



MANAGEMENT OF RURAL INCOME-GENERATING ACTIVITIES

Village Group Training

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1 INTRODUCTION

Africa's rural populations no longer live in a closed society, depending on themselves or their clan for their subsistence. Nowadays, the need to meet growing demands for facilities such as schools, health, transport and modern housing make income-generating activities essential in meeting the demands of the market economies which are now part of the African experience.

Rural people, individually or as members of pre-cooperative or cooperative groups, are involved in productive activities in all sectors of the rural economy: agricultural, commercial, artisanal and processing. They often receive a battery of technical and financial support from grassroots extension staff, development projects, NGOs and funding and regulatory agencies.

FAO helps to promote the rural sector by preparing and implementing many development projects, but also by producing a series of basic documents to help rural people to acquire the know-how and organization skills they need to manage their affairs efficiently.

This is the background to this document, based on experiences in French-speaking Africa. It is intended as a simple tool for use by extension agents and group leaders to help train groups or individuals engaging in money-making activities to boost their living standards. It is geared first and foremost to help trainers to communicate better and to learn how to share their know-how and methods more effectively.

A progressive, participatory methodology is recommended. Each chapter begins with a review of the previous one by the trainers, to make sure that new ideas have been well grasped. Participants should be addressed in their own language, which means that the trainers should translate the material into the appropriate language. Some general pointers have therefore been included to ensure that their translations and explanations are clear. The questions and answers, followed by a summary, and discussions will enable the participants to move forward together.

The trainers' attention is drawn to the fact that some and perhaps all participants will be rural women, who are extremely enthusiastic about money-making activities. However, while management science is the same for all, socio-cultural and economic conditions are usually less favourable to women than to men: access to land and services is difficult, they are often left out of the decision-making process in matters concerning production and profit-sharing, and may be illiterate, and this should be borne in mind. Women extension agents are often better equipped than men to communicate with them.

Users must also appreciate that the approach in the manual is very general, for although it covers all the basic aspects of better management, it gives only general and simple management training advice, useful for all small-scale rural undertakings, such as mills, cereal banks, marketing and crop production activities.

It should also be noted that this document is intended as a training tool in rural enterprise management for:

- 1) trainers and
- 2) village organization leaders.

It does not cover farmers' organizations or cooperative or pre-cooperative training, which are dealt with in other publications.

2 SOME SIMPLE REMINDERS FOR TRAINERS ABOUT GENERAL ECONOMICS, MARKET ECONOMIES AND MANAGEMENT

2.1 *What is economics?*

Economics is an essential component of human activity. It covers those occupations that men and women undertake in order to provide for their material needs. Economics is also the science that studies and explains this activity, defines the laws governing it and provides guidance for the men and women who have to make decisions, i.e. choices.

Material needs include:

- tangible assets: food, houses to live in and bicycles to move about by, machines and equipment to enable these needs to be met;
- services: financial (banks and insurance companies), education and training (schools and training centres), health care (dispensaries, doctors and hospitals), transportation, repair and maintenance and leisure services.

Trade, the supplying of goods to meet demand, is one of the most important services.

Economic activity in some developing countries still consists mainly of supplying material goods to meet basic needs - food for home consumption, for instance. Such economies would be called agriculture-based or primary economies, but even here, trade is playing an increasingly important and dynamic role.

Also, even though economics is defined as the area of human activities geared to meeting material needs, it in fact touches upon all human activities, including non-economic ones such as art, culture and sport, as they require economic support or have a bearing on economic activities.

2.2 *What is a market economy?*

In times gone by, people lived "closed circuit" existences, producing and consuming what they produced. They obtained the goods they did not produce through the barter system, e.g. they would exchange a chicken for salt or cereals for milk. This was the economy of the closed society.

Nowadays, **division of labour** and **trade** exist even in the countryside; people sell to others what they produce and purchase from others what they consume. Economic activity has developed into a trading network where people are doubly dependent on each other: to meet their needs and dispose of their goods. Production and consumption are separate activities, but sustained by distribution and marketing. No longer can a peasant exchange his chicken for aspirin, or obtain a bicycle in exchange for two or three sheep.

2.3 *Values and prices*

All economic activities have a **monetary value**: for goods, this is called the price; for human work, the salary or return; for services, tariffs or charges; and for capital, rates of interest. Whatever the name, they are, in fact, always prices.

Price setting involves complex factors, the most important of which is the supply and demand situation of any given product. When the supply of a good or service is limited but demand is high (an unusual situation) the price rises; when supply is up and demand down, the price falls.

Summary:

Farmers, school teachers, traders, industrialists and craftsmen are all economic operators: they produce goods or offer services and consume both.

All economic operators are inter-dependent: between producers and consumers there is a system for circulating and distributing goods and services, in particular a marketing system.

Goods and services have a price, which is dependent mainly on supply and demand.

The production - circulation - distribution complex is known as the market economy.

3 RURAL INCOME-GENERATING ACTIVITIES

3.1 *What do we understand by income-generating activities in the countryside?*

The aim of this question is to encourage the participants to think about all the income-creating rural activities, including the one they are involved in or intend to take up. Of course, it may not be possible to do all these activities everywhere and in every context. For instance, a mainly Islamic community will not consider taking up pig-raising, and vegetable crops cannot be grown in areas that are short of water. We will come back to this when we deal with the technical, economic and financial feasibility of current or planned operations.

Trainers should let participants reply freely to this question. Having identified the activities in which the audience is already involved, the trainers can classify and sum up the replies, for example as follows:

Agricultural production: crop production (cereals, cash crops, vegetables), large and small animal-raising (poultry, rabbits or pigs), bee-keeping, fish culture, etc.

Processing: milling (hand-mills), hulling, food preservation (cold storage and drying, juice, jam and bread-making), processing equipment, etc.

Agriculturally related and non-agricultural activities: the manufacture of farm implements, rural construction, wood and metal workshops, masonry, welding, motor repairs, etc.

Handicrafts: weaving, dyeing, basket-making, embroidery, shoe-making, and sewing.

Commercial activities: the selling of basic commodities such as salt, sugar, milk, matches and soap; the buying and selling of agricultural commodities and handicrafts; the selling of various inputs; the buying and selling of agricultural and related implements and equipment; grain shops and banks; village pharmacies and import-export activities.

This list is for guidance only. Trainers and participants may, of course, change, or even add, to it.

Summary:

Rural dwellers can boost income and living standards through a number of rural activities: crop and livestock production, processing, non-agricultural, artisanal and commercial activities.

All these activities must fulfil certain conditions: in addition to being technically feasible, they must also be economically and financially profitable.

4 HOW TO OBTAIN THE MAXIMUM INCOME FROM AN ACTIVITY?

This question is intended to encourage the participants to identify the factors contributing to the success of income-generating activities. At the same time they should ask themselves whether these conditions are present in their own activities (if they are already involved in one). They need to be aware of these factors and to gauge their own skills when they consider embarking on an activity.

Trainers should allow participants to express themselves freely in this brainstorming exercise and jot all the suggestions down on the blackboard. They may complete the list if necessary, arrange them in order and present them as suggested below.

4.1 *Is the activity technically feasible?*

This involves finding out whether the man or woman suggesting the activity has the required technical skills and, if not, whether they can acquire them rapidly. Is this activity their usual occupation, or does one (some) of them (in the case of a group) have the necessary qualifications to undertake the activity with at least a minimum of professionalism?

As mentioned, modern economies are based on a division of labour, with each individual doing what he/she knows best. We would be heading for disaster if we undertook weaving or shoe-making, mechanics or masonry, dyeing or rice trading without prior preparation. The saying "The best blacksmith is the one with the most experience" is very true, for experience is what it really boils down to.

Once the skill of each individual or group has been identified, we then have to establish the other prerequisites for a technically feasible operation: water for market gardening, raw materials for craftsmen, feed for farm fattening and roads for marketing.

We should not forget management skills, but we shall deal with this in the chapter on economic activity management.

4.2 *Is the activity economically and financially profitable?*

In addition to being technically feasible, the income-generating activities should be profitable, that is to say they should produce income or a surplus (one could also use the term profit). An activity that does not produce a profit runs at a loss.

Gross profit is the positive difference between costs and returns (see chapter 6.2.3 on the operating account). Net profit is obtained by deducting overheads and depreciations from gross profit.

A carefully prepared estimated operating account enables us to determine whether an operation will be profitable before it is launched. The actual operating account (established at the end of the financial year) and the balance sheet give us the actual performance, loss or profit, of an operation.

Economic and financial profitability should not be confused with social benefits: a well that is to provide drinking water to a village must be socially beneficial; it is not intended to make a profit or to bring in any money. This type of undertaking is often subsidized. A profit-making activity, on the other hand (cabbage marketing, for instance), should be financially profitable, in other words, returns should be higher than costs so as to produce a profit.

5 WAYS OF FINANCING ECONOMIC ACTIVITIES

5.1 Money and credit

In a market economy, money is the medium of exchange. It serves as a measure of values and prices and is a means of preserving purchasing power (savings).

Money enables us to resolve the problems posed by the barter system. In fact, without money, there would be no economic progress. Every good can be converted into money, which is accepted as payment for goods and services in every country and between countries. Modern economies are said to be monetized.

Types of money: Since replacing the barter system money has evolved from shells to banknotes. We have paper money (fiduciary currency) i.e. banknotes, and other negotiable instruments such as cheques.

Money and banks: So that money can circulate between those who need it to run their activities and those who have enough to save, it is traded by the banks and private lenders. The banks use the savers' deposits to provide credit or loans to their clients (we will see how they do this later).

5.2 Production costs

As we saw in chapter 2, goods and services have a price or value, e.g. one kilo of merchandise costs x francs, and transport costs y francs per ton per kilometre. For vegetable growers to know how much it will cost to produce one kilo of carrots, they will have to know what they will spend on seeds, fertilizer, pesticides, water and labour. In order to obtain the selling price of one kilo of carrots in the market, other costs such as packaging, storage, processing and transport will have to be added to the production cost.

It is essential to estimate production and other costs accurately when establishing a provisional operating account, as this enables us to fix the selling price of the merchandise or commodity and to compare its competitiveness and cost-effectiveness.

In order to meet production and other costs, individuals or groups involved in economic activities need funding. They should carefully determine how much funding is needed and then set about finding it. There are two possibilities: they may use their own funds, or seek an external source.

5.3 Using one's own funds or self-financing

We speak of self-financing when activities are financed with the entrepreneurs' own funds. In the case of cooperatives these funds will come from the authorized capital and reserve funds; in the case of individuals, from their savings.

Nowadays it is difficult to cover all one's needs with one's own funds. All undertakings, whether big or small, rural or urban, often require credit in addition to one's own funds. It is increasingly common for economic systems to be based on credit.

5.4 Credit and credit mechanisms

When an entrepreneur has no funds of his/her own (or not enough), he/she can apply to an external funding agency to obtain **credit** (a **loan**) to carry out his/her activities.

5.4.1 What does "granting credit to someone" mean?

To grant credit to someone is **to trust** that person and to take a risk in handing over a sum of money or goods, on the undertaking that the sum of money or goods will be repaid by a certain date plus an additional amount (of money or goods), called interest.

Credit is therefore based on trust (from the Latin *credere* meaning to trust) between two parties. It must be repaid by a date agreed by the two parties, plus interest. This need for repayment differentiates credit from subsidies, which are not repaid.

5.4.2 Sources and forms of credit

Savings are the source of credit. To save is to "set aside" resources, either passively hoarding them, or actively investing them, for use at a later date. As these savings may be used to provide credit, credit is linked to savings.

Credit may be distributed in several ways:

- Traditional ways: Tontines or groups of individuals, linked through mutual trust, regularly set aside a given amount which is handed over to one of them (on a pre-set rotational basis) to be used to meet their funding requirements. Interest is not usually payable on this type of credit.
- Village traders may, in an individual capacity, use part of their savings to provide loans to farmers in need, particularly during the lean season, but their rates of interest can be extremely high (between 500 and 1000%).
- Development projects: Some development projects have a credit component which they manage like the banks to provide credit to the farmers.
- Banks and funding institutions.: Banks are specialized in the money business. They collect the savers' funds and lend them to the credit applicants. They buy and sell money. There are several kinds of banks: commercial, industrial, agricultural, etc. Some countries set up special banks to finance women's special needs.

Access to bank or project credit may be necessary to start income-generating activities.

5.4.3 Interest rates and term of credit

Interest rates (or the rent charged on the money borrowed) are expressed as a percentage of the capital over a period of time (usually annually). Interest is intended to cover the lender's risks.

The time that the lender (the person providing the money) allows the borrower (the person receiving the money) to repay the loan is called the term of the loan. Thus, based on the time (period) allowed, we have:

- Short-term (ST) or seasonal loans: they have to be repaid within one year (e.g. loans for fertilizers).
- Medium-term loans (MT): their repayment time varies between one and five years (more than one year, but less than five). For example, loans for animal traction or mills would be medium-term.
- Long-term loans (LT): repayment time here exceeds five years (for instance, fruit tree planting or building loans).

The term of a loan is therefore usually based on the expected lifespan of the activity for which the loan has been requested, and the repayment time on the time it takes for that activity to begin producing a return. For instance, inputs are used in a single season, ploughs may be used for between one and five years, fruit trees need five years to become profitable, and a building lasts more than five years...

5.4.4 Repayment guarantees and other credit features

In addition to rates of interest, a lender requires repayment guarantees from his/her client in order to minimize risks. These guarantees may be real (tangible) (e.g. the mortgage on a building), or moral (e.g. the joint and several guarantee of cooperative group members).

Other credit features:

- A personal contribution: part of the capital applied for (an amount usually varying between 0 and 40%) may have to be deposited prior to the allocation of the loan;
- Disbursement may be in cash or kind depending on what the lender can provide and what is convenient for the borrower;
- Loan repayment may be spread over time, with each scheduled repayment forming one instalment;
- A document, signed by the lender and the borrower, fixing the terms and conditions of the loan, is called a loan agreement.

5.4.5 How to obtain a loan from a project or bank?

The first requirement is, of course, to be already involved in or have plans to set up an income-generating activity. The next step is to prepare a loan application containing the information needed by the lender to examine the activity or project put forward by the applicant. A lender usually requires details on:

- 1) The applicant: full identification plus, for group applicants, other essential details such as the group's history, composition, statutes and regulations;
- 2) The project: purpose, justification, description of activities, history and evolution, context, etc.;
- 3) A market study for the proposed activity
 - Current supply of and demand for finished product
 - Competition from other products
 - Market trends
 - Strong and weak points of the proposed activity given the above environment.

- 4) The applicant's financial/economic situation
 - Past investments
 - Own funds
 - Current debts
 - Savings
 - Other income (such as salaries)
 - Latest balance sheet (if books are kept).

- 5) Technical analysis of the proposed activity
 - Production technology
 - Mastery of the activity
 - Equipment needed
 - Local, regional, national or international network
 - Raw material supply problems
 - Production planning
 - Maintenance problems
 - Foreseeable difficulties
 - Activity and staff management
 - Staff

- 6) Financial review of the proposed activity
 - Capital cost/financing plan
 - Debt retirement and repayment
 - Staff and operating costs
 - Other costs
 - Other production ratios
 - Bookkeeping and financial management problems
 - Sales, prices and costs
 - Other estimated proceeds
 - Establishment of a provisional operating account showing all costs and returns from which expected performance (profits - losses) may be worked out.

- 7) Lender guarantees
 - Type, value of real guarantees
 - Mortgage
 - Moral guarantees
 - Third party guarantees.

The estimated operating account is an essential component of the credit application file and should be as accurate and realistic as possible.

The complete credit application is forwarded to the lender who will review it and probably ask for additional information before deciding whether or not to grant the loan.

If the credit application is approved, the two parties will sign a financing agreement which will bind them until the loan is fully repaid, as we saw above.

5.4.6 Using credit wisely

- 1) Is a loan necessary?
This is a question that should be asked in order to prevent systematically resorting to credit, a step which can draw the borrower into a vicious circle and end up "sinking" him or her. Credit is expensive, and should therefore only ever be used to top up one's own resources, and for really profitable activities.

It may not always be credit that one needs to improve activities, but better organization and management, better training or a complete reorganization of the activity. Credit should “liberate” so that one can do without credit in future.

2) Immediate investment

It should be borne in mind that interest starts "piling up" as soon as the credit has been released. Loans must therefore not be allowed to lie "dormant" - they should immediately be invested in the operation for which they were obtained.

3) Repayment dates

These should coincide with the dates at which revenue can be expected to come in, so as to avoid late repayment.

4) Repay loans on time

A loan agreement is a mark of trust between lender and borrower. A betrayal of trust will damage future relations between the two parties. Always repay loans. Make that a point of honour.

In the event of early repayment (prior to the agreed repayment date) do not forget to claim the surplus interest that the lender would have obtained. Of course, the lender may return this automatically.

6 MANAGEMENT OF RURAL ECONOMIC ACTIVITIES

6.1 Management

6.1.1 What is management?

This question will elicit numerous ideas and replies from participants and the trainer should carefully note these down. He will then sort his notes out and summarize the answers rather like this:

Summary:

An economic venture or activity possesses assets: i.e. its capital, stocks and buildings.

To protect these assets and, especially, to make them grow, managers of income-generating activities often have to decide how to use their enterprise's resources in a coordinated and cost-effective way. For instance, for the purchase and sale of goods, for bank loans and for profit distribution.... Careful thinking must be done before the decision is taken. This is what we call management.

Good management means having accurate information on which to base decisions. This is why all transactions or operations (date, type, clients, suppliers) should be recorded on basic documents such as invoices, receipts, purchase and sales books, delivery orders and cheques.

Management means using that information to satisfactorily direct the activity.

6.1.2 What is book-keeping?

As we have just pointed out, all operations should be recorded and used as a basis for decision-making. If we do this we will be able to keep our accounts in an orderly fashion. This is called **BOOK-KEEPING**.

Book-keeping is an essential management tool, a requisite for good management.

Book-keeping consists mainly of establishing accounts from the entries of the enterprise's various operations. First, each operation is recorded daily in a **journal**. The journal entries are then transferred by the bookkeeper to the **accounts** (clients' account, suppliers' account, bank account). All these accounts form the **account book**. The journal, often also called the day-book, may be kept in card form: there may be cash cards, stock cards, etc.

6.1.3 What is the balance sheet?

Income-generating activities are living operations: they are born, develop and die. The promoters usually bring them to life by providing the capital. They develop (make purchases, spend, pay salaries, buy goods and produce goods and/or services for sale); and die when they cease their activities: the goods, buildings, furniture and equipment are then sold and the bottom line, which may be positive or negative (profit or loss) established.

The **BALANCE SHEET** shows the financial situation of an enterprise at a given date.

In order to establish a balance sheet, we must know:

- what the enterprise owns: its assets
- what the enterprise owes: its debts.

The difference between assets and debts gives the Net Worth of the enterprise. The figure can be positive or negative and represents how much of the owner's own money is invested in the enterprise.

$$\underline{\text{Assets}} - \text{Debts} = \underline{\text{Net Worth}}$$

Assets are made up of:

- real estate
- capital goods, merchandise and cash
- receivables.

Liabilities are the total of the owner's money or initial investment plus borrowed money or debts.

6.1.4 What is an operating account?

This is a table showing the type and amount of receipts and expenditure, and how the enterprise's stock has varied over one financial year.

The operating account is said to be **estimated** when it is established prior to the start-up of the proposed operation. It estimates the various receipts and expenditure and shows the balance. The **actual** operating account is established at the end of the financial year and based on real receipts and expenditure.

Receipts are obtained mainly from the sale of purchased, processed or manufactured goods (e.g. lengths of cloth in a dyeing operation, or vegetables in a market gardening venture). They are also called the **proceeds**.

Expenses are the various purchases and other costs (raw materials, staff). These are referred to as **costs** or disbursements.

The bottom line at the end of the financial year (or bottom line of the estimated operating account) is the difference between proceeds and costs and represents the profit or loss of the enterprise.

The following table shows the layout:

Failure to enter receipts or disbursements in the receipt book would make the situation very difficult to monitor and may even be interpreted as a deliberate attempt to misappropriate funds.

When the operation works with a bank (which is highly recommended), it should also keep:

- a cheque book
- a bank book.

6.2.1 The cash record (or cash book)

Example:

- Cash book -

Date	Reference	Details	In	Out	Balance
Total to be carried forward					

What it is and how it is used

The cash book is a bookkeeping record in which all cash receipts and payments (debits and credits) are entered, and from which we can obtain the balance at any time. When well kept, this book is an excellent management and monitoring tool: we can check the accuracy of the entries against the relevant documents and, at any time, make sure that the balance in the journal tallies with the content of the till or safe.

The cash journal is usually completed in duplicate (often a simple duplicate book can be used for this purpose).

Each entry is made on the basis of the relevant documents, listed in chronological order. The details should be very clear.

6.2.2 The stock card

Example:

Type of product: _____ - Stock card - _____ Unit of measurement: _____

Date	Reference	Details	In	Out	Stock in hand
Total to be carried forward					

What it is and how it is used

The stock card is a book-keeping record giving details of receipts and withdrawals of stocks of a given item or material, from which the balance can quickly and easily be obtained. The cards may be bound together to form a stock book.

The stock book, like the cash book, is a management record that should always be carefully kept, as it shows the stock situation at any given time. The balance on the stock cards may also be checked against the actual stock in the warehouse.

Entries on the stock card are backed by relevant documents. The details column should contain a clear explanation of the movement. The reference column should contain the references of the relevant documentary evidence (delivery order number, receipt order number). Entries must be made in chronological order. The stock cards provide an ongoing stock inventory. Should any surpluses or shortages be shown on the inventory they have to be justified by the person in charge of the stock. When the stock cards are well kept, the theoretical balance shown on the cards reflects the actual amount of each item in stock.

6.2.3 The delivery/receipt order (or note)

Example:

No. _____ - Delivery/receipt order -

Date	Details	Quantity	Unit price	Total price
<u>Stock-keeper/delivery man</u> Name – Signature		<u>Purchaser</u> Name – Signature		

What it is and how it is used

The delivery or receipt order or note is documentary evidence accompanying the commodities or goods that the storekeeper receives from the supplier (receipt order) or delivers to clients (delivery order).

The reference numbers of these orders (receipt or delivery) must be shown on the stock card.

Copies of delivery/receipt orders are retained in the pre-numbered delivery or receipt book. The delivery/receipt orders are completed in duplicate or triplicate, as necessary.

6.2.4 The cash receipt

Example:

RECEIPT No. _____	Amount _____
Received from _____	
the sum of _____	
for _____	
Place: _____	Date: _____
Name: _____	Signature: _____

What it is and how it is used

The cash receipt is a counterfoil document on which the details concerning receipts of funds are entered.

It gives a full explanation of the cash operation and is documentary evidence for the cash book (see chapter 7.1).

It is generally completed in triplicate: one copy goes to the person paying in the cash, one is the documentary evidence for the cash book and the third remains in the receipt book for control purposes.

The cash receipt book contains numbered receipts, one copy of which may be detached and handed to the payer.

6.2.5 The purchase book

Example:

- Purchase book -

Date	Type of merchandise	Supplier	Quantity	Unit price	Total

What it is and how it is used

The purchase book is the document that records day-to-day purchase operations, showing the quantity and value of the merchandise purchased. It tells us the total quantities of each product purchased and the total sums disbursed for such purchases.

6.2.6 The sales book

Example:

- Sales book -

Date	Item	Client	Quantity		Unit price		Total	
			Cash	Credit	Cash	Credit	Cash	Credit

What it is and how it is used

The sales book is a bookkeeping document that records daily cash and credit sales, showing both quantity and value.

It tells us the total quantities of each product sold for cash or credit, the amounts received for the cash sales and the amounts expected for the credit sales.

7 CASE STUDY: RUNNING A CEREAL SHOP

7.1 Definition

A cereal shop is a cereal trade venture that is set up and managed (in our particular case, in the countryside) by a group of villagers, firstly, to increase their incomes and, secondly, to ensure village food security. It is a profit-making activity (income-generating) even though it contributes to food security by ensuring that cereals are available year-round. It is not a cereal bank, where the primary aim is food security and profit-making is of secondary importance.

7.2 Cereal shop organization

Shop organization reflects the way the group is organized; i.e. a general assembly and a management committee. The general assembly formulates policies and takes important decisions, while the management committee, comprising three to five members, depending on the size of the venture, sees to the smooth running and day-to-day management of the shop. It is the implementation body.

A cereal shop's management documents are:

- the cash book
- the stock book
- the receipt book
- the purchase book
- the sales book, and
- the credit book.

All these documents are kept by the treasurer and the cereal shop stock-keeper, who monitor purchases, storage, sales, bookkeeping and cash management under the supervision of the management committee's chairman and members.

7.3 Management training for management committee members

Training should start before the operation gets underway and should continue at least throughout the first financial year. Training prior to start-up should cover the aims of a cereal shop, the shop's management bodies, purchasing, sales and storage operations and introductory bookkeeping.

Once the operation has got underway more thorough and specialized training will be necessary. The stock-keeper will have to get practical training in storage techniques and stock card-keeping. The treasurer will familiarize him or herself with cash and receipt book keeping and purchase and sales monitoring. This training will be provided for all management committee members so that anyone will be able to step in if another is absent or unable to work for any reason.

Lessons in simple arithmetic will be given to enable management committee members to:

- calculate cost prices
- fix selling prices
- work out profits.

The cereals shop group project will no doubt need to borrow funds from a bank, a development project or an NGO to finance its initial stock, in addition to providing its own

capital and other funds from its own resources. Training in credit and credit mechanisms, e.g. knowing how to make a credit application and how to negotiate with the lender to fix the terms of credit (amount, interest rate, repayment amount, etc.) is indispensable.

The next step is marketing: purchasing and sales. Training for farmers will teach them how to buy and resell in the light of market conditions, calculate purchase and sales prices and monitor the rotating funds.

For instance, commodities should be purchased when the producer prices are at their lowest (i.e. at harvest time), stored (following simple techniques and making sure that storage conditions are appropriate), and sold when market prices are at their highest (for instance just before or during the lean season). Make sure that the selling price includes storage, maintenance and handling costs. This is how we maximize profits.

Let us look at a few definitions and some rules of calculation:

- Purchase price: This is the price at which we obtain cereals from the farmer (or the intermediaries). A cereal shop's cereal purchase price is the price at which the cereals are sold by the producer or intermediary;
- Cost price: This is the purchase price plus all other expenses or costs;
- Selling price: This is the cost price plus the shop's profit.
Purchase and selling prices vary with cereal supply and demand. At harvest time supply is higher than demand, so prices drop. That is the time to buy. At the approach of or during the lean season, however, supply falls and prices rise. That is when we should sell our stocks.
- Margin: This is the difference between the selling price (SP) and the cost price (CP).

7.4 Day-to-day management

Once the management committee has been formed and organized (who does what¹), basic training provided for the committee members, the problem of storage overcome (store built or rented), the cereal market study completed, and credit to finance the initial stock obtained, the shop may begin purchasing and selling, following a strict management system.

All the management documents (printed forms) and other facilities (safe, strong box) should be ready before the operations get underway.

Each operation is recorded as we described above, in chronological order. Do not postpone this task.

* The journal or cash book: see example

This book is kept by the treasurer. All cash receipts and disbursements are recorded, including details of the relevant documentary evidence (reference n°), the designation and

¹ The committee may comprise:

- a Chairman, to coordinate committee activities and monitor operations.
- a Treasurer, in charge of financial operations and bookkeeping and related documents: cash journal, receipt book, etc.
- a stock-keeper/sales assistant, to manage the stock (keep the stock cards and sales book), make sure that foodstuffs are properly stored, and deal with day-to-day sales.
- buyer(s), in charge of purchasing on the various markets in the area and keeping the purchase books.

the amount (receipts in the receipts column, and disbursements in the expenditure column). The totals (receipts and expenditure) will be shown at the bottom of every page. The balance will be obtained by subtracting the total expenditure from the total receipts. This will enable us to check that the entries have been correctly made.

The chairman of the shop's management committee checks the cash book (entries and documentary evidence) and makes sure that the theoretical balance (in the book) corresponds to the cash actually in hand (in the safe). This check may be done regularly (weekly or monthly, for instance) or on a random basis.

* Stock cards: see example

These are kept by the stock-keeper/sales assistant. A separate card is kept for each type of commodity: rice, millet, sorghum or maize. It is filled in and checked, like the cash book, except that these operations are in kind.

An inventory is done regularly to check the general stock situation (the balance shown on the stock sheet for each item is checked against the stock actually in the store). If the stock is properly managed, these two tally. If they do not, we must find out why (check documentation, entries, etc.).

* Receipt books: see example

These are used by the treasurer to issue receipts to the storekeeper/sales assistant for the day's takings, prior to entering the amount in the receipts column of the journal. Bear in mind that a cash receipt is documentary evidence.

* Purchase books: see example

This is kept by the storekeeper/sales assistant who adds up the total quantities of each type of cereal purchased by the purchasing teams and the amounts spent on these purchases. This is done on a daily basis.

The treasurer (or chairman) checks these operations (he divides the sum spent by the unit price). Once this has been done, the quantities purchased are entered on the relevant stock cards.

* Sales books: see example

These are kept by the stock-keeper/sales assistant, who adds up the total amount of each type of cereal sold and hands over all the takings to the treasurer against a cash receipt.

The quantities sold (i.e. that have left the store) are entered on the relevant stock cards.

N.B.:

The cereals should be sold **for cash**, except on rare occasions to particularly trustworthy clients. This is not a cereal bank, but a cereal shop - a profit-making activity. Put up a notice that clients can easily see saying something like:

NO CREDIT SALES

7.5 End of year accounts

* At the end of the financial year:

The shop should draw up the real operating account.

* Real operating account: see example

The cost column (on the left of the table) will show the following quantities and costs:

- cereal purchases
- packaging
- storage costs
- pesticide costs
- transport costs
- salaries (or bonuses) where applicable
- outlays
- etc.

In the right-hand "commodities" column we add up the sales proceeds. Do not forget to add up the value of any remaining stocks.

The difference between the costs and the proceeds gives us the bottom line of the financial year:

- a **profit** when the proceeds are higher than the costs;
- a **loss** when the costs are higher than the proceeds.

* The balance sheet:

This may be established at any time. It shows the shop's financial situation at a given time. Below is an example of a balance sheet:

ASSETS	LIABILITIES
<u>(Where are the shop's assets?)</u>	<u>(Where do the shop's assets come from?)</u>
Premises Office safe Cereal stock Cash in till Receivables	Loan Authorized capital Retained profit

These accounts are called situation accounts, as they tell us at a glance exactly what the shop possesses (furniture, merchandise, cash) and its situation vis-à-vis third parties (suppliers, banks, etc.)

* Using profits:

When good management and dynamic managers produce a profit at the end of the financial year it must be decided what is to be done with the profit. The group's general assembly has the power to decide how they are to be used (see Chapter X).

Part of the profit is usually set aside to make the shop self-funding sooner, and part may be distributed to members in proportion to their contribution in running the shop.

It is always advisable to reinvest rather than spend the profits.

8 OTHER PRACTICAL RECOMMENDATIONS FOR INCOME-GENERATING ACTIVITIES

8.1 *Choosing income-generating activities*

Potential money-making activities should be chosen with great care. Certain precautions should therefore be taken when considering the various options.

Agricultural Production

Bear in mind that this is to be a money-maker and not just a subsistence activity. Our choice of crop should take account of the following:

- the growing cycle should be short (an annual, vegetable crop, preferably);
- to avoid excessive production costs, the crop should not require complicated cropping and maintenance techniques or too much water;
- the harvest should be easy to market to avoid storage costs or spoilage losses;
- in order to justify large-scale production and generate enough income, the end product should have mass-market appeal.

Handicrafts

- The end product should be one for which local demand is high. A careful advance market study should therefore be done to estimate potential consumption;
- The end product should be competitive with similar, imported products in terms of price and quality, otherwise it will be hard to sell;
- The necessary raw materials should be guaranteed, so as to ensure that commodity processing, petty trade ventures, and pharmaceutical product depots do not run out of stocks, which would be contrary to the principles of good management.

8.2 *Planning an activity*

Anticipate all the operations involved

Once we have carefully chosen our activity, we should identify and list all the operations involved in logical and chronological order. This is very important so as to avoid improvising as and when problems crop up.

Schedule the operations

Once the operations have been identified, draw up a timetable for them. This means that all the facilities and resources needed to carry out a given operation must be available in good time to avoid delay and ensure that the other operations begin on schedule.

Estimate funding and input costs

All possible sources of funding must be sought or, at least, anticipated at the start of the crop season or production process. This means that you must:

- objectively assess what raw materials are needed for production;
- estimate the labour needed (outsiders and family members), bearing in mind long-term availability;
- consider several scenarios for each operation, so that if one fails another can be used instead.

Prepare an estimated operating account

This means estimating all disbursements and receipts. This will give some idea of the profit we can expect if everything goes as planned.

The estimated operating account draws the group's attention to possible constraints and bottlenecks, allowing it to reach decisions before actually embarking on the activity.

For example, if estimated expenditure is higher than estimated receipts, the group may decide not to undertake the production or manufacturing activity, or they may seek ways of reducing expenses or increasing receipts. In any event, this decision should be taken before the activity is launched, not when it is already underway.

Calculate actual production costs

Once the production process gets underway, all expenditure must be closely monitored. So as to be sure not to leave anything out, draw up a detailed list of the operations undertaken and the expenditure corresponding to the implementation of each one. This should be done daily as it allows us to:

- see whether our estimates match the facts and, if not, to take the necessary action if the activity's survival is at risk;
- estimate the outlay (expenditure) to implement all necessary operations. This step is all the more important as it saves the group from uselessly freezing money, especially money obtained through external funding.

Make an activity plan

ACTIVITY PLANNING

Type of activity	Timetable											
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec

8.3 Commodity processing as an income-generating activity

If well managed, commodity processing activities quickly generate income. Below are the most important bottlenecks which can bring this type of activity, often managed by women, to a standstill:

- the problem of getting large enough quantities for processing and thus make the most of the labour available, materials and processing equipment. Under-utilization of these inputs and reduced income is the danger. One solution to this problem is to match raw material production to the processing activity.
- the problem of satisfactory product quality. This is mainly because the women do not themselves produce the commodities they process, and so must accept what is available (not always up to standard).

8.3.1 Calculating production costs

a) Calculating the cost of raw material

The cost price of the raw material for processing must be calculated as accurately as possible. The cost components usually included in this calculation are:

- purchase price
- packaging or, where appropriate (e.g. when the product is purchased directly at the farm gate) sacking costs
- transport costs
- miscellaneous costs.

Provided they are all accurately estimated or calculated, the total is the cost price of the raw materials for processing.

b) Incorporating the equipment depreciation cost into the production cost (here the processing cost)

In time, the equipment used to process the raw materials (shellers, graters, mills, presses, etc.) wears out or depreciates. Money must therefore be set aside so that this equipment can be replaced when no longer usable. Two major factors must be taken into account when calculating the amount needed:

- The cost of the equipment: This is its purchase price, which can easily be obtained from the purchase invoices or by asking the group members.
- Its life span: Estimating the equipment's life span depends on how it is used and maintained. Generally speaking, equipment and implements last about three years.

When we have these two pieces of information, we first divide the cost by the life span (number of years), then divide the result by the number of times the processing operation is done per year. This gives us the amount we must add to the production cost to cover equipment depreciation, when calculating selling prices.

Example: the Azovè women's group bought a palm oil press for 150 000 CFAF. They have estimated that they will be able to make 10 batches of oil per year, provided they receive adequate supplies of palm oil nuts. They have also estimated that, given this rate of utilization, the equipment may last as long as three years.

The depreciation value to be added to the oil manufacturing cost for each processing cycle is calculated as follows:

$$\frac{150\,000\text{ F}}{3\text{ years}} = 50\,000\text{ F per year} \qquad \frac{50\,000\text{ F}}{10\text{ batches}} = 5\,000\text{ F per production cycle}$$

This means that for each batch of palm oil produced 5 000 F must be added to the production cost to cover equipment depreciation costs.

N.B.: When several pieces of equipment are used for the same manufacturing operation, the depreciation value is calculated for each separate piece and added to the manufacturing cost.

c) Calculating the cost of labour for processing

This involves evaluating (or estimating) the salary paid (or which would have been paid) to the person(s) working on the processing operation.

We often forget to include labour costs in the production cost, especially in family ventures, such as market gardens, weaving and harvesting activities.

d) The cost of energy used in the processing operation

In certain processing units, the equipment needs energy (fuel and lubricant, etc.) in order to run. If these items are purchased by the group their cost must be calculated and included in the production (or manufacturing) cost.

All expenditure of this type must be recorded, added up at the appropriate time, and included in the production or manufacturing cost.

To sum up, the components to be calculated as production costs are:

- Raw material purchase (or cost) price
- Equipment depreciation
- Labour costs
- Energy costs

8.3.2 Calculating storage costs

The finished product (gari, palm oil, or coconut oil) is not always sent directly to market; the women may decide to wait a while until market prices rise. When this happens, and the commodities have to be stored, the group has two options:

- if they have their own store, then the cost of storing the finished product must be calculated to cover store depreciation. In other words, money must be set aside to rebuild the store when it is old and unusable;
- if the group does not have its own store and has to rent one to store the finished products, the rent must also be entered as expenditure in the operating account.

Depreciation here is calculated in exactly the same way as for the processing material and equipment. The only difference is that the sum is not calculated as a production cost, but only as part of the sale price for the finished products.

The cost of packaging (bags and/or baskets or granaries) must also be added to the depreciation cost.

8.3.3 Calculating selling price

To sum up, in order to calculate the selling price of the processed (or finished) products, we must take account of the following cost components:

- production costs
- storage costs
- the margin or profit that we wish to make from marketing our product.

Example: The TORI BOSSITO group produced 5 000 kg of gari. The production cost was estimated at 500 000 CFAF. The commodity will be stored for three months in a warehouse rented at 3 000 F per month. At the general assembly, the women decided to apply a 10% profit margin. At what price should one kilo of gari be sold on the TORI BOSSITO market?

- The store rental cost will be:

$$3\,000\text{ F} \times 3 = 9\,000\text{ F}$$

- The profit margin of 10% will be:

$$\frac{500\,000\text{ F} \times 10}{100} = 50\,000\text{ F}$$

- The sale price of gari per kilo can, therefore, be worked out as follows:

$$\frac{500\,000\text{ F} + 9\,000\text{ F} + 50\,000\text{ F}}{5\,000} = 111.80\text{ F}$$

Thus, one kilo of gari will be sold in the market for 111.80 F.

N.B.: Should the group have other expenses in addition to those mentioned, they should be included in the total amount. These further costs may be:

- packaging
- handling (loading and unloading)
- transport to market
- taxes and market dues
- caretaker

Members are strongly recommended to do these tasks themselves, as calling in people from outside will only increase the group's expenses and reduce its profits.

9 USING THE INCOME GENERATED BY ECONOMIC ACTIVITIES

When an activity has been well managed and produced a profit, i.e., the proceeds have exceeded the costs, the operators have to decide how to divide up the profits.

9.1 Groups or associations should, before all else:

- a) set aside a sum to cover depreciation. This means setting aside enough to cover the replacement of material and equipment when they become unusable.

The amount will depend on the life span and cost (value) of the material and equipment. For equipment costing 100 000 F and having a life span of five years, the annual amount will be:

$$\frac{100\ 000\ \text{F}}{5} = 20\ 000\ \text{F}$$

To cover total depreciation, this calculation will have to be done for each item of equipment and the results totalled.

- b) set aside a sum for contingencies, i.e. any serious losses the operation may suffer.

Example: Cabbage and tomato producers load a lorry with produce to sell on a nearby village market. As ill luck would have it, however, torrential rainfall on market day makes the road impracticable. Part of the load spoils and has to be sold at half price on another market two days later.

This type of situation is not uncommon in the countryside, and it causes producers huge problems. We therefore strongly recommended that at least 10% of an activity's profits should be set aside to cover losses of this kind.

- c) use their own resources (money and other goods) to resolve the activity's financial problems.

Example: If a group has 100 000 francs and needs to purchase raw material costing 75 000, it would be preferable to dip into its own reserve for this, as banking credit is not easily obtainable, and even if it were, interest payments would probably be rather high. (Remember what we said earlier about using credit wisely).

Group members should be encouraged to tap their own resources and to resort to credit only to top up the group's own efforts.

- d) After provision has been made for depreciation, contingencies and self-financing, the remaining profits may be shared equally among members, or in proportion to their contribution to the operation.

Equal profit sharing: If it is assumed that all members have contributed equally to the profit-making activities, earnings are then divided by the total number of group members and each is allocated an equal share.

Profit-sharing based on each member's contribution: In this case, the profits are shared in proportion to the volume of work put in (this is the basic principle of cooperation). This is a very equitable method of profit sharing, strengthening solidarity and the competitive spirit among members.

9.2 *Income-generating activities run by individuals*

The same provisions should be made for depreciation, contingencies and self-financing.

When dividing up the profits let us not forget that preference should always be given to saving; actively reinvesting in self-financing, or placing the money in an interest-earning deposit account, for instance.

If they carefully build up their savings, the operators may then envisage setting up a small group savings and credit fund which, if well-managed, will gradually solve some of their funding problems.

Pooled savings may also be used to provide loans to members. Such loans would be repayable at a sufficient rate of interest to replenish the fund and maintain its purchasing power.

10 CONCLUSION

This manual is intended to help the grass-roots extension staff who are in daily contact with rural men and women and perceive their need to break out of their isolation and manage better.

These extension agents know that the small farmers are intelligent men and women who have no time for fine words and complicated theories. These are people who are willing to learn and with whom we need a simple approach and simple language to help them understand and accept the proposed innovations.

It is hoped this paper may help in some small way to enhance the quality of the service we all owe to the rural sector.