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RESEARCH PROGRAM ON Livestock and Fish

CGIAR

# Pig business planning and financial management: Uganda smallholder pig value chain capacity development training manual

European Commission

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Investing in rural people

International Fund for Agricultural Development

# Pig business planning and financial management:

# Uganda smallholder pig value chain capacity development training manual

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# Contents

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# Abbreviations

| | |
|---|---|
| ADDIE | Analysis, Design, Development, Implementation and Evaluation |
| AFRISA | Africa Institute for Strategic Resource Services and Development |
| ASF | African swine fever |
| BRAC | Bangladesh-based development organization formerly known as the Bangladesh Rehabilitation Assistance Committee |
| CRP | CGIAR Research Program |
| DSIP | Development Strategy and Investment Plan |
| DVO | District Veterinary Officer |
| EC | European Commission |
| GDP | Gross Domestic Product |
| FAO | Food and Agriculture Organization of the United Nations |
| IFAD | International Fund for Agricultural Development |
| ILRI | International Livestock Research Institute |
| KCCA | Kampala Capital City Authority |
| MAAIF | Ministry of Agriculture Animal Industry and Fisheries |
| NAADS | National Agriculture Advisory Service |
| NAGRIC | National Animal Genetic Resources Centre |
| NaLiRRI | National Livestock Research Institute |
| NARES | National Agricultural Research Systems |
| NGO | Non-Governmental Organization |
| PFA | Prosperity for All Programme |
| PMA | Plan for Modernization of Agriculture |

| | |
|---|---|
| SACCO | Savings and Credit Cooperative |
| UBOS | Ugandan Bureau of Statistics |
| UN | United Nations |
| UNDP | United Nations Development Programme |
| UPO | Uganda Piggery Organization |
| USAID | United States Agency for International Development |
| VEDCO | Volunteer Efforts for Development Concern |

# Introduction

Pork production and consumption have risen rapidly in Uganda over the past decade, driven by population growth, urbanization, increasing incomes, and changing tastes. In 2011, Uganda had the highest per capita consumption of pork in East Africa (3.4 kg/person per year).

The number of pigs has increased more than tenfold from less than 200,000 three decades ago to roughly 3.2 million. More than 1 million households in Uganda raise those pigs. The majority of the pigs are kept by women in rural areas, with limited access to technology, services and markets.[1]

Figure 1. Trends (000) in the number of pigs in Uganda, 1991–2008.

Source: National Livestock Census Report (2008).

The Smallholder Pig Value Chain Development Project which aims to improve the livelihoods of smallholder pig producers, particularly women, through increased productivity, reduced risk from disease, and improved market access is part of the CGIAR Research Program on Livestock and Fish,[2] led by the International Livestock Research Institute. The project is funded by the International Fund for Agricultural Development and European Commission.

A key activity of the project is to strengthen the capacity of women and men pig producers, and help them transform subsistence-level pig-keeping into viable, profitable businesses. A companion project, 'Safe Food, Fair Food', under the CGIAR Research Program on Agriculture for Nutrition and Health,[3] is working to improve pork safety and market access. These efforts, in turn, should enhance food security, help preserve natural resources and reduce poverty. Poverty in Uganda currently stands at 37.8 percent (people living on less than USD1.25 per day).

1. Find ILRI pig value chain assessment slide share presentations here: http://slidesha.re/1IojJPX

2. CGIAR Research Program on Livestock and Fish, http://livestockfish.cgiar.org/

3. Learn more about the program here: http://www.ilri.org/crp

This module is targeted to small- and medium-scale pig entrepreneurs who require knowledge and skills to run their pig enterprises profitably. They may have undergone a capacity assessment to establish their learning needs as well as literacy, numeracy and computer knowledge and skills prior to enrolling for this course (Appendix 1). Targeted participants also should have been involved in a pig enterprise for at least one year with ample knowledge of input costs and revenues from pig enterprises.

Others who may benefit from the training modular content include suppliers, pig producer organizations, transporters and entrepreneurs involved in the sale of live animals, pork and other pork products.

ILRI also has developed training modules on pig management, control of African swine fever, parasite control, feeding strategies, and marketing to help strengthen the capacity of farmers.

While designing the modules a process has been facilitated with research and development partners to practice the delivery of the packages.[4]

4. Learn more here: http://www.slideshare.net/ILRI/capacity-development-in-the-uganda-smallholder-pig-value-chain-development

# Expected outcomes

This module is intended to equip participants with the knowledge and business skills necessary to run their pig enterprises profitably. By doing so, the pig value chain in Uganda should be more competitive and responsive to market demands. It is preferred that participants be trained first in the 'Marketing and Institutional Strengthening' module, which provides a foundation for business planning. Upon successful completion of this module, farmers and smallholder pig entrepreneurs should be able to:

- Prepare a bankable business plan for their pig enterprise.
- Identify potential financial sources with knowledge of the advantages and disadvantages of each.
- Apply appropriate financial management skills to their pig enterprises.

## Glossary of technical terms used in this module

| | |
|---|---|
| Business plan: | Statement of business goals and the process to attain them. |
| Cooperative: | An autonomous association that's voluntarily formed for a mutual purpose. |
| Limited liability company: | A company that's registered to do business. |
| Marketing plan: | Efforts to be taken to meet the sales target of a product. |
| Reducing balance: | Interest calculated only on outstanding amount of loan. |
| Six Ps of marketing: | Price, product, people, place, promotion, policy. |
| Sole proprietorship: | Business owned by an individual. |
| Variable costs: | Costs of inputs that vary with level of production volume. Examples include feed, fertilizer and seed. |
| Fixed costs: | Costs that remain unchanged irrespective of level of production or revenue. Examples include building rent and taxes. |
| Working capital: | Funds required for a short period in business, normally less than a year. |
| Fixed capital: | Funds required for financing long term assets of the business e.g. construction of a piggery unit or slaughterhouse. |

# Training methods

This module is to be delivered mainly by presentations made by the facilitator while punctuated with participatory demonstrations, discussions, role plays and group tasks. The participants are to be encouraged to ask questions on aspects which may not be clear. The facilitator should be an agribusiness expert, a champion of agribusiness skills or someone who has been trained to teach these topics.[5]

## Proposed training schedule

Session 1: Business Plan (2½ hours)

- What is a business plan and why is it important (1 hour)
- Business structures (30 minutes)
- Components of a business plan (1 hour)

Session 2: Financial planning and Management (6 hours)

- Basic record keeping (2½ hours)
- Financing sources (1 hour)
- Managing financial resources (2½ hours)

Session 3: Development of a business plan (2 days)

- What are the key steps in developing a business plan?
- Practical application of knowledge to develop a business plan

## Tools and materials (prepare in advance)

- Ring binder for each participant containing an outline of the training program
- Training handouts (see below)
- Notebooks and pens
- Calculators (1 per group)
- Flip charts and markers for facilitator and participants
- A whiteboard on stands for facilitator
- Logistical arrangements for participants to visit a market and other locations of their choice while conducting a rapid market survey

5. Learn more about business skills training here: http://edu.care.org/Documents/Small%20Business%20Management%20Skills%20-%20Facilitator%20Guide.pdf

## Training aids/handouts

- Cooperative society principles and steps in forming one
- Procedures for registering local companies in Uganda
- An example of a business plan by Gem Ugunja Sweet Potato Seed Growers Association

# Background

The transformation of farming in Uganda requires farmers to understand that they will be more successful if they run their farms as a business. When farming is done as a business, farmers plan investments and implement them in such a manner that they are more likely to generate profits that improve their livelihoods. Business planning is a vital component of a business—a decision-making tool representing all aspects of a business i.e. vision, finance, operations and human resources. A business plan can be prepared before beginning a business or even when a business is up and running. A business plan guides the entrepreneur on the decisions and directions they should take in order to reach the desired results. An agribusiness without a plan is like a ship without a compass and hence cannot make it to the desired destination. A business plan helps business operators allocate resources appropriately to reach objectives, and is a tool to raise money for the business.

Pig producer associations: Since smallholder farmers are encouraged to market collectively in order to benefit from economies of scale, producer associations are increasingly becoming important vehicles for transforming predominantly subsistent rural economies into commercial entities. Producer associations are viewed as prime targets for commercializing agriculture hence they should be equipped with appropriate skills and knowledge to accomplish this. This module shall enable producer associations to develop business plans which shall help them to plan, manage and raise funds for their pig enterprises.

Pig traders and pig trader associations: Since traders are the main buyers of pigs from farmers, they are a key determinant of the performance of a value chain. This module aims to equip traders with appropriate business skills and enable them to transact more business while improving other aspects such as quality, supply and competitiveness.

Pork butchery operators: ILRI’s pig value chain study found that butchers are the main link to the consumer and hence this module intends to equip them with ample skills and knowledge on how to run their businesses profitably while satisfying the needs of consumers.

# Session 1: Business plan

Objective: Equip participants with the skills they need to write business plans that can attract investments for business opportunities.

Participants should be able to use these business plans to manage their enterprises better or to acquire financial credit to start up pig enterprises or expand existing ones. Currently in Uganda, banks such as the Opportunity Bank, Equity Bank, Centenary Bank and microfinance institutions such as FINCA, Vision Fund and Pride have developed credit products targeting small- to medium agricultural enterprises. Qualifying for such products may require a business plan.

## What is business planning? (30 minutes)

Ask participants to discuss:

- Why it is important to run a farm as a business, and what they learnt from the marketing module.[6]
- The kinds of plans they make as a family.
- What may happen if you do not plan your day?


As in making plans as an individual or family, you can also plan for a business – referred to as business plans.

Business planning reflects:

- What you want to do in the future.
- What you have to do to achieve those goals.

Although not all plans are written down, a good business plan should be written down.

The process of planning includes:

- Goal—this is what you want to do in the future.
- Task—this is what you need to do now to reach your eventual goal.
- Resources—this is what you need in order to carry out a task.

A business plan therefore is a written statement of business goals and the process of attaining them. It is a strategic document that describes all aspects of a market opportunity, and includes a projection of the expected profitability of the business venture once implemented. A business plan should present all aspects of a new/existing business in a simple, comprehensive way for potential investors.

A business plan also is a decision-making tool representing all aspects of a business: finance, marketing, operations and human resources.

6. Learn more about business management here: http://managementstudyguide.com

# Business structures

Before making a business plan, it is important to figure out how the business will operate in terms of ownership, capitalization, production, marketing and targeted customers. It also is important to understand its structure as well as how it operates in terms of production and sales. The following questions may be asked:

- Shall this business be a sole proprietorship, partnership, association, cooperative or limited liability company?
- Shall the business have centralized production or decentralized production with collective marketing? (for example, farmers may agree to rear pigs on their individual premises then jointly sell them as an association)

## Presentation by facilitator (30 minutes)

Explain the different business structures to the participants so that they can adopt the one that is most appropriate to their venture.

### Types of formal business structures:

**One-person business (sole proprietorship)**: This is a business owned and controlled by an individual. It may be run by this individual or their family members or friends. All major decisions are made by this individual. The individual may borrow money and employ assistants but he/she alone is responsible for the results of the business. He/she receives all the business profits or bears all losses. Even though one-person businesses are the simplest of business structures, they are required to comply with local registration requirements, tax laws, business license and/or permit laws to make them legitimate.

*Advantages*: The owner has all the power, the business is easy to set up, there is privacy, it is easy to change the legal structure of the business, and it's easy to close the business.

*Disadvantages*: The business may easily collapse due to the owner's bad decisions and indiscipline. The life of the business and the day-to-day management of the business is dependent on the owner. The owner is responsible for all business debts, which may threaten his/her private assets as well. Money (capital) to put into the business is usually quite limited.

**Partnership**: A partnership is an agreement amongst two or more persons to do business together and to share profits. The maximum number of people in a partnership is 10 for a banking business and 20 in other businesses. The business must be registered and each partner jointly owns all the business assets and liabilities. Each partner should know their rights, responsibilities and obligations.

*Advantages*: 'Two heads are better than one,' which implies more ideas and business connections. More capital can be raised. The business is separated from your private matters.

*Disadvantages*: Partners are responsible for the debts of the business, partners may disagree on key issues, separation of a partner is costly and so is winding up a business.

**Cooperative:** A cooperative ('coop') or co-operative ('co-op') is an autonomous association of persons who voluntarily operate together for their mutual, social, economic and cultural benefit.[7] Cooperatives are regulated by some state laws. For cooperatives, profit may not be the main guiding force but having a voice and bargaining power are some of the objectives as well as promotion of cooperation not competition amongst members.

*Advantages*: Owners (also called shareholders) have an equal vote and are not responsible for the debts of the cooperative. The owners of a cooperative are more powerful than those investing in it.

*Disadvantages*: Profits may not be the main motivation but instead service delivery may be the goal. Members require constant education about the functioning of the cooperative. Some non-members with political influence may interfere with the cooperative. Cooperatives are also vulnerable to mismanagement.**Limited liability company** (Ltd Co.): This is a company that is registered to do business. It contains some aspects of a partnership. A limited liability company is required to register with the Uganda Registration Service Bureau and also with the Uganda Revenue Authority as well as with the local administration for a trading licence.[8]

*Advantages*: Can raise more money to put into the business, business is separate from private matters and so are the business debts. Ownership is by shares which are easier to transfer.

*Disadvantages*: Establishing a limited company is costly, there is less privacy regarding the financial status of the business, winding up the business is costly and the activities of the directors are not watched by the government.

## Exercise 1: Highlighting the pros and cons of a business structure (1 hour)

- Ask the participants to discuss the existing formal or informal structures of their businesses highlighting the perceived advantages and disadvantages of each type of structure.
- Participants should then choose which formal structure would best suit their businesses and explain why.
- Have each group make a summary presentation to the plenary on which business structures are most appropriate for them and why.

7. See how to form a cooperative: (www.uca.co.ug/

8. Details on forming a limited liability company: http://www.ursb.go.ug and http://www.ura.go.ug/

# Components of a business plan

Business plans can be made for all kinds of business structures. Making a business plan is as simple as writing an idea on paper. It involves writing about the different components in a manner that should persuade a bank or individual to invest in the business venture. Now discuss the different components of a business plan.

## Components of a business plan (1 hour)

Executive summary
A summary should be written after the other components have been developed and inserted into the business plan. It should be a one-page summary of the key elements of the business plan and is often the area that captures one's attention at a glance.

Business goals
This section contains clearly defined goals for the business plan and the time horizon. Businesses are formed to achieve something. Goals are the targets to be achieved. Two questions are key when establishing business goals:

- Where does the enterprise want to go in terms of products, customers, profits, return on investment?
- For existing businesses, what changes must be made in order to get to the goals?

*Example of a business goal*: to increase pig sales by 1,000,000/= in the next 6 months (The participants can discuss other goals for their pig businesses)

Description of the business
With this component, mention the name of the business (current or proposed) with a brief description of the products, the production and distribution process, the target consumers and the importance of the product. You should also clearly state the vision, mission and philosophy (values) of the business.

Example: The Kamuli Pig Producers Association (KAPPA) was established in 2013 and comprises 30 smallholder pig farmers engaged in pig breeding and fattening. The association sells piglets and fattened pigs to individuals and institutional buyers. KAPPA also operates a slaughter slab which is used by pig farmers and traders in Kamuli town.

Analysis of the business environment
The business environment refers to all factors that are external and beyond the control of the individual business enterprises and their management but can greatly affect operations. These factors may be local, national and international, and/or legal, political, social, economic or cultural. For example, pork consumers are outside the business but greatly affect business operations because their decision to buy or not buy pork affects the success of the business.

Ask the participants to discuss the economic, political and socio-cultural factors, if appropriate, that have affected the way they run their pig businesses.

Industry background

This component involves identifying pig industry trends, as it will help you determine if the pig business you are engaged in or aspiring to enter is in an industry that is prospering, stabilizing or declining. You should also note pig businesses with a similar product, their market share and how you think you can compete with them.

Market analysis (linked to what is covered in the marketing module)

It is critical as a business person to understand the market in which you operate. This can be achieved through market research to understand potential customers and their characteristics, and reviewing expected product/ service preferences. Insert into the business plan the type and number of potential customers targeted and the estimated sales per month or year, and the potential market share if possible. A simple price analysis reflecting past, current and forecasted prices can strengthen your business proposal. You also may mention something about consumer preferences and seasonal fluctuations in demand for the product (which months sales are expected to fluctuate and why?)

Example: KAPPA is mainly targeting hotels, restaurants and pork butcheries which have risen in number over the past few years due to increased business activity in the district as well as the establishment of a big sugar factory which employs numerous expatriates.

Marketing plan

In this component, you should mention what actions are intended to achieve marketing objectives. You should demonstrate your knowledge of competitors' strengths and weaknesses and show how you will out-compete them. You also should indicate the specific efforts that shall be undertaken to promote the product. This may involve the use of media (i.e. radio, TV, print). Remember that demand for the product drives the whole process.

Participants should recall what was covered in the marketing module. Aspects such as the 6Ps of keting (Price, Product, People, Place, Promotion, Policy) and market growth strategies are discussed and incorporated in the business plan write-up.[9]

Example: KAPPA intends to use a price strategy to capture market share. For piglets, KAPPA shall bargain with the transporting agent in order to supply NAADS with piglets at 35,000/= as opposed to 40,000/= which is currently being paid. Similarly, KAPPA shall supply pork to customers at 5,500/= per kg instead of 6,000/= in order to attract and retain their loyalty. KAPPA shall train farmers on how to produce pigs with good carcass quality which has less fat since many consumers now prefer leaner pork. Likewise KAPPA shall step up pork supply in April and December since demand tends to rise due to an influx of people in Kamuli town to celebrate the holiday seasons.

Gender equality analysis

Gender is an important aspect to many of the development partners and funding agencies so it should be incorporated to make the business plan more competitive. In this component, you should describe the roles played by women, men and youth outlining potential benefits to each gender category. You should also offer an explanation or argument which portrays how the business plan would bring benefits to the marginalized or vulnerable society groupings.

9. Learn more about marketing plans here

http://en.wikibooks.org/wiki/Business_Strategy/Marketing_Plans_and_Strategies

http://www.amazon.com/The-Strategic-Marketing-Plan-Audit/dp/1902433998

Example: KAPPA currently comprises 18 women and 12 male farmers of which 20 are under 35 years old. Each of these members has an account with the Centenary Bank in Kamuli. It is hoped that proceeds from sales shall be apportioned to each member on a monthly basis and deposited into member accounts. By so doing, vulnerable groups such as women and youth shall be able to enjoy the benefits of their efforts as opposed to the current situation where sale of animals and pork is dominated by males.

Management and operations plan
In this component, you should outline how many employees the business is to have (or already has) with a brief description of roles, responsibilities and required skills set. It may be necessary to mention the wage structure too. It also involves establishing which kinds of equipment and physical structures are required and when they should be in place. Also note what additional investments are required to reach the business objectives.

Financial plan
The financial plan provides the financial strategy for the business. It includes financial data which helps investors determine the feasibility of the plan, the size of investment required and the ability of the business to repay the debt. The financial plan should include an indication of the total capital required for the business, sources of the capital and forecasted cash flow statement. For businesses already in existence, the financial data are constructed using information in the record books. However, for a business yet to begin, figures may be obtained from those who know more about such enterprises and also from the markets. Financial analyses take time to do and may require assistance from experts. One may use a simple calculator or a Microsoft Excel spreadsheet if computer literate. Figures should be realistic and not overstated or understated.

For very simple businesses, a gross margin forecast can be sufficient. However, if one can insert a cash flow (even forecasted cash flow), so much the better. The choice of analysis depends on the nature and magnitude of the business.

For the gross margin analysis, one should use this formula:

$$\textit{Gross margin}\,(\%) = \frac{\textit{Revenue} - \textit{Cost of goods sold}}{\textit{Revenue}}\; X\, 100$$

For the cash flow projection, one may construct a table similar to this:

Cash flow

| | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| Inflow (Revenue) A | List all items sold and indicate amounts then compute total for the year. | | |
| Outflow (Expenses) B | List all items bought and indicate amounts then compute total for the year. | | |
| Net cash (Inflow minus Outflow) | A minus B | | |

Since recalling events over a long period of time may be a challenge, participants may first fill in a table such as this one based on quarterly activities

| Year 1 | Quarter 1 (Jan–March) | Quarter 1 (Apr–June) | Quarter 1 (July–Sept) | Quarter 1 (Oct–Dec) |
|---|---|---|---|---|
| Inflow (Revenue) A | List all items sold and indicate amounts then compute total for this period | | | |
| Outflow (Expenses) B | List all items bought and indicate amounts then compute total for this period. | | | |
| Net cash (Inflow minus Outflow) | A minus B | | | |

Working with a group may help produce more accurate estimates.

Milestones

To track progress, one should indicate what is to be achieved in what timeframe.[10]

Example: By January 2016, KAPPA should secure funding to revamp its slaughter slab. By February, each member of KAPPA should have a savings account with Centenary Bank in Kamuli. By March, KAPPA should reach sales of 10 piglets and 200 kg of pork every month.

10. Detailed notes contained in additional material (Bernet et al. 2006 PMCA guide)

# Session 2: Financial management

Objective: Provide participants with basic bookkeeping skills so they can generate the financial information required by credit providers such as banks and microfinance institutions.

## Basic record keeping

Setting the stage: (30 minutes)

- In order to set the stage, the facilitator may challenge the participants to volunteer and tell the audience about the financial condition of their business for the past two years, mentioning profits made or losses incurred. If no one volunteers, a facilitator can note that this is why record keeping is so important.
- The facilitator may reiterate the sequence to be followed from keeping records to identifying finance sources to meeting requirements for funding such as having a business plan.

Facilitator engages participants in a plenary discussion: (30 min)

- What types of records do you have?
- Why is it important to keep records?
- Participants offer reasons why they think it is important to keep records.

What is record keeping? (30 minutes)

Most small scale entrepreneurs do not record how much money comes in and goes out of their business. They keep everything in their head. As a result, they do not really know how much money they earn as profit or how to manage credit so they can improve their business. The aim of this lesson is to make participants aware of the importance of record keeping, and to raise interest in the course.

- Record keeping is the process of recording data relating to business transactions in the books of account. It is writing down all the money that comes in and goes out of your business.
- Record keeping is important because you cannot keep everything in your head. People are forgetful by nature.

Why should you keep records?

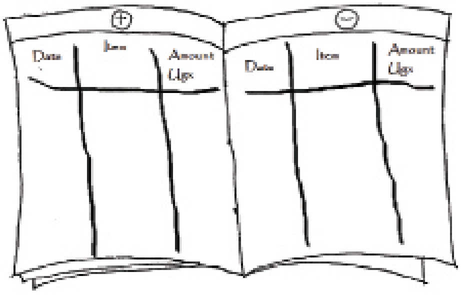
- To know how much money you have received, how much money you have spent and how you have spent it.
- To calculate whether you are making a profit or a loss.
- To be able to make better decisions on what to buy and sell.
- To keep records of buying and selling on credit, so that people cannot cheat you.
- To keep records of money coming in and going out of a group project.
- To prevent misuse of the money and avoid mistrust amongst group members.
- To be able to prepare financial records to help in accessing credit

Key words: inflow, outflow, profit, credit, decisions, misuse

How to keep records?

It is important for each participant to have a simple book preferably with lined pages to act as a cash book for their businesses. It may be a simple exercise book though it is better to get one which is durable.

One page of the cashbook should be dedicated to money generated by the business (cash inflow) while the adjacent page should record money spent by the business (cash outflow). You may simply use a '+' sign for inflow and '–' sign for outflow.




Entries into the cash book may include money from any of the following:

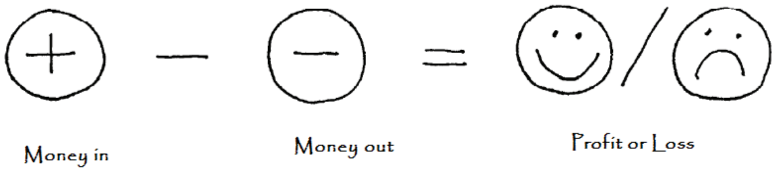
| + Money coming in (cash inflow) | | | – Money going out(cash outflow) | | |
|---|---|---|---|---|---|
| Date | Item | Amount Ugandan Shillings (UGS) | Date | Item | Amount (UGS) |
| 2 Jan 2014 | Sales of piglets/pigs | 240,000 | 30 Jan 2014 | Wages to workers | 100,000 |
| 12 Feb 2014 | Loans obtained for the business | 150,000 | 13 Mar 2014 | Loan repayment (Principal) | 150,000 |
| 14 Mar 2014 | Donations to the business | 30,000 | 13 Mar 2014 | Interest on loans | 7,500 |
| | Value of piglets offered in return to boar servicing of sows in the neighbourhood. | 60,000 | 27 April 2014 | Veterinary care costs | 30,000 |
| | Other? | | 17 July 2014 | Repair of Pig sty | 50,000 |
| | | | Jan–June | Costs of fetching water (6 jerrycans per day) | 120,000 |
| | TOTAL (UGS) | 480,000 | | TOTAL (UGS) | 457,500 |

Only include inflow and outflow related to the business.

From a cash record book, participants can obtain net cash flow, gross profit and a budget. Facilitator may demonstrate how cash flow is determined.

| Period | Cash inflows | | Cash outflows | |
|---|---|---|---|---|
| | Item | Amount | Item | Amount |
| Quarter 1 Jan–Mar | 1.<br>2.<br>3. | | 1.<br>2.<br>3 | |
| Quarter 2 April–June | 1.<br>2.<br>3. | | 1.<br>2.<br>3 | |
| Quarter 3 July–Sept | 1.<br>2.<br>3. | | 1.<br>2.<br>3. | |
| Quarter 4 Oct–Dec | 1.<br>2.<br>3. | | 1.<br>2.<br>3. | |
| | TOTAL (UGS) | A | TOTAL (UGS) | B |
| Net cash flow for the year (UGS) | A – B | | | |

Net cash is cash inflow minus cash outflow




Likewise participants can compute gross profits and gross margins of the enterprise using:

$$\boldsymbol{Gross\ profit\ (Ugx) = \ Revenue - Costs\ of\ goods\ sold}$$

$$\boldsymbol{Gross\ margin\ (\%) = \frac{Revenue - Cost\ of\ goods\ sold}{Revenue}\ X\ 100}$$

Note: Revenue is money obtained from sales of goods produced or by-products of an enterprise (e.g. money obtained from selling piglets, pigs, farmyard manure).

Only consider revenue and costs associated with the enterprise. Always know which money belongs to your business and which money belongs to your household or yourself.

The facilitator should engage participants on the challenges to recordkeeping and how they can be handled. The following questions may be asked:

- Who should keep the records (men and women or children able to read and write in a homestead?)
- What can be done when some parties conceal information?

### Exercise 2: Role play of importance of record keeping (1 hour)

- Break into groups. Ask one group to come up with a skit depicting a lady who rears piglets but does not keep records. She once borrowed money from a microfinance institution to invest in the business. She ran into problems, failed to repay the loan and her assets were confiscated.
- Let another group of participants come up with another skit depicting a lady who rears pigs but is good at keeping records. She borrows money from a microfinance institution and is able to repay it while her business prospers.
- The third group should depict an association which has an accountant keeping financial records on the computer and they are able to generate financial statements for use to access credit from a bank. However, management interferes with the accountant's work by misusing funds which leads to failure to repay the loan.

# Sources of finance

This topic aims at providing participants with knowledge on where to obtain money for their businesses as well as the conditions, advantages and disadvantages of different finance sources. The business may require finances for working or fixed capital.

### Exercise 3: Exploring sources of money

- Participants regroup to discuss amongst themselves about the possible sources of money.
- Participants should list their ideas on a flip chart highlighting any other remarks regarding possible conditions of receiving this money.
- Participants make presentations to the plenary.

Presentation to be made by the facilitator (30 minutes)

Financial sources include any of the following:

- Own savings
- Friends and relatives
- Microfinance institutions
- Private money lenders
- Banks
- Savings and Credit Cooperative Organizations (SACCOs)

Each has advantages and disadvantages

| Source | Advantages | Disadvantages |
|---|---|---|
| Own savings | Less stringent conditions<br>No interest to pay<br>No loan security required | Limited amounts available<br>Takes time to accumulate reasonable amounts |
| Friends and relatives | Less stringent conditions<br>May not attract interest<br>Loan security may not be needed | Defaulting on repayment may damage relations<br>Limited amounts available |
| Microfinance institution | Reasonably adequate resources | Very high interest rates<br>Very strict repayment schedules<br>Loan security required |
| Private money lender (loan sharks) | Simple and quick procedure<br>Reasonably adequate resources | Very high interest rates<br>Very strict repayment schedules<br>Loan security required |
| Bank | Adequate resources<br>Interest charged is less than what MFIs and money lenders charge | Loan security required<br>Distant to clients<br>Long procedures<br>Numerous requirements |
| SACCOs | Reasonable interest charged<br>Conditions less stringent<br>Borrower is also a stakeholder | Amounts are usually very limited |

## Example of loan requirements

Centenary Bank: Agricultural loans

This bank has designed a loan product to finance agricultural business activities in the entire value chain including production, processing and marketing of animal production projects, including piggeries, grain and oil mills, and hullers. The loan period and repayment plan is dependent on the nature and season of the agricultural activity to be financed.

Loan features:

- Loan period for working capital is only up to 12 months but development /investment loans may exceed 12 months.
- No principal payments during the grace period (approximately a fifth of the loan duration) except for interest.
- Repayable through equal installment payments whose amounts are dependent on the projected cash flow of the agricultural activity.
- Interest charged on reducing balance.
- Interest is at 18% per annum.
- Minimum loan amount of UGS 100,000, with a maximum loan amount of UGS 3 billion.

Loan requirements:

- Savings or current account with the bank.
- Completed agricultural loan application form.
- Application fee of UGS 15,000.
- Commitment fee of 2%.
- Project undertaken must be an activity in the agricultural value chain.
- Business project must be profitable as shown in the business plan.
- Applicant must be resident within the branch designated area of operation.
- Applicant must be owner or tenant of the land on which he/she operates.
- Securities include land titles, sales agreements/bibanja lease offers or moveable assets such as cows, pigs, goats, sheep, household property or business equipment and tools.
- Financial card required

| Village Savings and Loan Association (VSLA) | Savings Credit Cooperative (SACCO) |
|---|---|
| Borrower must be a member of the VSLA.<br><br>Borrower must be a diligent saver with the VSLA.<br><br>Must state amount requested and purpose of loan.<br><br>Means of paying back the loan (amount usually a maximum of UGS 1 million.)<br><br>Obtain approval from VSL loan committee after consultation from all members.<br><br>Stake collateral (e.g. household asset such as livestock, land title).<br><br>Get a guarantor who is a member of a VSLA.<br><br>Interest charged is 24–36% per annum. | Borrower must have shares in the SACCO.<br><br>Must state amount requested and purpose of loan.<br><br>Means of paying back the loan (amount usually a maximum of UGS 5 million).<br><br>Obtain approval from SACCO loan committee.<br><br>Stake collateral (e.g. household asset such as livestock, land title).<br><br>Interest charged is 18–24% per annum. |

| Conditions for getting a loan from a BRAC as an individual | Conditions for getting a loan from a BRAC as a group |
|---|---|
| Good performance of business as shown by cash flow statements of recent years<br><br>Collateral (land, buildings)<br><br>Loan amount of UGS 5–15 million<br><br>Interest of 25% per annum. | Must be a female belonging to a women's group<br><br>The group acts as the guarantor so no collateral is required.<br><br>Loan amount UGS 0.35–3 million<br><br>Interest charged is 25% per annum. |

## How to manage credit (30 minutes)

Terms to know:

- Interest is the amount of money paid back by borrower to the lender over and above the principal sum that was lent to the borrower. It is expressed as a percentage of the principal sum.
- The borrower is also referred to as the debtor.
- The lender is also referred to as the creditor.

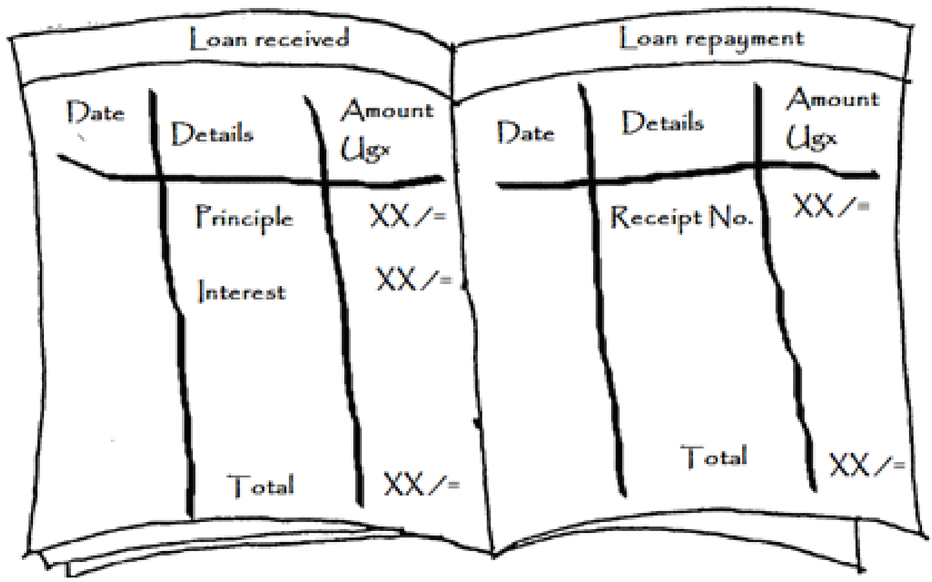
Important points to note before obtaining a loan:

- Prior to obtaining a loan, get as much information as possible about the source of credit and the conditions which come along with it before you sign anything.
- If some of the clauses in the documents are not clear, seek clarification from the lender and someone who is knowledgeable or someone who has borrowed from that source.
- Understand how interest has been computed and the total interest expenses.
- Ask the credit provider to give you a copy of the repayment schedule.
- Try as much as possible to follow the repayment schedule.

If you can't make a loan payment on schedule, inform your creditor about your situation in advance or immediately after the payment is due. Financial discipline is a vital element in managing credit.

Participants should know what X% per month interest means or what interest on the reducing balance means as well as flat rates. (Most loans are reducing balance, meaning the interest is calculated on a monthly basis only on the outstanding amount of the loan. A flat rate means the interest expense stays the same throughout the loan).

A loan repayment book may be designed as follows to help the borrower keep track of the loan repayment schedule.




It is important to schedule loan repayment as per conditions set when obtaining the loan. The repayment dates may be pre-entered into a book as a reminder that payment has to be made on such dates.

### Case stories: One business success, another a failure

Approximately 10 years ago, I met a gentleman who had just set up a poultry-feed manufacturing business. He also was importing day-old chicks from abroad since demand for them superseded local supply. On a daily basis, he would shuttle between Kampala and Entebbe airport to pick up the day-old chicks which were couriered by air. Later the gentleman obtained a loan to purchase a hatchery to get away from the hectic business of importing day-old chicks. He obtained the loan and was very diligent in utilizing the money as he had indicated in his business plan. Today, because of this financial discipline and proper credit management, his business has grown immensely. He is now the second largest poultry breeder in Uganda.

Round about the same time a decade ago, I heard about another gentleman who owned a poultry-feed mill and a hatchery. He too borrowed UGS 100 million with the intention to expand his operations. However, instead of using the loan diligently as he had indicated in the business plan he had presented to the bank, he instead fell to the temptation of diverting the loan. He bought a Toyota Land Cruiser VX despite warnings from his son who had just completed a bachelor's degree in commerce from Makerere University. In fact, the man accused his son of disrespect and sent him away from home. A few months later the man failed to keep within the loan repayment schedule and eventually the bank liquidated his posh house and subsequently his business collapsed entirely.

## Managing financial resources

This topic address three very important aspects in managing financial resources:

- budgeting, which refers to planning expenditure and income.
- credit management, which refers to successfully using and repaying loans.
- cash flow management, which refers to ensuring the business has enough cash to meet daily operations.

Good recordkeeping provides a good foundation for managing finances through these three aspects.

## Budgeting (30 minutes)

A budget is the estimation of revenue, expenses and net income. Revenue simply refers to the money received from the sale of products or by-products of an enterprise (such as piglets, pigs for slaughter, manure.) Net income is the profit after netting out expenses.

There are several types of budgets such as enterprise, partial and whole farm. More detail on the budgets is found below. For the targeted participants in this module, an enterprise budget likely is the most appropriate because of its usefulness in calculating profitability and the break-even point of a business.

- An enterprise budget is a statement of what is generally expected when producing a specified amount of product. It consists of the revenues and the expenses incurred in the production and sale of a particular product, and documents variable and fixed costs. Variable costs are the costs of such inputs as seed, feed, fertilizer, repairs, custom operations, and equipment operating expenses. Fixed costs are the costs associated with buildings, machinery and equipment such as building rent and taxes.

Below is an example of an enterprise budget prepared by Musoke of Mukono for the first two quarters of 2014.[11]

| Expected revenue | | | | Expected expenditures | | | |
|---|---|---|---|---|---|---|---|
| Item | Units | Unit cost (UGS) | Amount (UGS) | Item | Units | Unit cost (UGS) | Amount (UGS) |
| | | | | Variable costs | | | |
| Sale of piglets | 60 | 30,000 | 1,800,000 | Wages | 2 men | 120,000 per month) | 1,440,000 |
| Sale of manure | | | 200,000 | Feeding | 400 kg | 2,000 | 800,000 |
| Sale of mature pigs | 12 | 80,000 | 960,000 | Drugs and veterinary care | | | 100,000 |
| | | | | Fixed costs | | | |
| | | | | Pig sty construction | | | 50,000 |
| Total | | | 2,960,000 | Total | | | 2,390,000 |
| Expected Net Income | | | 570,000 | | | | |

An example of a partial budget for Kyanamukaaka Pig Traders Association which collectively markets its pig products in Masaka district.

| Additional costs | | | | Additional revenue | | | |
|---|---|---|---|---|---|---|---|
| Item | Units | Unit cost (UGS) | Amount (UGS) | Item | Units | Unit cost (UGS) | Amount (UGS) |
| Extra feed | 15 | 2,000 | 30,000 | Change in carcass weight | 20 kg | 7,000 | 140,000 |
| Medication (dewormer) | | | 40,000 | | | | |
| Sanitation improvement costs (Jik cleaning detergent | | | 20,000 | | | | |
| Total (UGS) | | | 90,000 | Total (UGS) | | | 140,000 |
| Net change (UGS) | | | | | | | 50,000 |

11. Learn more about cash budgets here: http://www.dairynz.co.nz/page/pageid/2145869129/Annual_Cash_Budgets http://www.dairynz.co.nz/page/pageid/2145869129/Annual_Cash_Budgets

Key points about budgets:

- A budget is for a given period (e.g. 1 year, 3-year)
- A budget is about the future expectations of revenue and expenses.
- A budget can be adjusted if some estimates change from the time it was written.
- Always follow your budget.
- Try not to spend outside your budget.
- If this is inevitable, then readjust your budget accordingly.

## Exercise 4: Making an enterprise budget (30 minutes)

- Divide into groups. Ask the participants to construct an enterprise budget based on the business of one of the members in their group.
- Ask each group to make a presentation of this enterprise budget to the plenary.

# Cash flow management

### Exercise 5: Discussing the importance of cash flow (45 minutes)

Ask the participants to go back into their groups and discuss what might happen to a business if cash flow isn't properly managed. Encourage them to share experiences from their own businesses. Ask the groups to make presentations of their discussions to the plenary.

## What is cash flow management?

Cash flow management is a key aspect of the financial management of a business. It involves planning for future cash requirements to avoid a crisis of having no cash at a time when it is needed. The business owner or manager needs to know how much cash is required at any given time throughout the entire financial period so that appropriate plans are made to ensure cash is available when needed. If the business is struggling, the business owner/manager should be expecting certain expenditures and revise his or her cash flow accordingly as often as daily. However, if the finances of the business are more stable, cash-flow adjustments can be done on a weekly or monthly basis.

Some tips on how to manage cash flow:

- Look at the cash flows (or other financial records) of previous years to know when the highest expenditures occur and when the highest revenue is obtained.
- Identify periods when cash is likely to be insufficient (such as after big purchases are made) and rearrange your expenditures accordingly.
- Ensure that payments to regular suppliers of inputs are staggered in such a way that cash obtained from your sales (revenue) is sufficient to make those payments.
- Purchases of non-urgent items should be made when cash inflow is stable or high.
- Always save some revenue for periods when sales are low.
- Ensure that you properly manage credit offered to customers (or buyers of your products) in order not to deplete your cash.

# Session 3: How to develop a business plan

Objective: Give participants an opportunity to develop their own business plans, guided and assisted by experts.[12]

### Exercise 6: Brainstorming a business plan

- Give participants time to discuss the business structures they intend to adopt.
- As per the business structure adopted, participants are asked to think about developing a business plan for their 'best bet' business opportunity.

### Practical session (16 hours)

- Participants are given an opportunity to develop business plans for the best bet business opportunities or prospects.
- Participants are tasked with populating the different components of a business plan with information pertaining to their existing or proposed businesses.
- Participants select chair and secretary and the 'writing begins.'
- Facilitator offers assistance to the participants in this process.

Tools and materials

- Financial records of participants at hand for reference.
- Participants also should be in possession of findings from market surveys done in the marketing module.
- Calculators
- Computers with Excel spreadsheet software
- Flip charts

After drafting a business plan, it should be shared with an expert who will offer comments for improvement.

Key point: Since the business environment is dynamic, business plans should be adjusted periodically in order to make them remain relevant to the business.

## Module review (30 minutes)

12. Learn more about business plans here:
http://www.daff.gov.za/doaDev/AgricDevFinance/BusinessPlanGuidelines(VIS).pdf

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# Appendix 1: Capacity assessment form

1. Name of participant:

2. Gender 1=Male 0=Female

3. Age:

4. Nature of pig enterprise:
1= Producer 2=Processor 3=Butcher 4=Trader 5=Transporter 6=Other (describe)

5. Highest level of Education attained:
1=Primary 2=Secondary 3=Tertiary Institution 4=University 5=None at all 6=Other (Describe)

6a. Do you keep any records for your business? 1=Yes 0=No

6b. If answer is Yes in 6a, describe how and which records are kept

6c. Is it you or someone else who does the record keeping for your business?

7a. Do you use a computer in keeping your records? 1=Yes 0=No

7b. If answer is Yes is 7a, describe which software packages you are familiar with?

# Appendix 2: List of sources for agricultural financial service providers by location

| Location | Bank | MFIs and other |
|---|---|---|
| Mukono | Centenary Bank | Caritas |
| | Finance Trust Bank | Heifer International |
| | Opportunity Bank | BRAC |
| | Equity Bank | FINCA |
| | Bank of Africa | Sonde MFI |
| | Global Trust Bank | Pride MFI |
| | Bank of Baroda | Housing MFI |
| | Post Bank | |
| | Pride Bank | |
| Masaka | Barclays Bank | BRAC |
| | Centenary Bank | Kyanamukaaka SACCO |
| | DFCU Bank | MEDNET |
| | Post Bank Uganda | MAMIDECOT |
| | Bank of Africa | Pride MFI |
| | Stanbic Bank | Caritas-MADDO |
| | Tropical Bank, | |
| | Equity Bank, | |
| | Crane Bank, | |
| | Opportunity Bank | |
| | Pride Microfinance Ltd | |
| | Uganda Finance Trust | |
| Kamuli | Finance Trust | PLAN Uganda |
| | Stanbic Bank | BRAC |
| | | Housing MFI |

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