

UGAMA/Cooperative Service Center
Tel: (+250)562096/562097
Fax: (+250)562251
Email: ugamacsc@rwanda1.com

TRAINING MODULE ON FINANCIAL MANAGEMENT & CREDIT MANAGEMENT

CSC/UGAMA-WBI-UNDP joint project

Learning Component

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INTRODUCTION

The UGAMA/CSC-UNDP-WBI joint project is in keeping with the pattern of farming community development. The first aim is reinforcing capabilities, and then urging on accessing and using credits in small, income-generating projects. The General Goal of the project is to contribute to initiatives aiming at reducing poverty via reinforcing community capabilities in their development efforts, as they were identified and prioritized by the communities themselves.

The specific goal linked to the theme of financial and credit management in this project is reinforcement of capabilities within solidarity groups, associations, and cooperatives in mobilizing resources, institutional development, management, and enterprise development.

For this theme, we are expecting the following results:

- ☞ Developing a training module on the theme “Financial management and credit management”.
- ☞ Projects and funding proposals are being developed to access the credit funds of microfinance institutions, and the importance of savings is emphasized.

In this framework, we have prepared and reviewed a module on financial management and credit management. It is divided into two parts. The first part is subdivided into four themes: market study, supply, costs, and accounting. The second part is about credit, its nature, management, and is related to business plan preparation modalities.

Part one:

FINANCIAL MANAGEMENT

Concepts

Management can be described with four cardinal functions: planning, organizing, leading/coordinating, and controlling.

Planning: leading a reflection resulting in the actual accomplishment of goals

Organizing: defining everyone's responsibilities and channeling complementary energies of all intervening parties

Leading or coordinating: making dissimilar results converge towards a common result, with rigor and perspicacity

Controlling: comparing, with pre-established indicators and parameters, the results obtained with the needs expressed in the goal definition.

Finally, management is known as an administrative science that requires collecting, and analyzing information, leading to decision-making.

Theme 1:

MARKET STUDY

The analysis is carried out on all market components, as follows:

Clientele situation: the analysis is based on the amount of potential customers, their location, preferences and behaviors

Demand: it means evaluating the state of demand before deciding on a strategy; demand can be related to geography, climate, or changes in income belonging.

Offer: from demand, it is possible to assess the quantity needed on the market; an excessive offer is not profitable for the vendor.

Competition: the study must identify the competitors, their strengths and weaknesses. Similar or substitutional products could impair the normal product flow.

Marketing (from market + ing to indicate continuity) is what you are doing to know who your customers are, what their needs are, and what they want. It is also what you are doing to satisfy their needs and take a profit in:

Providing them with the goods and services they need

Fixing prices they accept to pay

Giving information that prompts them to buy your goods and services

Facilitating the access to your goods and services

Marketing pillars (the 5 Ps)

Product: what type of product would satisfy the customer? What color, size, presentation, ... influence the decision to buy?

Example: Big potatoes are well appreciated for consumption, while smaller ones are favored for seeding. Then, the producer needs to figure the appropriate product for the customer.

Position: the best position is close to the customer. Other techniques can also be used, such as home delivery, self-service...

Example: The Muslim area is not designated to sell pork, and alcoholic beverages are not selling well among Protestants. However, it is possible to make interesting sales offering fresh vegetables to restaurants in the city.

Price: the best price should come out of the demand, cost and competitors prices analysis. The price should allow the vendor to reach profit, and at the same time be accessible to the buyer.

Example: My production cost is 500 FRW, the profit is 75 FRW, and therefore the selling price is 575 FRW. If my competitors sell at 560 FRW, there is a risk I won't have customers, except if my goods have characteristics that differentiate them from other products in the same range.

Promotion: the goal is to reach the customer and to prompt him/her to buy the product. The customer should know about my products through advertisement, and promotion helps to reach the customer for a certain type of goods. There are many different tools: boards, posters, radio, TV, ..., discount, quantity discount...

Personnel: the personnel's behavior, attitude, clothing, and welcoming are assets that need to be developed and strengthened in any type of business. Some people do not buy what they had intended to buy, but what they were prompted to buy by wise vendors.

Uniforms, details on the use of such and such product, a smile, quick service attract the customer and helps him/her to decide.

Theme 2:

SUPPLY

Supply has to do with capital assets, raw material, and finished product.

Buying equipment: equipment means all machines, tools and office supply necessary.

Buying raw material: manufacturers need raw material to produce the goods that they will then sell. Here, it means all the material and spare parts that are needed to manufacture the goods.

Buying finished products: merchants buy and sell finished products produced by manufacturers.

STEPS OF THE SUPPLY PROCESS

Know what you want

Be sure to know what your customers want and need; then you can decide on the:

- Goods and equipment you need to buy

- Quantities needed

- Buying and selling price

- Timeframe in which the goods, materials or equipments will be needed

Get to know the various suppliers

Find answers to questions such as:

- Type of goods, materials or equipment each supplier can provide

- Price, discount, discharge they can offer

- Terms of delivery

- How much you can trust the supplier

It is also possible to get a group supply to take advantage of discounts on wholesales, and save on transportation prices.

Contact suppliers

To ask for information on:

- Various goods, materials, and equipment they offer

- Prices and terms of payment

- Terms of delivery

Chose the best supplier

Compare quotations to know exactly what each supplier offers

Study the conditions that are suited to your business, check if the prices are affordable, check for discounts, discharges, terms of delivery, or any other offer from the suppliers.

Place an order

Be sure to calculate properly the quantities you need to order (the smallest quantity you can order)
Check bulk orders.

Check the goods once received

Check if everything is conform to the delivery slip that lists all the goods sent to you.

Some suppliers give an invoice instead of a delivery slip. Check that you have received everything you ordered in due time. In the event of a problem, do not sign the delivery slip and do not pay until the issue is fixed.

Check the invoice and pay the order

The invoice indicates quantities and terms of payment.

Make sure you received everything you ordered, and that prices and amounts are consistent. In general, you can pay cash or by check. Make sure you get a receipt that proves payment.

Stock is where you find raw material and finished products to be sold. Knowing what you have in stock allows you to plan when/what to buy and to fix the selling price.

INVENTORY

Making an inventory means:

Record all the goods coming in the stock of your company
Record all the goods going out of the stock of your company

Inventories are very important because they indicate:

What goods or material you sold or used
What quantity of goods or material you sold or used
When you sold these goods or materials
What quantity of goods or material you still have in stock

You can use inventory information to figure out:

What is selling quickly
What stock needs to be renewed
When to place a new order
What quantity you need to order
If items are missing

When you make an inventory, you can use index cards, a record book, a booklet, a binder, or any other type of document that is practical for your business.

Make sure your stock data are up to date and accurate. An inventory that is not up to date is giving you wrong information and might lead you to wrong decisions for your business. Find and record an order level for goods that sell well, or materials you use a lot.

Example of a stock card

Products: Beans

Date	Entry	In	Out	Balance

PHYSICAL COUNT

Physical count entails counting and recording what you have in stock on a stock card.

Physical count indicates:

- If you have stock missing and how much
- If you have damaged and badly kept stock
- What goods sell quickly and what goods sell little or not at all
- What materials and spare parts you use most and less frequently
- When you need to place a new order

To carry out a physical count, proceed as follows:

- Make sure your stock is tidy
- Prepare your stock cards
- Count and record the quantity on stock cards
- Copy the information from your stock card to your stock list
- Record the correct amount on your stock card

Theme 4:

COSTS

All the expenses that make up production cost need to be known and evaluated. They are transport expenses, rent, payroll, ...
Once the costs are figured out, the selling price and profit percentage can be set.

EXAMPLE:

A carpenter receives an order for a door. He calculates that the price for planks is 6 500 F. The client offers 7 000 F and the carpenter accepts because there is a 500 F difference. But he has not taken into account all the costs: workforce, glue, varnish, material depreciation...

It is important to separate direct manufacturing costs and indirect costs that make up the total cost.

Direct costs include raw material expenses, or expenses of finished products to be sold; as well as direct workforce attached to good and service manufacturing.

Indirect costs are administrative costs that cannot be directly applied to the manufactured units. The total of these costs accounts for the production cost, and on top of this price comes a profit margin, and then you have the selling price.

The cost calculation allows the company to:

- Establish the prices
- Minimize expenses and control them
- Improve decision making in the company
- Plan better

COST CALCULATION FOR MANUFACTURER AND SERVICE PROVIDER

Four steps need to be followed to calculate costs:

Direct cost calculation for raw material

- Calculate the cost price on a calculation sheet
- Record the various materials directly part or linked to the product and service
- Write down the buying price of raw materials
- Add the costs of raw materials you need to manufacture one article

Direct cost calculation for workforce

- Fill in the payroll information to get all the information on workforce costs
- Then calculate the production time and workforce direct costs to make one article

Indirect cost calculation

- Fill in the indirect costs calculation sheet to find out the necessary information on all costs other than direct costs
- Find out the indirect costs per hour in the manufacturing cost calculation form

Sum of total costs

Add up all the costs of the article in the cost price calculation sheet.

Theme 5:

ACCOUNTING

Keeping the books of account means recording transactions: money for goods.

These records allow to verify:

- The control of liquid assets
- How the company works
- The presentation of results to partners
- Programming activities

Therefore, it is necessary to:

- Record regularly
- Keep documents and receipts
- Keep a book of debts
- Analyze the results of all entries

Bookkeeping, a simple system

Proceed as follow:

During the opening hours of your company, record all transactions in cash

Keep the receipts and all the account vouchers for the expenses paid by your company

If you sell on account, record all the on account transactions using the customer account

By the end of the day, fill in your book properly.

Keeping the books to improve your business

Use the following steps to analyze your sales, costs, profit as well as all other company accounts:

Compare and analyze the sales by checking if they went up or down

Compare and analyze the costs and see which ones are high and why

Use the P&L statement to calculate the profit margin and see if profit is higher or lower than before

And make decisions.

Closing entries

The end of a period (generally the end of the year) is marked by closing entries.

These lead to the balance sheet and the income statement.

Balance sheet

It is a two-entry table: assets and liabilities

Assets include the asset base at a certain date, that is, capital assets, operation values, and quick assets.

Liabilities or the company's debt include the capital brought in by the owner(s) and outside capital.

Example of a balance sheet established on 12/31/N

ASSETS		LIABILITIES	
Houses	920 000	Own capital	2 230 040
Material	284 350	Loans	1 000 000
Stock	2 346 925		
Bank	120 000	Result	478 335
Cash on hand	37 100		
TOTAL	3 708 375	TOTAL	3 708 375

Income statement

It is a table showing business income and expenses for a period. It is also a good way to check the results for a period.

Example of an income statement

EXPENSES		PRODUCTS	
Buys	6 724 400	Stock	368 895
Operating expenses	1 395 180	Sales	8 161 900
Results	478 335	Products	67 120
TOTAL	8 597 915	TOTAL	8 597 915

NB: Operating expenses include transport, service buying, materials, supplies, payroll, interests, taxes and other expenses and losses linked to the activity. There can be exceptional or out of operation expenses or products.

Second part:

CREDIT MANAGEMENT

Concepts

Credit is an amount of money lent to a person of trust. It is different from giving money, it is reimbursed with interests, at set dates, and according to set modalities.

Guarantee:

The types of guarantees necessary to cover a credit are:

- Immovable property
- Personal property
- Solidarity bond
- Financed project

Debtor:

The person asking for a credit must:

- Know the characteristics of a credit
- Know the implication of a non-reimbursed credit
- Know how to save, get a return on his/her money, work

The creditor must:

- Know the debtor
- Organize visits to his debtor
- Know why the reimbursement is late
- He/she should not rely on guarantees and should take part in the implementation of the financed project

CREDIT REIMBURSEMENT PLAN

It is established with the borrower. It describes the credit, interest rates, time, and periodicity of reimbursement.

Example :

Loan: 3 061 760 F

Annual interest rate: 16 %

Time of reimbursement: 12 months (reimbursement with constant capital at the deadline).

Period	Loan left	Paid capital	Paid interests	Annuity
0.	3061760	255167	40823	295990
1.	2806593	255167	37421	292588
2.	2551426	255167	34019	289186
3.	2296259	255167	30617	285784
4.	2041092	255167	27215	282382
5.	1785925	255167	23812	278979
6.	1530758	255167	20410	275577
7.	1275591	255167	17008	272175
8.	1020424	255167	13606	268773
9.	765257	255167	10203	265370
10.	510090	255167	6801	261968
11.	254923	254923	3399	258322
TOTALS		3061760	265334	3327094

Major causes why people are reluctant to use credits

Well-built project: many people do not know how to prepare a profitable/bankable project

Guarantees: often, the guarantees necessary are not available

Interests: it is often said that interests are very high

Many instructions: asking for a credit is really long and boring

Consequences on defaulting debtor: some people are afraid to go through the same consequences as their neighbors who did not pay back their credit properly

Climate changes: they affect farmers who do not trust climate.

CONCEPTS FOR PROJECT STUDY

The project file must include the following elements:

- Project name
- Project developer's address
- Project purpose and problems to be solved by the project
- Project location
- Financial and business study of the project
- Project financial value
- Project market
- Project material
- Project durability
- Project developer's experience

The project developer has to indicate his/her share in material or money, in the project realization.

EXAMPLE

Project title: Small sorghum business

Project developer: Surname, name
Location, age, occupation, ...

Project purpose: the project aims at selling 2536 kg sorghum per month to satisfy the market and reach a monthly profit of 39 137 FRW

Project duration: the project will last six month and is renewable

Project location: the project will take place in the ... shopping center, which has been selected for the potential market it offers.

Why this project: sorghum can be used for many different things in the region (to make traditional drinks, flour for gruel, seeding...). Losses due to product deterioration are not very frequent with sorghum and profit is therefore guaranteed. Furthermore, the sorghum demand in the region is far from being satisfied.

Estimate of the needs to start the project:

- 500 kg sorghum at 60 000 FRW
- 5 bags at 750 FRW
- A scale at 8 000 FRW
- A bucket at 1000 FRW

INITIAL BALANCE SHEET

ASSETS		LIABILITIES	
Sorghum 134 kg	17 420	Capital	20 000
Cash on hand	2 580		
TOTAL	20 000	TOTAL	20 000

Overview of fund resources

Entry	Amount
USE	
Sorghum	60 000
Bags	750
Scale	8 000
Bucket	1 000
TOTAL	69 750
RESSOURCES	
Cash on hand	2 580
Subscription	10 000
Loan	57 170
TOTAL	69 750

Credit reimbursement plan

Credit: 57 170

Interests: 16% per annum

Duration: 6 months

Duration (months)	Capital owed	Reimbursement in capital	Paid interests	Total
1	57 170	9 528	762	10 290
2	47 642	9 528	635	10 163
3	38 114	9 528	508	10 036
4	28 586	9 528	381	9 909
5	19 058	9 528	254	9 782
6	9 530	9 530	127	9 657
Total		57 170	2 667	59 837

Depreciation table

Entry	Quantity	Value	Lifespan (year)	Annual deprec.	Monthly deprec.
Bags	5	750	1	750	63
Scale	1	8 000	10	800	67
Bucket	1	1 000	2	500	42
TOTAL		9 750		2 050	172

Cash position

	1	2	3	4	5	6
A. PROFIT						
1. Posting		106 600	136 041	165 609	195 304	225 126
2. Starting funds						
Cash on hand	2 580					
Subscription	10 000					
Credit	57 170					
3. Sales	367 720	367 720	367 720	367 720	367 720	367 720
TOTAL	437 470	474 320	503 761	533 761	563 024	592 846
B. EXPENSES						
Sorghum	288 240	304 320	304 320	304 320	304 320	304 320
Transport	12 010	12 680	12 680	12 680	12 680	12 680
Workforce	9 608	10 144	10 144	10 144	10 144	10 144
Bags	750					
Scale	8 000					
Bucket	1 000					
Credit reimbursement	9 528	9 528	9 528	9 528	9 528	9 528
Interests on credit	762	508	635	381	254	127
Depreciation	172	172	172	172	172	172
Taxes	800	800	800	800	800	800
TOTAL	330 870	338 279	338 152	338 025	337 898	337 773
DIFFERENCE	106 600	136 041	165 609	195 304	225 126	255 073

NB: 2 402 Kg of sorghum bought the first month because the stock is 134 Kg

Provisional operating account

Products	1	2	3	4	5	6
Sales	367 720	367 720	367 720	367 720	367 720	367 720
Others						
TOTAL	367 720	367 720	367 720	367 720	367 720	367 720
Expenses						
Initial stock	17 420					
Sorghum	288 240	304 320	304 320	304 320	304 320	304 320
Transport	12 010	12 680	12 680	12 680	12 680	12 680
Workforce	9 608	10 144	10 144	10 144	10 144	10 144
Interests	762	508	635	381	254	127
Depreciations	172	172	172	172	172	172
Taxes	800	800	800	800	800	800
TOTAL	239 012	328 751	328 624	328 497	328 370	328 243
Difference (profit)	38 708	38 969	39 096	39 223	39 350	39 477

Total profit in 6 month: 234 823 FRW

Monthly average: 234 823 : 6 : 39 137 FRW