to the revenue. They include operational costs like salaries/allowances, transportation to sales meetings, utilities, rental space, office supplies, etc.

Profit before interest, depreciation and tax

- This is calculated by subtracting the total expenditure from the gross profit.

Profit before interest and tax

- This is calculated by subtracting the estimated cost of depreciation from the "profit before interest, depreciation and tax".

Profit before tax

- This is calculated by subtracting any loan interest the FO must pay from the "profit before interest and tax".

Net profit

- This is the FO's profit before paying tax.

Dividend paid

- This is the total dividends paid out to FO members. It is part of the businesses' profit that is paid to shareholders for the capital invested in the FO business. It acts as a motivation or reward to the shareholders (who are members, in the case of the FO).
- What is paid to members depends on the total profit earned. Sometimes dividends will be bigger and sometimes they will be smaller depending on how profitable the FO was that year.
- The FO must also keep some money as retained earnings to keep the FO financially healthy.

Retained earnings

- This is the money the FO keeps as savings/available for investment after paying all expenses and paying dividends to members.

3. After reviewing the example income statement together, ask the discussion questions on page 20 of the Participant Handbook. Use the information in the facilitator's notes to check their answers.

Facilitator's notes

Income statement discussion questions

a. What records do you think the FO needs to keep throughout the year to be able to prepare an income statement?

- Sales register
- Expenses register
- Cashbook/bank statement
- Loan information/statements

b. Why must an FO look at net profit rather than gross profit when determining the FO's real annual profit?

- Gross profit only shows the profit made from the FO's sales. It doesn't take into account other operational expenditures which cannot be directly attributed to producing a product. It also does not take into account depreciation or interest owed.

c. Has your FO ever prepared an income statement? Why or why not?

- Answers will vary

Key messages

- An income statement shows the amount of income/revenue the FO generated, the expenditures it incurred, and the net profit earned.
- An income statement is usually prepared annually, to show the net profit of the FO for the year.
- An income statement shows the net profit of the FO, so it can be used to assess the performance and profitability of the business.
- An FO must keep detailed records about all income and expenditures throughout the year to be able to prepare an income statement. Without keeping detailed records, the income statement will not be able to give the FO an accurate picture about the health of their FO's business.

Session 5:
Balance sheet

Session objectives:

- To understand the purpose of the balance sheet
- To recognise the different parts of the balance sheet

Materials:

- Paper
- Pens/pencils
- A small ball to toss (made of paper or anything else safe and easy to throw

Time:

- 1 hour, 45 minutes

Activity 1: Balance sheet brainstorm (45 minutes)

1. Ask participants to stand in a circle.
2. Ask the following question:
   - What type of information is on a balance sheet?
     - Hint: A balance sheet shows everything an FO owns (assets) as well as what they owe to others (loans, accounts payable, etc.)
     - Hint: What are some example assets or liabilities?
3. Toss someone a ball and let them answer. They can then toss the ball to someone else who wants to add to their answer. Check their answers against the correct answer shown in the facilitator's notes below.
4. Repeat the brainstorm with the following questions:
   - What type of information is found in an FO's balance sheet?
   - What is the purpose of keeping a balance sheet, which is sometimes also called a financial position?
   - How often should an FO produce a balance sheet to check their financial position?
   - On a balance sheet of a financially healthy FO, what should the FO's total assets be equal to?
   - How can the FO's assets be financed? How does the balance sheet show this?
   - What is the safest way for the FO to finance its business activities and keep its financial position balanced?

Facilitator's notes

Brainstorm answers

a. What type of information is found in an FO's balance sheet?

- Assets (current and fixed)
- Equity (member shares, other capital and retained earnings)
- Liabilities (bank loan, accounts payable, outstanding dividend payments, etc.)

b. What is the purpose of keeping a balance sheet, which is sometimes also called a financial position?

- A balance sheet is a financial statement that shows the condition (wealth or value) of the FO at a certain point in time.

c. How often should an FO produce a balance sheet to check their financial position?

- At least once per year.

d. On a balance sheet of a financially healthy FO, what should the FO's total assets be equal to?

- Total assets should be equal to total equity plus total liabilities.

e. How can the FO's assets be financed? How does the balance sheet show this?

- The FO can finance their assets either by raising internal capital, by taking a loan, or a combination of the two.
- The balance sheet includes space to detail the FO's assets, including what amount comes from equity/internal capital and from loan liabilities.

f. What is the safest way for the FO to finance its business activities and keep its financial position balanced?

- The safest way is to raise money through shares. This is because taking on debt is risky and expensive. For this reason, FO members should be encouraged to buy shares in the FO and/or pay membership fees and commissions for the services the FO offers them.

Activity 2: Balance sheet basics (1 hour)

1. Ask participants to turn to page 20-21 in their Participant Handbook where they will find an example of a balance sheet for an FO.
2. Walk participants through each part of the balance sheet example on page 21 of the Participant Handbook. Use the facilitator's notes box to point out and explain each part of the balance sheet.

Facilitator's notes

Understanding the balance sheet

Fixed assets:

- These are assets the FO procured, and which will be used in the business to generate income.
- Examples of fixed assets could be a truck or lorry, warehouse, computer, furniture, office equipment and other investments which have been bought for the FO to use (not with the intention to sell them again immediately.)

Current assets:

- This includes the **cash at hand and in the bank** that the FO has.
- It also includes **debtors**, which are sales made on credit, sometimes known as receivables.
- It also includes the **stock/inventory** of goods bought by the FO for trading. Examples of stock are rice, fertilisers, seeds and packaging materials bought in bulk by the FO and kept in the warehouse.
- Debtors and stock/inventory are part of current assets because they can easily be converted into cash.

Equity

- **Equity, shares** or **capital** is the amount of money invested by shareholders of the company (FO members) in the form of shares. This entitles the shareholders to claim profits (dividends) at the end of the financial year or when the FO is disposing of their assets when closing/liquidating the business.
- **Retained earnings** are part of profits that the FO reserves or retains for re-investment in the business. This is important for the organic growth of the business and is a cheap source of capital as it does not attract any interest. Unlike equity from external investors or new shareholders, retained earnings do not dilute the shareholding of the FO.

Liabilities

- Liabilities include **outstanding payments to suppliers** and **loans.**
- Loans due for payment within a year are known as current liabilities and could include trade payables for supplies received but not paid for such as seed, fertiliser, water and electricity bills, etc.
- **Dividends declared but not paid** are also a liability.

3. After reviewing the example balance sheet together, ask the discussion questions on page 21 of the Participant Handbook. Use the information in the facilitator's notes to check their answers.

Facilitator's notes

Balance sheet discussion questions

a. What fixed and current assets does your FO have?

- Answers will vary. Ensure participants are correctly understanding the difference between fixed and current assets.

b. What equity and reserves does your FO have?

- Answers will vary. Ensure participants are correctly understanding the difference between equity (shares/capital) and reserved earnings.

c. What liabilities does your FO have?

- Answers will vary. Ensure participants recognise bank loans, accounts payable and any promised but unpaid dividends as liabilities.

d. Do you think your FO's balance sheet would balance, meaning that the FO's total assets are equal to its total equity/reserves + total liabilities? Why or why not?

- Answers will vary.

e. What can an FO do to ensure it has a balanced financial position (balance sheet)?

- Use numbers from the income statement and cash flow statement to complete the balance sheet. If you make a mistake when transferring these numbers, the balance sheet will not add up.

Key messages

- A balance sheet is a financial statement that shows the financial health (wealth or value) of the FO at a certain point in time. It also shows how the assets the FO acquired were financed.
- An FO should generate a balance sheet at least once each financial year to monitor the wealth or value of the FO and ensure its assets are balanced against its equity and liabilities.
- An FO's debt should not exceed 50% of its total liabilities and total assets. If it does exceed 50%, the FO is highly in debt and there is a risk the FO may fail to honor its debt obligations. A balance sheet is an important way of checking that the FO's debt is not too high compared to its liabilities and assets.

Session 6:
Financial statements analysis

Session objectives:
- To understand the purpose of financial statement analysis
- To recognise some methods of financial statement analysis

Materials:
- Paper
- Pens/pencils

Time:
- 2 hours

Activity 1: Purpose of financial statement analysis (30 minutes)

1. Divide participants into groups of 3-4. Assign each group either to be either "analysers" or "not analysers".
2. Explain:
   - We have been learning a lot about generating financial statements as an FO, but generating them is not enough.
   - We must also ANALYSE the financial statements so that we can learn from them and take necessary actions to improve the business.
   - You will work in small groups to make up a story about an FO who either DOES ANALYSE their financial statements, or DOES NOT ANALYSE their financial statements. I have assigned your group to be one of the two options.
   - Think about what could happen to the FO, depending on their decision to either analyse or not analyse their financial statements. What could happen to the financial health of their FO? What could happen among the members? What could happen to their business ventures? What could happen to their overall livelihoods?
   - Take 10 minutes to create a story about the FO's fate. Then we will share our ideas together.
3. Give groups 10 minutes to make up their stories. Some ideas of what participants might share are in the facilitator's notes box below. You can use these ideas to guide them if they are having trouble.
4. Then invite a few groups to share their stories. Ensure that groups who are both "analysers" and "not analysers" get to share, in order to demonstrate the differences.

Facilitator’s notes

What could happen to FOs who analyse their financial statements?

- They will be able to tell which business ventures are more profitable than others.
- They will be more entrepreneurial, meaning they are better able to make decisions about their business based on facts.
- They will be better able to make payments on time because they have a good handle on their cash flows.
- They will be better able to pay their members on time (sales and dividends) because they can control their cash flows.
- They will be better able to plan for and finance new business ventures.
- They will be able to tell how they are performing against their own planned performance and against their competitors.
- They will be able to keep a close eye on their debts and make sure they don’t get too high compared to their equity and liabilities. This will help keep them out of bankruptcy.
- They will be able to see if they have a problem with membership fee collection.
- They will be able to see if there is a problem in the business before it has a chance to get out of hand.

What could happen to FOs who do NOT analyse their financial statements?

- They will not be as likely to spot problems in the business before it is too late.
- They will not be able to make as intelligent decisions for their business.
- They may face cash flow issues, and not understand why.
- They will not be able to predict if their business will survive over the long term.
- They may not be able to make adjustments if their debt is getting too high.
- They will not be able to tell how they are performing against their own planned performance or against their competitors.

Activity 2: Financial statements analysis practice (1 hour 30 minutes)

1. Explain: Now that we understand the purpose of financial statement analysis and how it can help us identify problems in terms of our FO’s financial health so that we can work to remedy them, let’s explore a few types of financial statement analyses we could do. This first one is “trend analysis”.
2. Ask: What does a “trend” mean?
   - A trend means the overall direction of something during a specified period of time. Although things can go up or down on a daily or monthly basis, overall things either trend upwards, downwards or stay even.
3. Ask participants to turn to page 22 in their Participant Handbook and look at the two graphs.
4. Ask:
   - What is the overall trend of the graph on the top?
   - What is the overall trend of the graph on the bottom?

5. Ensure participants identify:
    - The graph on the top is trending downwards. Even though there are some increases from time to time, the overall trend of the graph is that it is going down.
    - The graph on the bottom is trending upwards. Even though there are some decreases from time to time, the overall trend of the graph is that it is going up.
6. Next, ask participants to look at the two tables on page 23 of the Participant's Handbook. Ask them to identify if the Great Grains FO's net profit is trending upwards or downwards. Then ask them to identify if the FO's expenses are trending upwards or downwards. Ensure they identify that:
    - The net profit is trending downwards.
    - The expenses are trending upwards.
7. Ask: Based on what you have observed from your trend analysis of the Great Grains FO's profits and expenses, what advice would you give to them?
8. Use the facilitator's notes box below to help participants identify some strategies that the Great Grains FO might want to follow.
9. Explain: Now we are going to start thinking about your FO and the trends it might have. I am going to mention some aspect of your FO and I want you to tell me if you think it has trended UPWARDS or DOWNWARDS in the past few months/years. If you think it has trended UPWARDS, raise your hand. If you think it has trended DOWNWARDS, raise your hand.
10. Mention the following aspects. Allow participants to raise their hands (or not) after each aspect and have a discussion about it as a group. Does everyone agree about the trends?
    - What is the trend of….
    - the FO's revenue/sales?
    - the FO's expenses?
    - the FO's profits?
    - the FO's new members?
    - the FO's membership shares?
    - the FO's yields?
11. Explain: Having a general feeling about your FO's trends is one thing, but it is important to actually analyse your financial statements to look at how your FO is doing from year to year (and show it to members at the AGM), from season to season, and even from month to month.

Gender and youth

Encourage participants to include both women and youth in the FO in the analysis of financial statements. They will likely have valuable insights and ideas from their unique perspectives which can help make the FO and its decision-making stronger.

12. Ask: What documents can you use to analyse the trends of your FO's revenue/sales, expenses, and profits?
    - Ensure they identify that an FO should compare their income statements to analyse how the different numbers are trending over time.
13. Ask: What documents can you use to analyse the trends of your FO's new members, total membership shares and yields?
    - Ensure they identify that an FO should compare their membership records and yield records to analyse how the different numbers are trending over time.
14. Depending on the financial statements and other documents the FO has available, help them to do a trend analysis for some aspects of their business.
    - For example, if they have income statements for the past few years, help them do a trend analysis to determine if their revenue/sales, expenses and profits are trending upwards or downwards.
    - If they have membership log books, help them do a trend analysis to see if new member sign-ups have trended upwards or downwards over time.
15. After doing some trend analysis about different aspects of the FO's business, start a discussion about some strategies the FO can use to fix any problems they have identified, such as downward trending profits or greatly upward trending expenses.

Facilitator's notes

Advice for the Great Grains FO

This FO is experiencing a downward trend in profitability and an upward trend in expenses. The FO has a few strategy options for changing this so that their profits trend upwards and their expenses at least stay the same/raise reasonably as their profits also increase.

- Strategy 1: Improve the FO's sales. This can be done through several methods:
  - Recruit new members.
  - Convince current members to bulk more with the FO.
  - Offer services that help increase members' yields.
  - Find new markets.
- Strategy 2: Reduce expenses. This can be done through several methods:
  - Try to cut out unnecessary expenses.
  - Try to substitute existing expenses for less expensive options but be careful not to sacrifice too much on quality.

Activity 3: Variance analysis (1 hour 30 minutes)

1. Ask participants to look at the pictures of the two different houses on page 23 of the Participant's Handbook.
2. Ask: What is the difference (variance) between the house that was planned and the house that was actually built?
3. Allow some participants to answer, some observations are:
   - The planned house is much bigger.
   - The planned house has nice features like a pool and a nice garden.
   - The house that was built is very basic and only has one story.
   - The house that was built does not have a well-landscaped garden.
4. Ask: What do you think could have happened that made the home owner deviate from his/her original building plan?
5. Allow some participants to answer, some possible answers are:
   - The home owner didn't plan well and ran out of money to build the original house.
   - The home owner decided he/she didn't want such a large house, so decided partway through to build a smaller one.
   - The home owner forgot along the way what the original plan was.
   - The builder of the house didn't follow the building plan.
   - The government decided not to allow such a big house to be built on the land, and the owner had no choice but to change his plan.
6. Explain: This is simple example shows how a "variance analysis" can be done – meaning that we look at what we planned and compare it to what actually happened and analyse the difference between the two.
7. Ask the following questions. Check participants' answers using the information in the facilitator's notes box below.
   - What do you think a "variance analysis" of the FO's financial statements means?
   - What is the importance of doing a variance analysis on the FO's financial statements and other information?
8. Depending on the financial statements and other documents the FO has available, help them to do a variance analysis for some aspect of their business.
   - For example, if they have the FO's master budget and the FO's income statement, help them do a variance analysis to determine how the actual revenue/sales and expenses on the income statement compares to what they had planned in their budget.
   - If they have membership log books, help them do a variance analysis to see if new member sign-ups are more or less than what they had expected.
9. After identifying some areas where things varied from their original plans (in a negative way), help the FO think about what solutions they could put in place to ensure that their FO meets all of their planned targets in the future.

Facilitator's notes

Variance analysis

What do you think a "variance analysis" of the FO's financial statements means?

- A variance analysis means looking at what the FO had planned and comparing it to what was actually achieved.
- An FO can look at their financial statements to determine whether their revenue/sales, expenses, and profit were each higher, lower or about even with what they had planned for in their budgets and other calculations.
- An FO can look at their new membership sign-ups, yields, number of new customers and many other non-financial data points to compare their plans to what they actually achieved.

What is the importance of doing a variance analysis on the FO's financial statements and other information?

- Variance analysis can help an FO understand whether their plans are going off track.
- If they determine that their plans are going off track, they can look for solutions to fix them before the problem becomes too big.
- For example, if the FO realises their expenses are much higher than what they had planned, they can look for ways to reduce them. If they realise their revenues/sales are too low, they can devise strategies for increasing them.

Activity 4: Profit margin ratio (1 hour 30 minutes)

1. Ask the following questions. Use the facilitator's notes box below to support their answers.
   - What is a profit margin ratio?
   - Has your FO ever calculated its profit margin ratio before? How did you do it? What did you find?
   - What can you understand about the FO by calculating its profit margin ratio?
2. Ask participants to look at the formula and example calculation for an FO's profit margin ratio on page 24 of the Participant's Handbook.
3. Review the steps involved in this calculation and discuss together whether the example FO has achieved a good profit margin or not.
4. Then help the group calculate their own FO's profit margin ratios, using their income statements. Help them calculate their profit margin ratios for all income statement periods they have available.
5. After finding their profit margin ratios (either one, or several over a period of time), discuss the following questions:
   - What are your thoughts on your FO's profit margin ratio? Is it high enough?
   - Has your FO's profit margin ratio been increasing or decreasing over time?
   - If it has been increasing over time, what can account for this? What can you do to maintain this profit margin or even increase it more?
   - If it has been decreasing over time, why? What can be done to increase it to an acceptable level?

Facilitator's notes

Profit margin ratio

What is a profit margin ratio?

- A profit margin is the ratio of profit remaining from sales after all expenses have been paid.
- It is shown as a percentage and it shows how well the company is managing its overall finances.
- The higher the profit margin, the better. However, be careful not to sacrifice quality (by using inferior inputs to save on expenses), or drive customers away by setting prices too high (to increase revenue) in order to achieve a very high profit margin.

Has your FO ever calculated its profit margin ratio before? How did you do it? What did you find?

- Answers will vary.

What can you understand about the FO by calculating its profit margin ratio?

- You can understand how profitable the company was during a given time period.
- It can help you judge how stable and profitable the company has been over time.
- If it is very profitable – keep doing what you are doing!
- If it is marginally profitable – try to find ways of making it even more profitable.
- If it is not so profitable, the company may close eventually if the owners decide the profit it makes is not worth the time spent to produce the product.
- If it is not profitable at all over a period of time, it may be wise to close the company before losing even more money.

Activity 5: Liquidity ratio (1 hour)

1. Ask participants to imagine two 500 shilling coins. One of them is in a glass of water. The other is frosen inside of a big block of cement. Which one would they prefer to have when they desperately need to buy airtime?
2. After discussing this, explain:
   - Liquidity is a measure of a business's ability to pay its bills on time.
   - Just like the 500 shilling coins you imagined, the coin in the water is more "liquid" and easy to reach than the coin in the cement, which you would first have to chisel out before being able to spend it.
   - In an FO, liquidity is the relationship between the FO's current assets and current liabilities. It is an important measure of the FO's month to month operations, since the FO needs cash on hand to pay bills.
3. Show participants the liquidity calculation formulas on page 25 of the Participant Handbook. Ask participants to use the numbers in the FO's cash flow statement they created together in Module 1, Session 3 to calculate their FO's net working capital, current ratio and quick ratio for each month of the cash flow statement.
4. After calculating these, ask participants the following questions:
   - Did the FO's net working capital increase or decrease over the months?
   - What factors caused any changes in the net working capital?
   - What are the trends in:

  - Current and quick ratios from month to month, or year to year?
  - Working capital compared to annual sales, especially compared to receivables and inventories in relation to sales volume?
- How much working capital should we have for the type of business we are in?
- What do these ratios tell us about our liquidity? Are we liquid enough to pay all our bills on time?
- If we are not liquid enough, what can we do to increase our liquidity?

Activity 6: Solvency ratio

1. Ask the following questions. Use the facilitator's notes box below to support their answers.
   - What is a solvency ratio?
   - Has your FO ever calculated its solvency ratio before? How did you do it? What did you find?
   - What can you understand about the FO by calculating its solvency ratio?
2. Ask participants to look at the formula and example calculation for an FO's solvency ratio on page xx of the Participant's Handbook.
3. Review the steps involved in a solvency ratio calculation. Then read each of the four scenarios and help participants calculate each FO's solvency ratio. Discuss together whether each FO's solvency ratio is too low, too high, or just right. Use the information in the facilitator's notes to guide this discussion.
4. Then help the group calculate their own FO's solvency ratio, using their financial statements.
5. After finding their solvency ratio, discuss the following questions:
   - Is our FO's solvency ratio healthy, meaning it is not too high and not too low (ideally between 20-30%)?
   - If it is too high, what can we do to lower it?
   - If it is too low, what should we do to be less conservative and take on some debt so we can grow?
   - What proportion of our permanent assets are funded by creditors versus member owners? What has been the trend in this relationship over the past few years?
   - How restrictive are the conditions imposed on us by our creditors?
   - What is our long-term goal or target solvency position? What do we need to do to get there?

Facilitator's notes

Solvency ratio

What is a solvency ratio?

- A solvency ratio shows the relationship of long-term debt to equity.
- This ratio shows the amount invested in the business by creditors compared to that invested by the members.

Has your FO ever calculated its solvency ratio before? How did you do it? What did you find?

- Answers will vary.

What can you understand about the FO by calculating its solvency ratio?

- You can understand how "solvent" the FO is, meaning to what extent do its assets exceed its liabilities and how well it is able to pay its debts.
- If the ratio is too high, the creditors' claims on the assets, possibly indicating the FO is extending its debt beyond its ability to repay. This means the FO may become insolvent.
- However, an extremely high ratio may indicate that the FO is managing its assets too conservatively and not taking on debt which could help it grow.
- An ideal solvency ratio is between 20-30% for a company to be considered financially healthy.

Answers to scenarios in Participant Handbook

- Scenario 1: The solvency ratio is 25%. This FO's solvency ratio is financially healthy.
- Scenario 2: The solvency ratio is 600%. This FO's solvency ratio is too high. It may not be acting aggressively enough to take on debt and grow.
- Scenario 3: The solvency ratio is 30%. This FO's solvency ratio is financially healthy.
- Scenario 4: The solvency ratio is 5%. This solvency ratio is too high. Too much of the FO is owned by creditors. It is in danger of insolvency.

Key messages

- FOs must not only prepare financial statements, but analyse them to determine if their FO is moving in the right direction.
- Trend analyses and variance analyses can all provide valuable insight into the overall direction that the FO is moving – either positively or negatively. If the FO determines things are not going as planned, it can make changes before it is too late.
- Profitability, liquidity, efficiency and solvency ratios are all important ways for the FO to monitor the financial health of the FO. These can be calculated using financial statements and other records the FO must keep. The FO should calculate these ratios at least once per year when they prepare their financial statements, and even more often if possible.

MODULE 2:
Reviewing and updating the business plan

Module introduction:

In this module, participants will reflect on and update their FO's business plan and accompanying action plan.

The FO should have been working on their business plan and action plan after drafting it at the end of the Part 2 training. This module gives them an opportunity to reflect on what is going well and what might need to change in their business plan to make their business as profitable as possible. Participants will get a significant amount of time to think through and update their plans, so provide support to them as they work together to create plans that will work best for their FO.

At the end of the module, participants are also asked to reflect on what they learned across all three parts of the training. They should consider what they want to change in themselves and in their FO as a result of this training. This provides a nice wrap up to end the third part of the training.

Module outline:

Session 1: Reflecting on and updating the business plan

Session 2: Reflection on the training

Module objectives:

By the end of this module, participants should be able to:

- Update their FO's business plan and accompanying action plan, taking their financial statements and analysis into consideration
- Reflect on what they learned during the entire training and what they want to carry forward with them to improve themselves and their FO

Training materials needed:

- Flipchart paper
- Markers
- Paper and pens
- Tape

Total time needed for module: 6 hours, 30 minutes

Session 1:

Reflecting on and updating the business plan

Session objectives:

- To update the FO's business plan, after reflecting on the FO's financial health by looking at their financial statement analysis
- To update the implementation (action) plan for the FO's business plan so the business plan can become a reality

Materials:

- Flipchart paper

Time:

- 5 hours, 30 minutes

Preparation:

- Ask participants to bring their FO's current business plan and implementation (action) plan so they can reflect on and make adjustments to them.
- Ask participants to bring their FO's financial statements and any analysis they have done with them.

Activity 1: Business plan progress discussion (30 minutes)

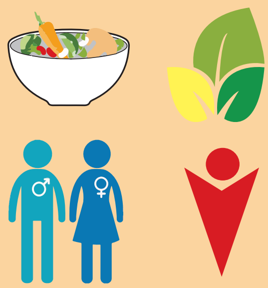
1. Divide participants into small groups of 3-4. Ensure that each group has at least one person who can read and write.
2. Explain:

- In Part 2 of the training, the FO revised their SMART goals and created a business model canvas and business plan as well as an action plan for achieving them.
- It is an important skill for FOs to get in the habit of reflecting on and updating its business plan and then creating a plan of action for achieving it.
- Now that your FO has learned about financial statements and practiced preparing and analysing them, you should also reflect on whether your business plan is still on point given this analysis of the FO's financial health.
- Now you are going to reflect on the FO's business plan and accompanying action plan.

3. Ask groups to discuss the reflection questions on page 29 of the Participant Handbook.
   - What progress has the FO made on the business plan so far?
   - What parts of the business plan are working well and should remain as they are?
   - Which parts of the business plan are not working as intended and need to be adjusted?
   - Given our analysis of the FO's financial statements, should anything else in the business plan be changed to improve our FO's financial health?
   - What else should be added to or subtracted from the business plan (if anything)?

Activity 2: Consensus and business plan updating (3 hours)

1. After small group discussion about the discussion questions, bring the whole group back together and ask different groups to give their opinions on the reflection questions.
2. Try to come to a consensus about how the FO is doing with the business plan and what adjustments might need to be made to it. Emphasise how they should use the analysis of their financial statements to guide their decisions about the business plan.
3. After coming to a consensus about what needs to be changed and improved in the business plan, help the group update their business plan.



Food security, greening, gender, and youth:

When updating the business plan, encourage participants to find ways of including information about food security, greening, gender and youth (if they are relevant topics for their FO) in their business plan. These are topics that investors and lenders (as well as FO members and community members) may be interested in understanding are part of the FO's model.

Activity 3: Reflecting on and updating the action plan (2 hours)

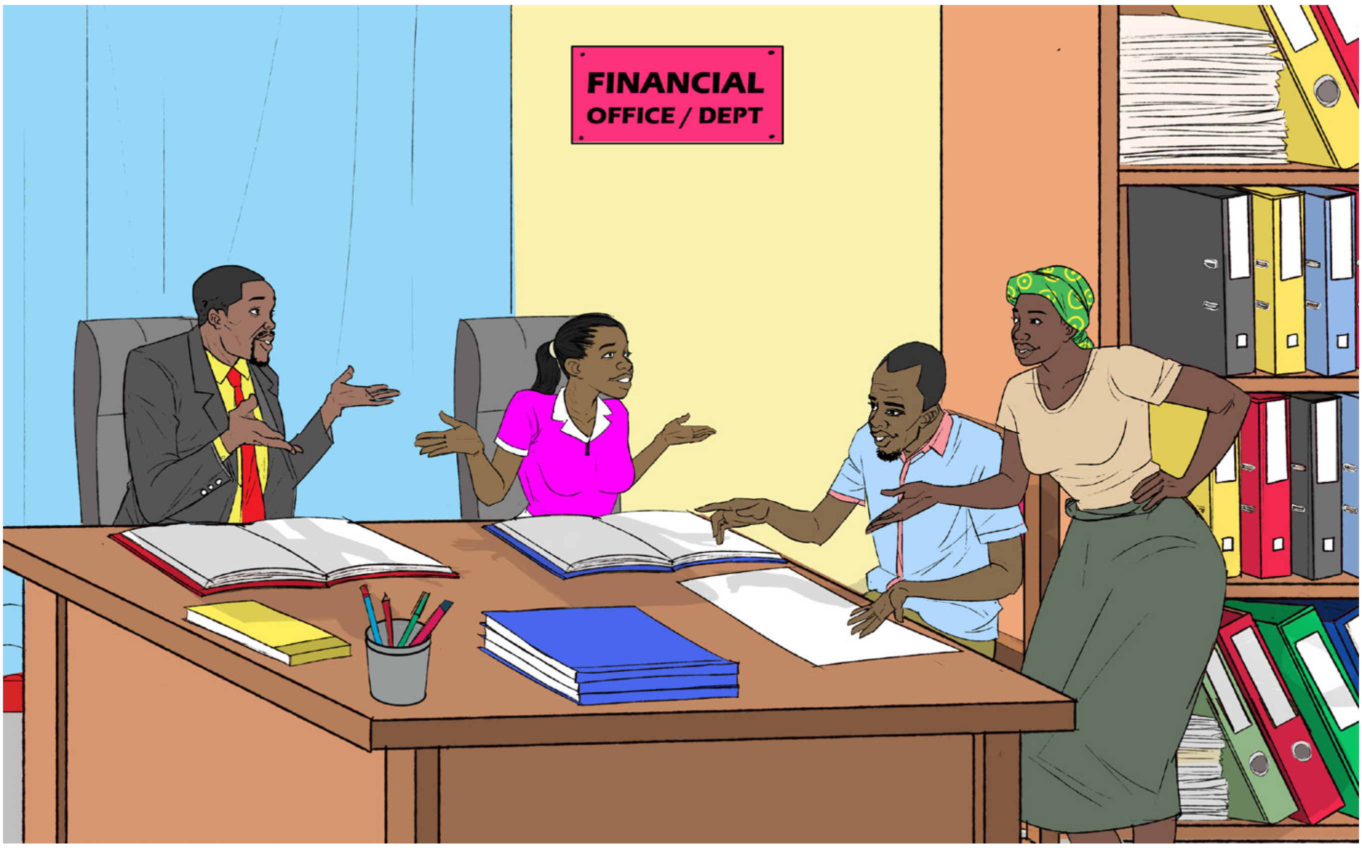
1. Explain: Just as it is important to reflect on the business plan itself, it is important to reflect on the implementation of the business plan, also known as the action plan.
2. Start a discussion with the whole group about how their action plan went (which they created at the end of Part 2 of the training). Ask the following questions to get the discussion started. These questions are also provided on page 29 of the Participant Handbook.
   a. What actions in your FO's action plan have been completed as planned? Why was the FO successful in completing these actions?
   b. What actions in your FO's action plan have not yet been completed as planned? Why was the FO unsuccessful in completing these actions? What have you learned from this?
   c. What would you change in a new action plan for your FO's business plan? What would you keep the same? What would you add?
3. After coming to a consensus about what needs to be changed and improved in the action plan, help the group update their action plan.

Gender, and youth:

Encourage participants to assign responsibilities in the business plan's action plan to both youth and women. Both youth and women can bring valuable ideas, energy and leadership skills to an FO and should be given an opportunity to demonstrate their potential to contribute.

Key messages

- A business plan is a living document. It should be reviewed and updated regularly to ensure it reflects the current intentions and plans of the FO.
- FOs should keep their financial statement analysis in mind when creating or updating their business plan. The business plan should be used to help improve the FO's financial health, so understanding the FO's financial statement analysis is crucial.
- Implementation (action) plans should be specific, realistic, include the activities which will lead to their goals and the timeframe for achievement. People should be assigned to each activity so that there is accountability.
- A business plan's implementation (action) plan needs to be reviewed regularly to ensure that it is on track. It is also a living document which should be updated and revised over time to reflect current realities.



Session 2:

Reflection on the training

Session objectives:

- To reflect on what participants learned during all three parts of the training
- To consider how participants plan to continue improving themselves and their FO

Materials:

- Flipchart paper
- Markers
- Tape

Time:

- 1 hours

Activity 1: Training reflection (1 hour)

1. Give each participant a flipchart paper and some markers.
2. Explain:
    - We have come to the end of our three-part training.
    - We have learned so much over the past few months about many different business skills and attitudes that can benefit you as individuals and your FO as a whole.
    - Now we are going to reflect on what we learned. Please write and/or draw some of the most important things you learned during this three-part training on your flipchart.
3. After creating their reflection posters, invite participants to hang them around the room. Ask all participants to walk around to each poster, as if they were admiring art in a museum. They should take time to examine what other participants have learned and see how it compares to what they learned.
4. After 5 minutes of walking around and examining each other's posters, invite a few volunteers to share what they drew/wrote and why.
5. After the reflection poster sharing, ask participants to stand in a big circle. One by one, ask participants to enter the center of the circle and say one thing that they plan to change about themselves or their FO after this training. The whole group should clap for them.
6. If participants wish, they can write down their reflection thoughts on page 31 of the Participant Handbook.

Key messages

- During this training, participants learned about 8 broad topics. These included: 1) entrepreneurship, 2) the entrepreneurial FO, 3) good group dynamics, 4) leadership and governance, 5) sales and marketing, 6) financial management and record keeping, 7) business planning and 8) financial statements.
- This training has equipped FO members with the skills they need to run a profitable, inclusive, innovative business which works to benefit all FO members.

Trainer’s Guide

Deutsche Gesellschaft für
Internationale Susammenarbeit (GIZ) GmbH
Registered offices Bonn and Eschborn, Germany
Friedrich-Ebert-Allee 36 + 40
53113 Bonn, Germany
T +49 228 44 60 - 0
F +49 228 44 60 - 17 66
E info@giz.de
I www.giz.de
Dag-Hammarskjöld-Weg 1 – 5
65760 Eschborn, Germany
T +49 61 96 79 - 0
F +49 61 96 79 - 11