

# Selection, Planning and Management (SPM) of Income-generating Activities

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## Training Guide for Field Officers and Village Agents

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# Introduction for the trainer and acknowledgements

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*IGA Selection, Planning, and Management (SPM)* is a training course designed especially for members of Village Savings & Loan Associations (VSLAs).

It is based on the original guide developed in 1994 by Anne Ritchie, Fahmid K. Bhuiya and Harun-ur-Rashid of CARE Bangladesh. This was developed further through the collaboration of CARE Zimbabwe, CARE Malawi, CARE Uganda and with the assistance of Andrew K. Stein.

This present version was developed in collaboration with Oxfam in Nigeria and was refined as a result of input from staff who attended a workshop in Abuja in February 2018. It is a synthesis of these earlier efforts, with a focus on preserving and improving the simplicity of the original model. I am particularly indebted to Constant Tchona, Assistant Country Director and Eyong Sunday, VSL & Market Systems Coordinator for Oxfam Nigeria

This version of SPM has been designed for **Field Officers and Village Agents**. As someone who has taught members of VSLAs to conduct their savings and lending activities, you may also wish to help VSLA members improve their income by choosing, planning and implementing profitable Income Generating Activities (IGAs).

The course will teach VSLA members to:

1. **Select** an IGA that is appropriate for their household, after assessing the skills, market knowledge, financial resources and financial needs of the household
2. **Plan** the startup of the IGA.
3. **Manage** the IGA's risks and cash flow.

The course is presented over **nine sessions** which last about **two hours** each.

## How to be a Good Teacher

1. **Prepare:** Read this manual ahead of time and be organized. *It really helps if you are someone who is running a successful IGA so that you have direct experience of what you are talking about and can provide context to the training*
2. **Show energy:** Be friendly, confident, and enthusiastic. Cause learning to be enjoyable and use the members of the group to present as much as possible. Praise participants on their efforts to learn and grow.
3. **Help participants understand:** Adapt examples to participants' own experiences. When participants don't understand, encourage discussion until concepts are clear. Use local language that is easily understood, rather than complex terms that may not be familiar.

Hugh Allen  
CEO VSL Associates Ltd.  
March 2018

# Session 1: The Process of beginning IGA Selection

## STEP 1: Setting Expectations for the Course

*Time: 15 Minutes*

Explain to the members of the VSLA you are training that the course will be taught in nine sessions lasting about two hours each, but that they should be ready to start an IGA, after the 8<sup>th</sup> session.

Ask all members to develop the rules for participation in the course. Ensure that they agree the following as part of those rules:

1. Attend all sessions and come on time.
2. Not come and go during the sessions, or talk on the telephone.
3. Not criticize others when they share ideas or share information about the mistakes they have made in their own IGAs.

Explain that it will be important to use real examples, and encourage the VSLA members to **talk about their own IGAs**, including successes and failures.

## STEP 2: Define an Income Generating Activity (IGA)

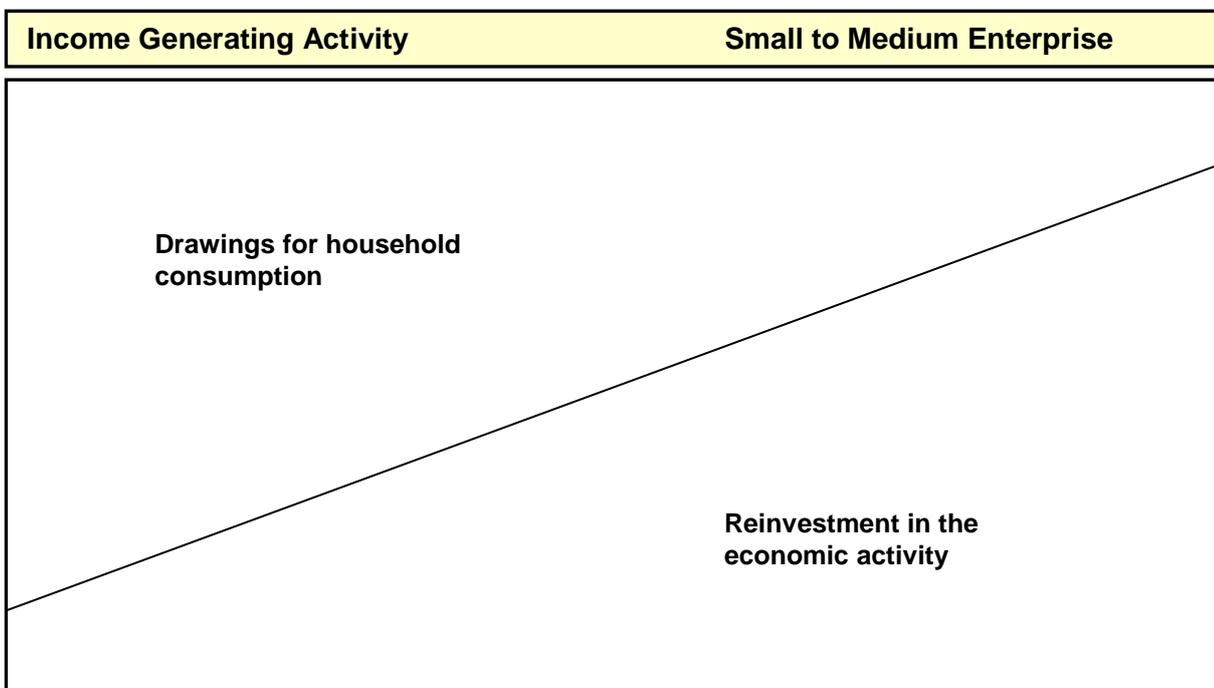
*Time: 45 minutes*

Ask participants to define an IGA: Try to draw out responses that cover the following

“An Income Generating Activity is anything we make and sell, or something that someone pays us to do for them. It is an activity in which the owner usually focuses on income”

Show the IGA/SE Continuum

Figure 1: The IGA SME Continuum



Hand out this chart as a game, cut in to five parts (main chart and the four pieces of text) and have the group divide in to three small groups and work as teams (the groups will remain together for the rest of the training). The results are stuck to the wall.

The main point to draw out is that IGAs tend to maximize the amount of income they take from the enterprise and minimise reinvestment to what is just enough to stay in business. SMEs tend to maximize the amount that is re-invested in the business for growth. Explain that it is OK to be anywhere along this line and that in a lot of cases people don't want to change what they do, because the more they commit to a single economic activity and the more it is specialized, the less they are able to act flexibly according to market conditions and seasons and the less time they have to attend to other family matters such as cooking, farming and child care. The Trainer stresses that the purpose of SPM is to allow IGAs to move a little upwards on the sloping line so that their businesses are more profitable and will stay operating longer.

The Trainer then draws out from participants some of the key distinctions between IGAs and SMEs as follows:

**Figure 2: Distinctions between IGAs and SMEs**

| <b>IGA</b>                     | <b>SME</b>                                  |
|--------------------------------|---------------------------------------------|
| Unregistered                   | Registered                                  |
| No fixed premises              | Physical premises                           |
| Simple or no technology        | Tend to invest in modern technology         |
| Low skills                     | Skilled and semi-skilled workers            |
| Workers usually family members | Workers chosen for skills, not relationship |
| No accounts                    | Accounting system                           |
| Does not pay tax               | Pays some tax                               |
| Mixed with family economy      | Separated from family economy               |
| Enterprise does not grow       | Growth oriented                             |

**STEP 3: Create a list of IGAs that are common in the area**

As a group, identify different IGAs that could be discussed throughout the course. List all the IGAs that the group is familiar with in the area where the project will work. Here are some ideas to help the discussion (taken from Nigeria), in case you get stuck:

**Figure 3: List of typical IGAs found in Nigeria**

|                               |                            |
|-------------------------------|----------------------------|
| Bead-making                   | Knitting                   |
| Bicycle repair                | Masonry                    |
| Brewing                       | Mat making                 |
| Butchery                      | Meat roasting              |
| Bee keeping                   | Milling/grinding           |
| Blacksmithing                 | Pottery                    |
| Brick/block making            | Poultry raising            |
| Carpentry                     | Produce buying and selling |
| Firewood and charcoal selling | Secondhand clothes selling |
| Fish marketing                | Seedling nursery           |
| Fish smoking                  | Shoe repair                |
| Frying bean cake              | Soap making                |
| Goat keeping                  | Tailoring                  |
| Ground nut oil making         | Tea room / restaurant      |
| Hairdressing                  | Vegetable growing          |

**STEP 4: Identifying reasons for success or failure**

*30 minutes*

Ask your neighbour (pairs) about your personal IGAs or those of your family. Discuss IGAs that are successful that you still do or would like to do again, and IGAs which have been unsuccessful which you do not do any longer. Discuss why they are successful or unsuccessful. Do not draw up a big list but come up with at least two reasons for success that seem common to most IGAs and two reasons for failure and put these on cards to be stuck on a wall, fitting them in to the appropriate boxes below.

**Figure 4: The “Five Important Points”**

| <i>Reasons for success</i>                     | <i>Reasons for failure</i> |
|------------------------------------------------|----------------------------|
| <i>Knowledge, skills and time availability</i> |                            |
|                                                |                            |
| <i>Market and customers</i>                    |                            |
|                                                |                            |
| <i>Income: is the IGA profitable</i>           |                            |
|                                                |                            |
| Sources of capital                             |                            |
|                                                |                            |
| <i>Household income</i>                        |                            |
|                                                |                            |

As a result of this exercise the Trainer will try to identify not only the main causes of success or failure, but to classify them according to the “Five Important Points” that form the backbone of the workshop. See Annex 1 for what might be a typical result, based on an SPM ToT workshop in Nigeria.

## **STEP 4: Introduce the “Five Important Points” for IGA Selection**

*Time: 15 minutes*

Explain that during the next five sessions everyone will learn the **Five Important Points** of IGA Selection. Before Selecting and Planning an IGA, members should always ensure that these Five Important Points are considered carefully.

The **FIVE IMPORTANT POINTS** are:

1. **KNOWLEDGE, SKILLS AND TIME:** Do I have the knowledge and skills for my IGA and is the labour available to operate it?
2. **MARKET AND CUSTOMERS:** Will enough people buy my product or service?
3. **INCOME: Is the IGA profitable**
4. **SOURCES OF CAPITAL:** Do I have enough money to start up and operate the IGA
5. **HOUSEHOLD INCOME:** Will the income from the IGA, when added to other family income, be enough to pay household expenses?

### **HOMEWORK**

Each participant should start thinking of an IGA that they would like to start or improve as a result of this course.

### **CONCLUDE THE SESSION**

“If you have a notebook or something else to take notes with, please bring it to every session.”

“The date and time of the next session is \_\_\_\_.”

“I will stay after the session in case you have any questions or feedback for me. Thank you.”

# Session 2: Knowledge, skills and time

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## **Read the Story of Mr. Adeola**

*Time: 15 Minutes*

Mr. Adeola and his wife were teachers who retired from working in the city and went back to their small farm that had been inherited from his father. They didn't want to depend only on farming for their income and their pensions were very small, so they decided to start an IGA.

Mr. Adeola saw that many of his neighbours bought and sold agricultural products, buying them after harvest and selling them a few months later for a higher price. Buying and selling produce did not seem to require a lot of work, so he discussed this idea with his wife, and they agreed that this would be a good way for them to earn some extra money. They decided they would buy after harvest and store beans in their house until several months later when beans would be scarce and could be sold at a higher price.

Because he did not have the money himself, Mr. Adeola decided to ask his uncle for a loan to buy beans to store. His uncle agreed to lend them enough money to buy five sacks of beans. When local farmers harvested their beans at the end of June, Mr. Adeola and his wife went to the local market and bought five sacks. After checking the prices from several merchants they were able to find one who sold to them at a cheaper price than the other merchants. They quickly concluded the deal and transported the beans to their house, where they were stored in a small room.

A month later, Mr. Adeola attended a meeting organized for farmers. An agricultural expert addressed the meeting. The meeting was organized to answer farmers' questions about their agricultural activities. Mr. Adeola told the people present at the meeting about the bean business he and his wife were carrying out. The agricultural expert asked if he had checked the beans when he bought them by taking samples from the bottom of the bags been checking on their beans and taking them out to dry on a regular basis. He also asked if the bags were stored on the ground or were on a raised platform. Mr. Adeola confessed he had not thought to check the beans at the bottom of the bag, nor had he checked them since and in fact had just stored them on the floor. The agricultural expert warned him that the beans might be spoiled from infestation by bean weevils if they are not checked and dried regularly.

As soon as Mr. Adeola got home he told his wife what the agricultural expert had told him. They took the beans out and checked them. To their dismay, they discovered that bean weevils had destroyed many of the beans. After they dried and graded the beans, they had lost more than two full sacks of beans. Prices were rising, but not very much, because many of their neighbours had also stored beans after a good harvest. So, because of the losses in storage and a poor price increase they had lost so much of their stock they were going to lose money and be unable to repay their uncle.

Now Mr. Adeola and his wife were both regretting the great mistake they made by starting up a farm produce buying business, and wondered what they could have done differently that might have led to a better outcome.

## **STEP 2: Discussion**

*Time: 30 minutes*

Separate the participants into the three small groups. Move among the groups helping the discussions.

1. Ask the groups to discuss how Mr. Adeola's lack of Knowledge and Skill affected his IGA. What should they have thought about before starting this IGA? In plenary list them on a flipchart

2. Now ask if any members of the small groups have personal experiences they would like to discuss? Has anyone failed at an IGA because they lacked specific Knowledge or Skills for it?

### **STEP 3: Teach the first of the Five Important Points: KNOWLEDGE, SKILLS AND TIME**

*Time: 30 minutes (10 minutes for each question)*

Lead the entire group in a discussion using the following questions:

1. **What KNOWLEDGE AND SKILLS do you have to have that can be used for an IGA?**

*Trainer note: You will need to guide the discussion by using real examples from group members' experience.*

2. **If you recognize an opportunity for an IGA but do not have the required KNOWLEDGE AND SKILLS, how can you or your family members get it?**

*Trainer note: You will need to guide the discussion by using real examples from the local area. Try to get many examples of how members or members' families have gotten training, or learned by working for someone else. Do not use examples that are unfamiliar in the members' village, or too costly. Ensure that the group discusses opportunities related to NGO programs, government programs and working for others who have existing businesses.*

3. **IGAs will take time, and you need to consider whether you and your family members have the time for the IGA. Can you estimate the time involved in some examples of IGAs? Can you be sure family members also have the time to perform their roles at the right time?**

*Trainer note: You will need to guide the discussion by using real examples from the local area. Try to get many examples of how members or members' families have gotten training, or learned by working for someone else. Do not use examples that are unfamiliar in the members' village, or too costly. Ensure that the group discusses opportunities related to NGO programs, government programs and working for others who have existing businesses.*

- *Time spent making the products or performing a service*
- *Time spent travelling to buy supplies*
- *Time spent travelling to transport products to a marketplace, or to the place where you perform the service*
- *Time spent on other IGAs*

### **HOMEWORK**

Ask participants to think of their IGA choice after this session. Do they have the skills and knowledge? If not can they easily acquire them? Will they have the time to undertake the activity? Are they reconsidering their selection?

### **CONCLUDE THE SESSION**

# Session 3: Market and customers

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## **STEP 1: IGA ideas**

*Time: 10 Minutes*

The Trainer starts by asking the members of the group what kind of IGAs they are interested in and lists them on a flip chart. This will quickly give the participants a sense of whether or not they are likely to end up competing with each other

## **STEP 2: Discussion - Will enough people buy my products or service?**

*Time: 30 Minutes*

Keep the whole group together and explain the following:

“Now we think we have the Knowledge, Skills and Time for an IGA. But before we try to sell a product or service, we must be sure that enough customers will want to buy what we are selling. There are some important questions we should ask as we think about that, which we will now review together.

**Now lead the group in discussion, using the questions below to guide the discussion:**

1. **Are we sure that the product or service that we know how to provide is something that enough people will want to buy? How do we know that? Have we studied what people are buying now?**

*Trainer note: The product or service that group members can provide may not be as attractive as other similar products or services. For example, locally made clothing may not be as attractive as clothing which is imported from India or Thailand for the same price. Ask the group to discuss*

2. **Am I able to provide the product or service at the place where customers want to buy it? Am I able to transport myself and my goods to that place, and ensure that customers have an opportunity to buy from me?**

*Trainer note: For an IGA to be successful, goods and services have to be sold where customers want to buy them. This might be the customer's home or the weekly market. VSLA members and their families need to have the time, and be able to travel to where they need to go to sell goods and services.*

3. **Do many people know how to provide what I want to sell in my IGA? If so, do I think I can do it better than others, so that I am still successful?**

*Trainer note: VSLA members may choose to invest in an IGA because they see others doing it. But when this is the case, often they will lose money because too much competition makes everyone do badly. When there are many people doing a particular IGA, new IGAs should only be started by someone who believes they have new and better ideas.*

## **STEP 3: Discussion in small groups**

*Time: 30 Minutes*

Divide into the same three groups, and ask each person to state the IGA that they have been thinking about. Ask each small group to discuss each of the three questions for 10 minutes, using their chosen IGA as an example. Move around the group helping the discussion.

1. Are we sure that the product or service that we know how to provide is something that enough people will want to buy? How do we know that? Have we studied what people are buying now?
2. Am I able to provide the product or service at the place where customers want to buy it? Am I able to transport myself and my goods to that place, and ensure that customers have an opportunity to buy from me?
3. Do many people know how to provide what I want to sell in my IGA? If so, do I think I can do it better than others, so that I am still successful?

#### **STEP 4: Read the story of Uchenna's Tree Nursery**

*Time: 15 Minutes*

#### **THE STORY OF UCHENNA'S TREE NURSERY**

Uchenna was a poor woman whose husband did not earn enough money to pay all the school fees for their many children. So she decided to start a tree nursery to help her husband meet this expense. She decided to grow eucalyptus, mango, orange, avocado and lemon and to collect the seeds herself, which would not cost her any money.

Uchenna did not know much about growing tree seedlings. But she was not discouraged. Through hard work she had learned many new abilities in her life that she had not known beforehand, and why should tree seedlings not be another one?

Uchenna lived in a small village, and no one around her grew tree seedlings, so she had no one to ask for advice. She traveled every month to a Trading Centre, and so this month she made time to talk with the seedling sellers in the market. Three of them were willing to give her advice, and Uchenna made sure to write down what she learned so that she would not forget the advice. She used all her savings to buy a machete, hoe, and axe at the market.

Back home, she began to work. She selected a site for her nursery that was close to her home, thinking that she would be able to work in the nursery when she was not busy with other household tasks. Her plan was to send her children to the village well to get the water that would be needed.

Based on the advice she heard, she cleared a site one meter wide by four meters long, using the machete, hoe and an axe. She scattered the seeds throughout the bed. She constructed shade for the nursery by making four stands, one in each corner, putting sticks across and then laying grass on top.

She watered her seeds every day. After a few weeks, a large number of seeds began to grow. She was quite happy that so many seedlings had come up and she continued to water the seedlings, hoping to sell them at a good price. But the result was adverse. Many of the seedlings died. Others became diseased. Uchenna did not know what to do because she had a limited idea about plant diseases and did not know anyone in her village who could help her in this regard.

At last she decided to visit a man in a nearby village who she had heard was a successful nursery owner. This man explained to Uchenna that she had sowed too many seeds and had not thinned the seedlings properly therefore depriving them of the necessary nutrients. Decreasing the water and removing the shade had only made the problem worse.

When the seedlings were old enough to be planted out, she sent her children to inform all the neighbors that the seedlings were ready for sale. She also asked her older son to take some of the seedlings to the Trading Centre.

When her son came back, he had sold only a few of the seedlings that she had given him. He explained that when he arrived at the Trading Centre there were a great many sellers of tree seedlings, with very large stocks from which customers could choose, and that they were very

skilled at attracting customers. He had sold some seedlings by lowering the price, but many customers preferred the seedlings of the other sellers, who were well established in the market and who were well acquainted with their customers. They also offered a variety of seedling types, such as fruit, firewood and trees that made good building material, while Uchenna only sold firewood trees.

The money Uchenna got from the sale was only enough to reimburse her for the machete, hoe, and axe. She reflected on her situation. She had not earned any extra money to help pay the children's school fees.

#### **STEP 4: Discuss the story of Uchenna's Tree Nursery**

*Time: 15 Minutes*

**Keep the group together. Lead a group discussion, asking:**

After telling the story, discuss the learning from it. The following questions may guide the discussion:

- Why was Uchenna's initiative not successful?
- Why did she not consider all these factors before the start-up of her IGA?
- What lesson can we learn from this story?

Try to draw out the following:

#### **Products**

- What product or products do I want to produce?
- Do I know how to produce them?
- Are my product necessities or luxuries?
- Are they familiar to the people or new?

#### **Buyers**

- Who are the buyers of my products and what products do they want?
- What quality do buyers want? Can I provide this quality?
- What quantity is generally bought by each buyer?
- How frequently do they buy? Daily, weekly or monthly?
- Does their demand vary in accordance with season?
- Does their demand vary according to their wealth?

#### **Sellers**

- Are there any other sellers of the same products in the area I want to serve? How many?
- Who are they?
- Where do they sell?
- How do they attract customers?
- What is the price charged by other sellers?
- What special advantages do any of the competitors have?
- What special advantages do I have?

#### **STEP 5: What else do I need to consider before deciding what IGA to start**

*Time: 20 Minutes*

The Trainer then says that after deciding on an IGA, based on a good understanding of the market they have to start thinking in concrete terms about a lot of other things before they decide which IGA they want to start

## **Tools and equipment**

- What equipment and tools will be required?
- How many do I need of each?
- What will they cost
- Where can I get them?
- Can they be borrowed or hired?
- Will the equipment need repair?
- Who will do the repair?

## **Raw materials/inputs**

- What raw materials and other inputs will be required?
- What quantity and quality do I need?
- What will they cost
- Can I get these inputs locally?
- How will I transport these items to the production site?

## **Production method and site**

- What will be the production method?
- Am I experienced with this method?
- Do I know how to solve any problem that might arise?
- Do I know where to get help?
- Where will the activity operate?
- Is this site suitable?
- If any energy source is needed, is it available?

## **Labour**

- How much time is required for this activity?
- Can my family members and I spare this amount of time?
- Will I need any workers with special skills?
- If so, are these people available?
- If so, what will they cost

## **Other**

- Can the activity operate year round?
- If it is seasonal, what alternative do I have for the off season?
- Do I need to communicate with the Government or any other offices?
- If so, do I know where to go, whom to talk to and what to discuss?

Conclude the first important point, by telling participants that, if they know what equipment to use, the raw materials and where to get them, the method of production and the labor required to do the work, then most of questions about knowledge and skill factors will be answered.

## **HOMEWORK**

Ask participants to think of their personal IGA choices after this session. Tell them that at the next session they will see if the IGAs they are interested in are profitable and that they must therefore be able to answer questions about markets and also the questions in Step 5. This may make them change their mind about what activity to start. By the next session they should have decided on at least two IGAs they might want to consider.

## **CONCLUDE THE SESSION**

# Session 4: Income

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## **STEP 1: Expected sales, Working Costs and Startup Costs**

*Time: 120 Minutes*

If a business is to make a profit, it must subtract its costs from its income. Today we look at costs.

There are two types of costs to think about – **Startup Costs** and **Ongoing Costs**.

1. **Startup Costs:** This is the amount of money you will need to start the business. These are things that you only need to buy once, covering many production cycles
2. **Working Costs:** This is the amount of money you will need to run the business, once you have started it. The amount is usually linked to a production cycle, which is the time it takes for a product to be made (or bought) and sold. For agricultural and livestock activities this will be several months but for small-scale trade could be as little as a day.

You will need to be sure you have enough money to meet both types of costs. The Trainer selects one of the IGAs of the participants as an example

### ***Estimating Sales***

The first thing a participant must do is to decide. Often potential business owners are very optimistic about what they think they will be able to sell. They need to think about how much they will be able to sell in a given period of time. It is useful to think about monthly sales, even for a business that is working throughout the year.

Things to think about as a business owner, in estimating monthly sales:

- First they must think about the products they want to sell. They must be sure that the demand for what they are offering is strong. If the business owner is selling exactly the same as others in the market, and (s)he sees that they do not have very many customers (s)he must either look for a market where there is less competition or make sure that what they are selling is different to others or of better quality: If they do not sell as much as they expected, they may be forced to reduce the price, which will change the calculation of income. Being conservative in these estimates is therefore a good idea.
- Second they must think about where the customers are most likely to be found. They must be able to operate in the place where people will want to buy their goods or service on a regular basis, at the right time
- Third they must think about price. It is a common mistake for new business owners who enter a market where there is a lot of competition to try and create a market by selling at a cheaper price. This may be alright for one or two products to attract people, but it may also be a sign that competition is very strong and that there isn't much money to be made with the product or service.
- If an employee or other family member does the work of selling, they may not be as effective, so it is better to under-estimate what can be sold

Once the participant has decided on the products or services that appear to be in good demand in a clearly identified market, (s)he must decide what the likely demand will be for a production/service cycle and what the price should be. The price cannot be higher than others in the marketplace unless the product or service is in high demand that is not satisfied by competitors, or is in some way clearly superior to others,.

The participant must start off by estimating how many items or units of service they think they can sell in a cycle (the time period during which inputs will be bought and finished goods/services sold). Figure 5 below shows how this is done in the case of a small retail store in a cycle of one month.

**Figure 5: Monthly sales planned for a new retail store**

| Products that will be sold   | Quantity per month |
|------------------------------|--------------------|
| <i>Cigarettes (packets)</i>  | 50                 |
| <i>Sweets and gum</i>        | 50                 |
| <i>Matches (cartons)</i>     | 3                  |
| <i>Packs of AA batteries</i> | 50                 |
| <i>Paraffin (litres)</i>     | 100                |
| <i>Tea (packets)</i>         | 20                 |
| <i>Salt sachets</i>          | 75                 |
| <i>Rice (50 Kg sacks)</i>    | 2                  |
| <i>Kings cooking oil</i>     | 15                 |
| <i>Aspirin strips</i>        | 250                |

Note: This estimate is the minimum that the business owner *is very sure* can be sold in the specified cycle

### **Estimating Working Costs**

Once the participant has decided what (s)he will produce and sell in a given period of time, (s)he needs to be able to know what it will cost to buy the inputs or stock. These costs are recurrent, meaning that because they are costs that must regularly be paid. Figure 6 shows what the costs look like for the participant who plans to start up a small retail store.

**Figure 6: Working Costs example for a retail store over a one month period**

| Working costs every cycle                  | Quantity | Unit cost | Total cost         |
|--------------------------------------------|----------|-----------|--------------------|
| <i>Rent of premises</i>                    | 1        | 20,000    | 20,000             |
| <i>Bicycle transport</i>                   | 4        | 500       | 2,000              |
| <i>Labour for one month</i>                | 1        | 20,000    | 20,000             |
| <i>Cigarettes (packets)</i>                | 50       | 195       | 9,750              |
| <i>Sweets and gum</i>                      | 50       | 50        | 2,500              |
| <i>Matches (cartons)</i>                   | 3        | 2,100     | 6,300              |
| <i>Packs of AA batteries</i>               | 50       | 1,000     | 50,000             |
| <i>Paraffin (litres)</i>                   | 100      | 0.60      | 60                 |
| <i>Tea (packets)</i>                       | 20       | 2,750     | 55,000             |
| <i>Salt sachets</i>                        | 75       | 600       | 45,000             |
| <i>Rice (50 Kg sacks)</i>                  | 2        | 16,500    | 33,000             |
| <i>Kings cooking oil</i>                   | 15       | 3,500     | 52,500             |
| <i>Aspirin strips</i>                      | 250      | 0.5       | 125                |
| <b>Total cycle (monthly) working costs</b> |          |           | <b>NGN 296,235</b> |

The first lines of the Working Costs show expenses that are not used to buy physical items, in this case Rent, Bicycle transport and Labour. The Unit costs per item are what the participant knows (s)he will have to pay from producers, wholesalers and even other retailers for raw materials, stock of goods for sale or supplies, such as electricity. The participant needs to spend a lot of time identifying the cheapest sources of inputs, but should not forget to include transport costs to bring them to the business site.

Here is a short list of other types of Working Costs that might be considered

- Paying for licenses or bribes to be able to operate the IGA
- Mobile telephone communications
- Maintaining equipment
- Setting aside money to replace equipment when it wears out or breaks
- Interest payments on any loans you take

The Trainer should again point out that the amount of time that covers the calculation of Working Costs should be based on the amount of sales that a business owner thinks they can make in a given period of time. For a retailer, a month is good period, but for a petty trader it may be as little as a week, while for someone doing horticulture the period may be as long as 3 months.

Annex 1 gives an example of a horticulture business, with an operating cycle of four months.

### **Estimating Startup Costs**

To estimate Startup Costs, consider all items that need to be bought before starting the IGA:

- Equipment that will be used in processing/production and remains in the business
- Premises and furniture
- Money paid for services such as electrical and water installation

Startup Costs are the total amount that you must spend before you can start making, processing and selling anything. You must have this money available to start a business

The Trainer then gives an example as to how Startup Costs are calculated:

**Figure 7: Startup Costs example for a retail store**

| Startup item               | Unit cost | Quantity | Total cost         |
|----------------------------|-----------|----------|--------------------|
| Counters                   | 10,000    | 2        | 20,000             |
| Shelving                   | 17,500    | 2        | 35,000             |
| Scales                     | 12,000    | 1        | 12,000             |
| Small scoop                | 1,000     | 1        | 1,000              |
| Large scoop                | 1,500     | 1        | 1,500              |
| Calculator                 | 2,500     | 1        | 2,000              |
| Used refrigerator          | 27,000    | 1        | 27,000             |
| Electrical installation    | 20,000    | 1        | 20,000             |
| Lighting fixtures          | 7,250     | 1        | 7,250              |
| <b>Total startup costs</b> |           |          | <b>NGN 125,750</b> |

The Trainer then says the participant must raise the Startup Costs and must also raise the Working Costs for the initial period of the business. In the case of a retail store this could be as little as a month, but for an agricultural activity could be as long as four months

In the case of this example the Working Costs are NGN 296,235 and the Startup Costs are NRN 125,750. Thus, the total amount of money the participant will need to start the business will be  $296,235 + 125,750 = NRN 421,985$

At this point the participant has to decide if (s)he has already got enough money to start this business. This is covered in the next section. The Trainer then tells the groups to re-form and to carry out an exercise in which they estimate Startup Costs and Working Costs for the IGA they have chosen. They use the blank forms in Annex 2

## **STEP 2: Estimating net income**

*Time: 120 Minutes*

The participant now knows how much money is needed to start the business and keep it running for a single cycle, but (s)he doesn't yet know how much income the business will bring into the family after all expenses are paid. To calculate this and to be sure the business will be able to cover its costs, startup costs are ignored (although the business should expect to recover these from profits, over time). Instead the participant should focus only on sales income, and Working Costs. In the example the participant makes a table showing what (s)he expects to pay for inputs and the price at which (s)he expects to be able to sell it in the local market. In this case the participant only lists the things that can be sold.

**Figure 8: Income from sales**

| Income from sales: items           | Unit cost (if known) | Selling price | Quantity | Income             |
|------------------------------------|----------------------|---------------|----------|--------------------|
| <i>Cigarettes (packets)</i>        | 195                  | 250           | 50       | 12,500             |
| <i>Sweets and gum</i>              | 50                   | 75            | 50       | 3,750              |
| <i>Matches (cartons)</i>           | 2,100                | 3,000         | 3        | 9,000              |
| <i>Packs of AA batteries</i>       | 1,000                | 1,500         | 50       | 75,000             |
| <i>Paraffin (litres)</i>           | 1                    | 1.00          | 100      | 100                |
| <i>Tea (packets)</i>               | 2,750                | 3,800         | 20       | 76,000             |
| <i>Salt sachets</i>                | 600                  | 800           | 75       | 60,000             |
| <i>Rice (50kg sacks)</i>           | 16,500               | 25,000        | 2        | 50,000             |
| <i>Kings cooking oil</i>           | 3,500                | 4,500         | 15       | 67,500             |
| <i>Aspirin strips</i>              | 1                    | 0.85          | 200      | 169                |
| <b>Total cycle income 1 months</b> |                      |               |          | <b>NGN 354,019</b> |

Note: You can only include unit costs when you are selling something as a completed product that you bought already completed. Otherwise leave this column empty.

When Working Costs are deducted from Net income the results is as follows:

**Figure 9: Estimated gross profit this cycle**

| Item                                  | Amount            |
|---------------------------------------|-------------------|
| Expected income from sales this cycle | 354,019           |
| Minus Working costs this cycle        | 296,235           |
| <b>Gross profit this cycle</b>        | <b>NGN 57,784</b> |

The figure of NGN 57,784 is the gross profit of the business, but there are four other things to take into account:

- There will seem to be a lot more money left over than the NGN 57,784, but some of this must be used to buy new stock on a regular basis
- If the business owner has taken any loans, then these must also be covered during the period of loan reimbursement
- The business owner will need to be sure that the income that is left over meets family needs
- That the business owner makes some savings from the profits, to cover a rainy day but also so that the capital invested can be used either to expand the business or to invest in another IGA

**Figure 10: Estimated net profit this cycle for savings and investment**

| Item                                             | Amount            |
|--------------------------------------------------|-------------------|
| Gross profit this cycle                          | <i>57,784</i>     |
| Minus loan payment this cycle                    | <i>15,000</i>     |
| Minus household drawings this cycle              | <i>30,000</i>     |
| Net profit this cycle for savings and investment | <i>NGN 12,784</i> |

NOTE: If the income is not enough for the family and to justify the time it will take to run it, the business owner must do one or more of the following:

- Find a way to reduce costs
- Find a way to increase sales
- Look for another economic activity that will provide the right level of income (profit) at the right level of investment

### **HOMEWORK**

Ask participants to think of their IGA choice after this session. Are they reconsidering their selection? If not, how can they address the issues highlighted in this session?

### **CONCLUDE THE SESSION**

# Session 5: Sources of Capital

## STEP 1: Sources of money to start an IGA

*Time: 45 Minutes*

In this last session you will review the sources of money to start an IGA, and discuss the good and bad points of each source.

Hand out a blank form that suggests the different sources of finance and have each potential IGA owner score each factor out of 3 with 3 meaning good, 2 meaning OK but not perfect, 1 meaning unsatisfactory and zero meaning completely inappropriate.

**Figure 11a: Advantages and disadvantages of different sources of capital**

| Possible source of capital | Interest rate | Adequate loan size | Convenience | Duration of loan | Strict collateral | Flexible repayment | Score |
|----------------------------|---------------|--------------------|-------------|------------------|-------------------|--------------------|-------|
| Personal savings           |               |                    |             |                  |                   |                    |       |
| Family                     |               |                    |             |                  |                   |                    |       |
| VSLA                       |               |                    |             |                  |                   |                    |       |
| ROSCA                      |               |                    |             |                  |                   |                    |       |
| Bank or MFI                |               |                    |             |                  |                   |                    |       |
| Moneylender                |               |                    |             |                  |                   |                    |       |

**Figure 11b: Example of filled out Figure 11a**

| Possible source of capital | Interest rate | Adequate loan size | Convenience | Duration of loan | Strict collateral | Flexible repayment | Score |
|----------------------------|---------------|--------------------|-------------|------------------|-------------------|--------------------|-------|
| Personal savings           | 3             | 1                  | 3           | 3                | 3                 | 3                  | 16    |
| Family and friends         | 2             | 1                  | 2           | 2                | 3                 | 2                  | 12    |
| VSLA                       | 2             | 2                  | 3           | 2                | 3                 | 3                  | 15    |
| ROSCA                      | 3             | 1                  | 2           | 3                | 3                 | 0                  | 12    |
| Bank or MFI                | 1             | 3                  | 1           | 3                | 1                 | 1                  | 10    |
| Moneylender                | 0             | 3                  | 2           | 2                | 1                 | 1                  | 9     |

Ask participants to reflect on the possible sources of money to cover for startup and Working Costs basing on the discussions so far and to decide what is best for the selected business. Remember that more than one source may be appropriate, such as MFI credit for startup costs and family for Working Costs. Whichever the participant chooses (s)he must be sure they can repay, even if the market isn't as good as expected.

## STEP 2: Advantages (Good/Bad) of each source

*Time: 60 Minutes*

The Trainer again divides into the two teams and has each team come up with a list of 'Good' and 'Bad' for each source and then facilitates a discussion in which they figure out which source is best for them in their own community. They then come back into plenary and the Trainer makes sure they have covered most of the points on the list below

### **Personal Savings**

Personal savings are the safest form of money to start IGAs:

- Good: If your IGA fails, you do not owe this money to anyone

- Good: You do not have to share decision-making with anyone else
- Good: You can determine what to do with the profits the IGA makes
- Good: No collateral
- Bad: If you have an emergency and need personal savings you may not have any
- Bad: It may take time to raise the required amount of savings.

### ***Family***

If you do not have enough personal savings, then money from family is the next best option. They might become a partner in your IGA, or they might loan you the money.

- Good: If your IGA fails, a family member may not pressure you about repayment
- Good: If you have to share decision-making, you are sharing it with a family member and not an outsider
- Good: If you must pay some of the profits in exchange for startup money, you are paying that money back into the family
- Good: No collateral
- Bad: You may not want to share this with your family members, so you may prefer the privacy of borrowing from your VSLA or another source outside the family
- Bad: If the IGA fails, losing family savings can lead to tension
- Bad: A family member may want discounts or free goods and services if they have lent money

### ***Loans from a VSLA***

These loans are riskier than family or friends, but have many advantages

- Good: You remain in control of decision-making.
- Good: You remain in control of the use of any profits.
- Good: Easy access
- Good: No collateral
- Good: Positive support and advice from other group members
- Good: You benefit from the profits made by the VSLA
- Good: Flexibility in loan repayment and understanding from members
- Bad: The loan term of a VSLA (3 months) may be too short
- Bad: Loans from a VSLA may not be big enough
- Bad: If the business fails and you cannot repay this will affect your reputation in the community
- Bad: If the VSLA charges flat interest, this can be expensive

### ***Loans from a ROSCA***

- Good: You remain in control of decision-making.
- Good: You remain in control of the use of any profits.
- Good: Easy access
- Good: No collateral
- Good: Greater chance of getting ideas and support from other group members
- Good: Positive support and advice from other group members
- Bad: You do not have control about when you get the money
- Bad: The amount that you get is fixed and may be too much or too little
- Bad: You may not get your full share if other members fail to contribute

### ***Loans from a bank or MFI***

These loans are the highest risk but have some important advantages for better established businesses (not start-ups)

- Good: The loans are usually available for longer than from a VSLA
- Good: Loans are usually available in larger amounts
- Bad: Institution is likely to be far away and needing several visits
- Bad: Procedures take time and are complicated
- Bad: Loan repayment on a fixed schedule may not be suited to the income of an IGA
- Bad: Loans usually need collateral, which puts assets at risk, or may not be available
- Bad: The relationship is formal and distant and outside institutions are usually unsympathetic to problems that arise that may be no fault of the borrower

### ***Loans from a moneylender***

- Good: Quick and simple
- Good: Local access
- Good: Loans can be of longer duration than a VSLA
- Bad: Very high interest compared to all other sources
- Bad: Collateral requirements can cause loss of assets and even land

### **HOMEWORK**

Ask participants to think of their IGA choice after this session. Are they reconsidering their selection? If not, how can they address the issues highlighted in this session?

### **CONCLUDE THE SESSION**

# Session 6: Household Income

## STEP 1: Discussion – Types of Households

*Time: 30 minutes*

This session is about being sure that your choice of IGA is right for your household. One of the reasons that IGAs fail is pressure to take money away from the IGA to meet household expenses. Households with very irregular money flow should focus on IGAs with low startup costs and which produce quick and regular income, such as buying and selling of items that people need every day - cooked foods for example.

Review three types of households, described in the table below. First start out by using a blank format on a flip chart and get the group to suggest characteristics. The situation for each group member will of course be different, and not exactly like this list, but the descriptions will help members understand how to assess their own household- Once this is finished make sure that you discuss (and include) most of the items below

**Figure 12: Household economic status**

| Well-off                                          | Secure but not well-off                           | Poor                                                            |
|---------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------------|
| Multiple sources of income                        | At least two sources of cash income               | One or no sources of cash income, mostly seasonal               |
| Several economic activities throughout the year   | At least one economic activity                    | No economic activities                                          |
| Money to meet needs available throughout the year | Money to meet needs available seasonally          | Meeting basic needs is a struggle.                              |
| Money for some investments can be easily raised   | Some cash for investment but not enough           | Very little cash for investment                                 |
| Can easily save large amounts                     | Can save in moderate amounts                      | Can save, but very little                                       |
| Family members in paid work                       | At least one family member in paid work           | No family members in paid work except daily agricultural Labour |
| Pays for non-family labour                        | Can sometimes pay for labour, depending on season | Only uses family labour on land and "exchange" group labour     |
| Primary and some post-primary education           | Completed primary school                          | Low education                                                   |
| Has access to MFI/bank credit                     | Limited access to formal credit                   | No access to formal credit                                      |
| VSLA member: high share value                     | VSLA member: moderate share value                 | VSLA member: low share value                                    |

## Step 2: Exercise – What type of household do you have?

*Time: 30 minutes*

The Trainer tells the members study the chart and to think privately about where each one personally fits into one of the three categories. The Trainer stresses that nobody will fit all of the listed criteria in a category, so the member should not decide that they don't belong in a category because one or two criteria don't describe their personal circumstances. It is important that they choose a category for themselves where a *majority* if the characteristics fit them personally. They should not be asked to tell the other members of the group how they gave categorized themselves, but each person should remember what they chose

## Step 3: Discussion – Types of IGAs suited to the household

*Time: 60 minutes*

Referring back to the list of IGAs in figure 2, page 5, discuss some examples of IGAs. There is no perfect way to see these IGAs, but some will have higher Startup Costs, or take a longer time to produce income than others. Anyone coming from a household with irregular income

should consider the IGAs with low Startup Costs and regular income – those which are in the left. Use Figure 13a as a blank handout to the participants and get them to first fill in the column ‘Capital’ column based on whether or not the capital needs are high, medium or low. Then they should then fill in the Cycle’ column, deciding if the cycle is long, medium or short. They should next fill in the ‘Potential income’ column. Once they have done this they should decide what type of household they come from, with one of three possible classifications. An example of three possible IGAs selected by a member from a poor household is shown in Figure 13b below. At this point the member is making a priority selection of the IGA that they will implement.

**Figure 13a: Form used to list and analyse selected IGAs**

| Type of IGA | Capital (H/M/L) | Cycle (L/M/S) | Potential income (H/M/L) | Well off, Regular income | Secure, but Irregular income | Poor. Irregular or no income |
|-------------|-----------------|---------------|--------------------------|--------------------------|------------------------------|------------------------------|
|             |                 |               |                          |                          |                              |                              |
|             |                 |               |                          |                          |                              |                              |
|             |                 |               |                          |                          |                              |                              |

**Figure 13b: Selected IGAs analysed**

| Type of IGA    | Capital (H/M/L) | Cycle (L/M/S) | Potential income (H/M/L) | Well off, Regular income | Secure but Irregular income | Poor. Irregular or no income |
|----------------|-----------------|---------------|--------------------------|--------------------------|-----------------------------|------------------------------|
| Fish marketing | Low             | Short         | Medium                   |                          |                             | ✓                            |
| Mat making     | Low             | Medium        | Low                      |                          |                             | ✓                            |
| Tailoring      | High            | Medium        | Medium                   |                          |                             | ✓                            |

#### **Step 4: Discussion – Matching source of capital to sources of IGA finance.**

*Time: 30 minutes*

IGAs which have high Startup Costs or which produce occasional income; put more pressure on the household than IGAs which have low Startup Costs and regular income. Loans are a very risky way to start these IGAs.

Households which have irregular income should never use loans to start IGAs with high startup costs and irregular income. It will be too difficult to make the payments on the loan. Refer back to session 5.

The Trainer then displays again the chart showing the decisions the group made about the best sources of capital (see Figure 14 below) and tells them they should then match their choices to the sources of capital to see which source (or multiple sources) will be available to them and able to provide the capital that they need on terms that suit the cash-flow performance of the proposed business.

**Figure 14: Advantages and disadvantages of different sources of capital**

| Possible source of capital | Interest rate | Adequate loan size | Convenience | Duration of loan | Strict collateral | Flexible repayment | Score |
|----------------------------|---------------|--------------------|-------------|------------------|-------------------|--------------------|-------|
| Personal savings           | 3             | 1                  | 3           | 3                | 3                 | 3                  | 16    |
| Family and friends         | 2             | 1                  | 2           | 2                | 3                 | 2                  | 12    |
| VSLA                       | 2             | 2                  | 3           | 2                | 3                 | 3                  | 15    |
| ROSCA                      | 3             | 1                  | 2           | 3                | 3                 | 0                  | 12    |
| Bank or MFI                | 1             | 3                  | 1           | 3                | 1                 | 1                  | 10    |
| Moneylender                | 0             | 3                  | 2           | 2                | 1                 | 1                  | 9     |

The member then studies the preferences above and decides which source or sources will satisfy their needs. If it turns out that the sources of capital will not be enough, the member then goes to a lower-cost IGA choice, and makes a final decision.

### **Step 5: Preparation for next Session – IGA Presentations**

*Time: 10 minutes*

At this point, each person in the group should start focusing on one most preferred IGA, even if they may not start it when the course finishes. This will allow that person to practice the thinking related to planning an IGA.

In the next session every participant should be ready to discuss their IGA selection. Each person should be ready to talk for a few minutes, and explain:

- Why they have decided they have the **Knowledge and Skills** for their IGA
- Where their **Market and Customers** will be, and where they will sell their goods or services
- How much they have estimated as **Startup Costs plus Ongoing Costs** for a period that will enable them to become profitable
- What they have estimated as **Monthly Sales, Monthly Costs, and likely monthly profit** (gross and net)
- Why they feel that their IGA selection is appropriate for their **Household's** investment capacity and income status

### **HOMEWORK**

Ask participants to think of their IGA choice after this session. Are they reconsidering their selection? If not, how can they address the issues highlighted in this session?

### **CONCLUDE THE SESSION**

# Session 7: IGA Presentations

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*Note: It may take two Sessions to go over every participant's IGA selection. If more time is needed, it is OK to add another session.*

## **Step 1: Preparation of IGA Presentations**

*Time: 60 minutes*

At this point, each ask each member to develop their IGA presentation, covering the five main points

## **Step 2: Presentations**

*Time: 60 minutes (it may take longer than 60 minutes if there are many presentations and if there are many questions, in which case it is a good idea to spread the presentations over two meetings)*

Each member makes their presentation using a flip chart, answering questions and allowing the group to discuss. Ensure that the discussions are very positive, and if the group feels that the person is not assessing their IGA or their household properly, have the group help them. Do not allow anyone to get discouraged – instead make sure everyone feels like they are advancing their thinking during these discussions.

Make sure each presenter covers the Five Important Points:

- Why they have decided they have the **Knowledge and Skills** for their IGA
- Who their **Customers** will be, and where they will operate to sell their goods or services
- What they have estimated as their net **Income** from the enterprise, based on Startup Costs, Ongoing costs and projected Income
- Where they think they will be able to raise the **Capital** needed to start the IGA
- If they think the enterprise will contribute enough to **Household's Income** to justify planning and starting the IGA

The Trainer should use the Five Important Points to guide a discussion of each presentation and give them a score

## **HOMEWORK**

Ask participants to think of their IGA choice after this session. Do they think that some of the other IGAs selected by their peers could be better for them than the one they originally chose.

## **CONCLUDE THE SESSION**

# Session 8: Planning

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## **Step 1: Pairs exercise (or ToT groups)**

*Time: 90 minutes*

Form the group into new pairs (each pair should be people who have not been working together before in pairs). By making them new pairs, you are ensuring that learning is shared fully.

Explain that in this session each person will work through planning details for their chosen IGA, with you providing 'guiding questions' that they will discuss. You will take a few minutes for each question, and the pairs will help each other to answer the questions for each IGA.

*Guiding Questions (cover them all):*

- Do you or anyone else who will do the work need more Knowledge and Skills? If so, how will you get them?
- What do your intended customers want most, and how will you communicate to them that you have a good or a service that will satisfy their need?
- If you need a place to sell your goods, have you made those arrangements and have you also arranged for transportation?
- When will you start your IGA? Is it necessary to start at a particular time of the year, and if so, will you be ready?
- What equipment and supplies do you need, and where will you get them?
- How much have you calculated for Startup Costs and 3 months of Ongoing Costs?
- Do you have those funds from savings? If not, will you save or borrow them?
- If you will be borrowing money, are you sure that borrowing is advised for your IGA choice and household status?
- If you need electricity, water or fuel for your IGA will you have it available?
- Have you made all the necessary arrangements with any authorities?
- Is your IGA location secure from theft?

The participant should prepare a simple chart of all of the things they expect they will have to do before they start the business and for at least 6 months after getting the capital together and starting out. Figure 15 on the next page is an example of what should be covered. In plenary the Trainer will ask one person who seems to have been fully engaged in the workshop to describe the steps they will undertake.

The Trainer first gets the participants to look at Figure 15 and discuss, noting that it covers planning activities and raising capital before making any investments, then things that have to be done at the beginning (Starting activities) mostly related to buying stock and fixed assets and then Ongoing activities.

The Trainer then get the participants to cluster into groups of two, based on the IGA types that are the same and get them to develop an activity plan for the first 6 months of the new business. Figure 15 on the following page is an example of what an activity plan might look like.

Figure 15: Example of a simple activity plan for the first 6 months

| Activities needed to start a retail store | Month 1 | Month 2 | Month 3 | Month 4 | Month 5 | Month 6 | Who/what             |
|-------------------------------------------|---------|---------|---------|---------|---------|---------|----------------------|
| <b>Planning</b>                           |         |         |         |         |         |         |                      |
| SPM training                              |         |         |         |         |         |         | Oxfam                |
| Survey the market and select location     |         |         |         |         |         |         | Owner                |
| Identify source of inputs                 |         |         |         |         |         |         | Owner                |
| Select type of IGA                        |         |         |         |         |         |         | Owner                |
| Calculate capital needed                  |         |         |         |         |         |         | Business plan        |
| Obtain the finance                        |         |         |         |         |         |         | Owner/Fl             |
| <b>Starting activities</b>                |         |         |         |         |         |         |                      |
| Draw up lease for premises                |         |         |         |         |         |         | Lawyer               |
| Obtain any necessary licenses             |         |         |         |         |         |         | Council              |
| Get help to design records                |         |         |         |         |         |         | Accountant           |
| Have shop fittings made                   |         |         |         |         |         |         | Carpenter & Owner    |
| Electricity installation                  |         |         |         |         |         |         | Electrician          |
| Buy equipment                             |         |         |         |         |         |         | Local market         |
| Identify and recruit assistant            |         |         |         |         |         |         | Owner                |
| Buy stock                                 |         |         |         |         |         |         | Owner                |
| <b>Ongoing activities</b>                 |         |         |         |         |         |         |                      |
| Start sales                               |         |         |         |         |         |         | Owner & Assistant    |
| Keep track of daily sales income          |         |         |         |         |         |         | Owner                |
| Keep track of daily expenses              |         |         |         |         |         |         | Owner                |
| Re-stock                                  |         |         |         |         |         |         | Owner                |
| Calculate profit every quarter            |         |         |         |         |         |         | Owner and Accountant |

## **Step 2: Group Discussion**

*Time: 30 minutes*

First ask for volunteers to discuss what they have learned in the previous exercise. Have them start by describing the IGA and then use the Guiding Questions if they need help remembering each point of discussion. Do this for 2-3 volunteers

Now ask for volunteers to discuss concerns that they have about the IGAs that they have selected, as a result of things they have learned so far in the course. Ask the group to help them resolve those concerns.

### **HOMEWORK**

Ask participants to think of their IGA choice after this session. If they are satisfied that they have made the right choice and have all of the skills, knowledge, market information and sources of capital arranged – and if they are convinced that the activity is profitable and meets their household needs for income,. They can immediately start to implement their business plan.

### **CONCLUDE THE SESSION**

# **Session 9: Managing cash-flow and predicting risks**

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## **Step 1: Read the story of Aesha's Grocery**

*Time: 15 minutes*

Six months ago Aesha started a small grocery shop in her village with money she had earned selling goats and produce from her garden. The startup was promising and neighbors were coming regularly to ask for goods. In order to expand her business Aesha took a loan from her VSLA and hired a part-time assistant to help out, so that Aesha could also attend to her vegetable garden, which she had started by taking money from the business

Each day Aesha kept her shop open for the whole day. She kept the cash received from sales in a wooden cashbox. From time to time, she used some of the money in the cashbox for reinvestment in stock for the grocery shop when she would run low. At the same time Aesha took money from the cashbox for family expenses, and was very proud to be helping with her family's needs when asked.

One day Mary, Aesha's Village Agent came to the new shop. However Mary noticed that stocks of many items were low and that many of the tin boxes used to stock items such as biscuits and popcorn were completely empty.

Mary was curious and asked Aesha whether business was poor. Aesha replied that it was not, but that she needed another loan to restock the shop, and asked whether Mary could help her find a new and bigger loan from a bank. Mary was confused, because she could see that Aesha's shop was in a desirable location, and because Aesha told her that she had many interested customers every day.

## **Step 2: Large Group Discussion – Caring for the IGA first, and paying yourself second**

*Time: 15 minutes*

Ask the group to discuss why Aesha's shop is not well stocked, when she has a good location and plenty of customers. The answer is of course is that Aesha has probably been using the money she earns from the sale of her goods to invest in another economic activity and cover household expenses, without being sure that she first restocks her shop. It is also possible that the new assistant is not well supervised and may be keeping some of the money from sales, or allowing people who buy from the shop to bargain for much lower prices. This is what you want everyone to understand from this story

## **Step 3: Small Group Discussion - Caring for the IGA first, and paying yourself second**

*Time: 30 minutes*

Break the group into the three small groups. Ask them to discuss the point further, sharing experiences about techniques that they use to make sure that drawings from the business are less than the profit that is made, and that they are able to keep track of sales. Ask them to discuss how each of them would plan to do this to make sure that they are doing this for the IGA, and only taking out for their families the amount that they planned. Also have them discuss techniques for getting family members to respect this discipline.

Remind the participants that there are 3 main expenses that have to be paid regularly and that the money for these must be set aside before any money can be supplied to the family. These are:

- Buying new stock on a regular basis (if it is a business that has daily sales), not just when the stock is almost all sold
- Repaying loans
- Savings for recovering startup costs, investing in expansion of the business or investing in another family business

Only after some provision has been made to pay these expenses should money be taken from the business for family expenses

#### **Step 4: Large Group Discussion – Techniques for making sure that all costs are covered**

*Time: 30 minutes*

In plenary facilitate a discussion about the techniques that can be used to ensure that money is available to cover the four types of costs that must be paid when the gross profit is known. List the responses on a flip chart, but make a qualitative commentary on each one. It is, for example, better to keep money for buying new stock on hand, but better to save money to pay back a loan in a VSLA or financial institution.

#### **Step : Large Group Discussion – Managing Risk**

*Time: 30 minutes*

Once the IGA is started, and money is being carefully kept in the IGA for its ongoing operations, there are still steps that need to be taken to ensure that sudden surprises do not cause the IGA to fail. There are many risks, but the table below covers some of the common risks, and strategies to prepare for them. The Trainer starts by asking the group what sort of risks they think might arise, once a business is successfully running. Figure 16 suggest what some of these risks might be. Make sure they are covered and provide Figure 16 as a handout.

Figure 16: How to manage risk

| Risk                                                               | Managing risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Theft                                                              | <ul style="list-style-type: none"> <li>● Make sure that someone is present at all times in the business</li> <li>● Make sure your premises are in a safe location</li> <li>● Take security precautions when transporting goods, by going with a family member or friend</li> <li>● Regularly check income against sales for the day. Make sure that all sales are written down</li> </ul>                                                                                                                                                                                                                 |
| Fire and flood                                                     | <ul style="list-style-type: none"> <li>● If the area regularly floods, find out how frequently they occur and where the floods in the past never reached. Select a place where floods have never reached.</li> <li>● Protect against fire by having a bucket of water and a bucket of sand on hand. Do not rent premises that are close to activities (such as welding and cooking) where fires have regularly broken out</li> </ul>                                                                                                                                                                      |
| New competition                                                    | <ul style="list-style-type: none"> <li>● Make sure that you are always thinking of new products or services that you can sell, and how you can make them more attractive to customers.</li> <li>● Keep your premises clean, well-painted and neat</li> <li>● Treat your customers politely and thoughtfully.</li> </ul>                                                                                                                                                                                                                                                                                   |
| Loss of a supplier<br>Loss of a worker<br>Loss of a major customer | <ul style="list-style-type: none"> <li>● Do not become dependent on a single supplier</li> <li>● Be ready for losing a worker. It happens all the time. You need to keep an eye out for someone who would be good at the work and who would be happy for the job. Do not pay the absolute minimum, because this will make people look elsewhere and treat them politely</li> <li>● Do not turn away small customers because you have a big order from a large customer. Large customers will often change supplier and a smaller customer is more likely to be loyal if they are treated well.</li> </ul> |
| Avoid becoming indebted                                            | <p>Most IGAs need credit (loans), but never forget that another word for credit, is debt. The risk arises when too much credit is taken because lenders make it too easy. <i>Remember, it is in their interest to have you borrow.</i> You must be 100% sure that the loan can be paid back, preferably with the IGA's resources, but in any case the borrower must be sure that any credit is invested in a safe, profitable activity and not used for consumption, unless they have other ways of paying back.</p>                                                                                      |
| Family members do not pay for things taken from the business       | <p>It is natural for the business to support the family and to provide other activities in the family with capital and labour when this is possible and after a respectful discussion, but having family members take stock from the business without paying for it must not be allowed</p>                                                                                                                                                                                                                                                                                                               |
| Major emergency expense in the household (death or sickness)       | <ul style="list-style-type: none"> <li>● Build up a savings reserve in your VSLA or MFI so that you don't have to sell all your stock. Make sure that your VSLA has a strong Social Fund</li> <li>● Do not sink all of your capital into the VSLA or the business, but maintain a reserve that you have access to in the household, or saved with a trusted friend, local merchant or financial institution</li> </ul>                                                                                                                                                                                    |

**CONCLUDE THE SESSION**

## **Closing Ceremony**

We recommend you hold a closing ceremony, perhaps on another occasion (rather than at the end of Session 9). It is important to celebrate the new knowledge and understanding of how to successfully Select, Plan and Manage IGAs, as doing this well can make a big difference to the health, well-being and security of each VSLA member's household. The accomplishment of completing this course together is very significant.

During the ceremony you should remind members that although you may not have as much knowledge of their IGA as they do, you are always available to help them review the contents of this course, and ensure that they are Selecting, Planning and Managing their IGA properly, using the approach laid out in this Guide.

# Annexes

## Annex 1: Example of the Five Important Points 'wall' analysis

| <i>Reasons for Success</i>                                                                                                                                                                                                                                     | <i>Reasons for failure</i>                                                                                                                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Knowledge, skills and time availability</b>                                                                                                                                                                                                                 |                                                                                                                                                                                      |
| <p>Good knowledge of the business</p> <p>Had no other IGA so could concentrate</p>                                                                                                                                                                             | <p>Didn't have skills</p> <p>Didn't know anything about where to sell</p> <p>Didn't know where to get fuel</p> <p>Couldn't find raw material</p>                                     |
| <b>Market and customers</b>                                                                                                                                                                                                                                    |                                                                                                                                                                                      |
| <p>Predictable seasonal demand</p> <p>Low competition High demand throughout year</p> <p>High demand for produce Good advertising</p> <p>Good quality product - high patronage</p> <p>Good customer relations</p> <p>Knew customers well and good location</p> | <p>Bad location * few customers</p> <p>Too much competition</p> <p>Selling on credit</p> <p>Easily perishable product</p> <p>Competition</p>                                         |
| <b>Income: Is the IGA profitable?</b>                                                                                                                                                                                                                          |                                                                                                                                                                                      |
| <p>Product known to be profitable but needed high skills</p> <p>which the owner had. He had been an apprentice</p>                                                                                                                                             | <p>Copied common activity but no analysis done</p>                                                                                                                                   |
| <b>Sources of capital</b>                                                                                                                                                                                                                                      |                                                                                                                                                                                      |
| <p>Low-startup capital financed from savings</p> <p>5-year member of MFI</p> <p>Got startup help from parents</p> <p>VSLA member with a lot of rollover savings</p>                                                                                            | <p>No savings culture or place to save</p> <p>MFI loans needed too much collateral</p> <p>VSLA loans too small and too short-term</p> <p>Borrowed from moneylender and lost land</p> |
| <b>Income: Is the IGA profitable?</b>                                                                                                                                                                                                                          |                                                                                                                                                                                      |
| <p>Product known to be profitable but needed high skills</p> <p>which the owner had. He had been an apprentice</p>                                                                                                                                             | <p>Copied common activity but no analysis done</p>                                                                                                                                   |
| <b>Household income</b>                                                                                                                                                                                                                                        |                                                                                                                                                                                      |
| <p>Met needs for cash expenses, so specialised</p>                                                                                                                                                                                                             | <p>Small income. Other IGAs more important</p>                                                                                                                                       |

## Annex 2: Working cost example

Working Costs for a horticulture business with an operating cycle of 4 months

| Working costs every cycle of 4 months       | Quantity | Unit cost | Total cost         |
|---------------------------------------------|----------|-----------|--------------------|
| <i>Rent of land for 4 months</i>            | 1        | 35,000    | 35,000             |
| <i>Bicycle transport of inputs</i>          | 6        | 800       | 4,800              |
| <i>2 labourers for four months</i>          | 8        | 20,000    | 160,000            |
| <i>Rent of treadle pump (monthly)</i>       | 3        | 15,000    | 45,000             |
| <i>Seeds 1</i>                              | 20       | 2,500     | 50,000             |
| <i>Seeds 1</i>                              | 10       | 3,000     | 30,000             |
| <i>Seeds 1</i>                              | 15       | 2,500     | 37,500             |
| <i>Fertiliser</i>                           | 50       | 50        | 2,500              |
| <i>Pesticides and herbicides</i>            | 20       | 1,000     | 20,000             |
| <i>Tomato sticks (10,000)</i>               | 10,000   | 20        | 200,000            |
| <i>Rent of pickup after harvest</i>         | 4        | 10,000    | 40,000             |
| <i>Plastic for seedlings</i>                | 1,000    | 15        | 15,000             |
| <b>Total cycle (4 months) working costs</b> |          |           | <b>NGN 639,800</b> |



### 3. Estimating income this cycle

| Income from sales: items        | Unit cost (if known) | Selling price | Quantity | Income |
|---------------------------------|----------------------|---------------|----------|--------|
|                                 |                      |               |          |        |
|                                 |                      |               |          |        |
|                                 |                      |               |          |        |
|                                 |                      |               |          |        |
|                                 |                      |               |          |        |
|                                 |                      |               |          |        |
|                                 |                      |               |          |        |
|                                 |                      |               |          |        |
|                                 |                      |               |          |        |
| Total cycle income _____ months |                      |               |          |        |

### 4. Estimating Gross profit this cycle

| Item                                  | Amount |
|---------------------------------------|--------|
| Expected income from sales this cycle |        |
| Minus Working costs this cycle        |        |
| Gross profit this cycle               |        |

### 5. Estimating net profit this cycle for savings and investment

| Item                                             | Amount |
|--------------------------------------------------|--------|
| Gross profit this cycle                          |        |
| Minus loan payment this cycle                    |        |
| Minus household drawings this cycle              |        |
| Net profit this cycle for savings and investment |        |