FINANCIAL EDUCATION

Booklet 2 of 4, Section I: Goals, Income, Expenses, and Budgeting

TEXT HIGHLIGHTED AND BOLDED IN GREEN IS INTENDED TO INFORM THE FIELD AGENT OF INSTRUCTIONS TO BE PROVIDED TO THE GROUP DURING GROUP EXERCISES.

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ENGLISH

You can use the information and exercises in this manual to plan how to work with farmers to develop their agro-enterprises. Every farmer group and every situation is different, so this manual does not try to tell you exactly what to do. Instead, choose those items that you think the farmers need and can benefit from, and use this manual as a basis for building your own series of learning events so you can pass this information on to farmers.

It is important to adapt the exercises, field lessons and quizzes to suit your own situation. Before teaching these materials, review and modify the following elements to your own local situation:

- Names of people, villages, and groups
- Currency
- Amounts of the items shared in the examples. These amounts could vary based on the target group's income levels. If the amounts are either too large or too small, participants may not feel that these tools apply to them.
- Stories. There may be more relevant examples for your community that will better communicate the objectives.
- Items being bought and sold.
- Types of income generating activities.
- When items are sold, based on the local seasons.

Wherever possible, work in a participatory manner with the farmers. This means you should make sure that it is the farmers who are gathering and analyzing information and making decisions that will affect them. Your role is to facilitate their learning, not to do the job for them.

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SECTION I
GOALS, INCOME, EXPENSES, AND BUDGETING

The financial education tools in this module are designed to provide **smallholder farmers** with the knowledge and skills to better manage their money. A smallholder farmer is a person who own a small landholding, generally less than 5 acres (2 hectares), and whose primary livelihood activity is farming. Money management deals with budgeting (tracking of and planning for your income and expenses), savings, and borrowing.

This section is made up of 4 lessons:

1. **Seasonal Calendar**: Most farmers have income that varies each month. A seasonal calendar—essentially a long-term budget—gives you a clear overview of your financial situation for the entire year. It helps you identify times of low/ high income and low/high expenses.

2. **Establishing Goals**: Choosing what you want to accomplish financially is a powerful driving force that will help you to learn and apply these financial tools. It provides a clear marker for achievement once you have reached your goals.

3. **Understanding Income, Expenses, and Creating a Budget**: A budget is a plan for how you will spend your money (expenses) in relation to what you earn (income).

4. **Different Types of Expenses and Application to Budget Tools**: Once you understand how you spend your money, we will look at your needs and wants, as a way to help you prioritize and potentially reduce your expenses. The tools will help you to apply what you have learned to the budget process.

After completing these four lessons, smallholder farmers will have a better understanding of how they use their money and know how to plan for future income and expenses, which can help them towards achieving their financial goals and planning for lean periods.

LESSON 1.
MAKING A SEASONAL CALENDAR

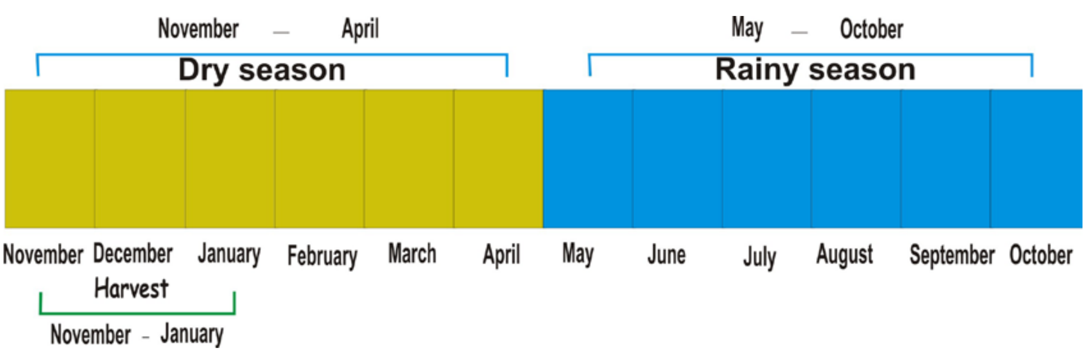
OBJECTIVES

- Describe the parts of a seasonal calendar and how to create your own.

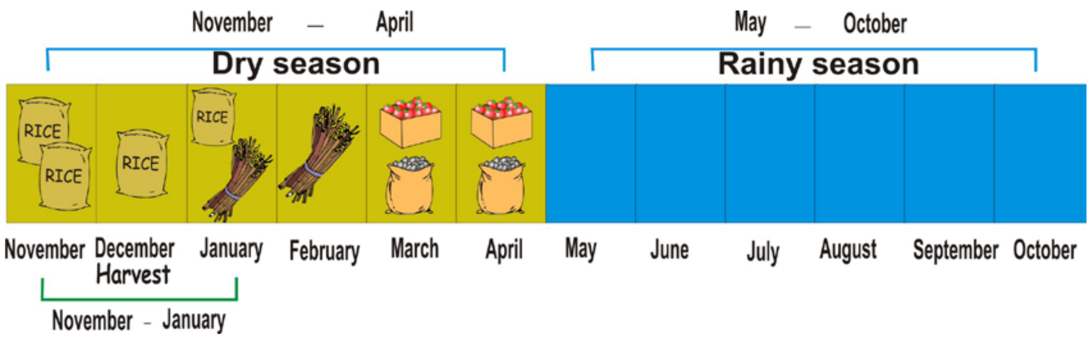
Farmers usually do not have a steady income and make most of their money after the harvest. These types of cyclical earning patterns (earning money only during some parts of the year) are called **seasonal income**. Farmers should try to save as much as possible after receiving their harvest income. This will enable them to use their own money (savings) during lean periods and avoid borrowing money to cover necessary expenses. Looking at **seasonality** helps farmers plan their income and their expenses ahead of time.

A **seasonal calendar** tracks money flows over the course of an entire year. Conditions for farmers change from one season to the next. A seasonal calendar allows farmers to visualize these differences and to identify periods when there is little work, or when resources are scarce. Specifically looking at financial issues, a seasonal calendar provides a helpful overview of your financial situation for the entire year. It is a rough budget for the year that covers six key categories:

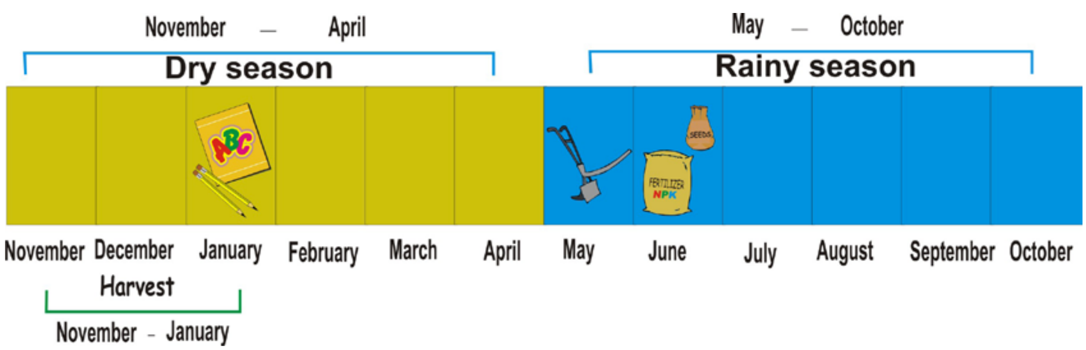
- **Season**. A season is a distinct period of the year characterized by particular conditions of weather, temperature or events. Typical seasons include the harvest season, the hungry/lean and growing season, the rainy season, the dry season, and holidays/festival/celebrations. Thinking about the specific expenses and income during each season helps farmers to better manage their money.



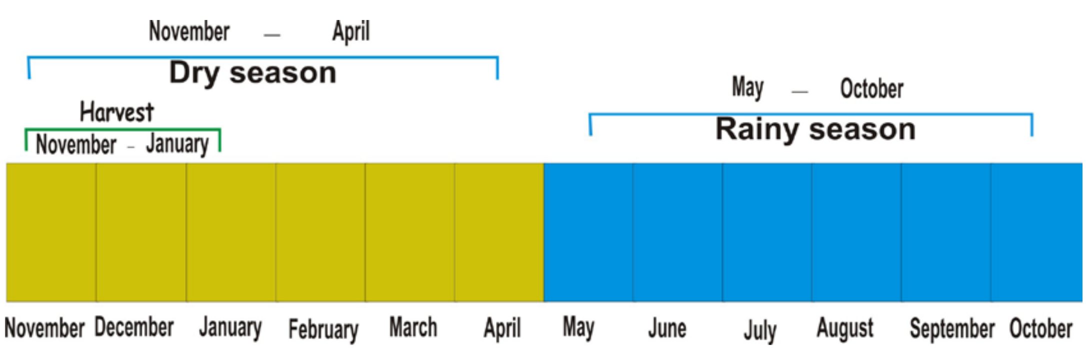
- **Income:** Income is the money that flows into your household. It is the money earned from selling goods, providing services, or other income generating activities. By writing down how much money is coming in during each season, farmers can see when they receive the most money, and when times are harder and little to no money is coming in. During times of high income you should try to save as much as you can.



- **Household expenses**. An **expense** is **money** that you **spend**. Household expenses are the money you spend to manage and run your household. Like income, household expenses fluctuate throughout the year. During the dry season food costs go up. During holidays you spend more money. If you have children in school, their school fees come at various times of the year.



- **Business expenses.** All cost associated with your livelihood are business expenses. During harvest time there are more costs (but there is more work and more income). Planting season has additional costs. Here expenses are recorded and can be compared to income fluctuations.



- **Savings.** Savings is money that you put aside for later. When income is higher, families may have a surplus and should put money aside. These savings can be used during the season when expenses may exceed income to cover this gap.

- **Loans.** Money that you borrow today and must repay in the future is a loan. Sometimes it is impossible to earn and save enough money to cover all household and business expenses. In these situations, you may need to borrow money to pay for these expenses. By recording these borrowing patterns, farmers can anticipate their needs in advance and pick the best loan for their situation. More information on borrowing money will be presented in the borrowing lesson 8. A seasonal calendar helps farmers to link the specific seasonal trends in their income and expenses throughout the year. Regularly recording and comparing expenses with income will give you a good idea of your personal patterns of surplus and deficit throughout the year. Making a financial seasonal calendar will help you to better plan your finances throughout the entire year. this planning will help you to save more during months when you have a surplus to cover expenses for months when you expect to have a deficit.

JACOB AND SARAH'S SEASONAL CALENDAR

Jacob and Sarah want to make a seasonal calendar. to do so, they need to look at how their income and expenses change season by season.

First, they look at their different sources of income and when they earn money from each source.

Note: It may be helpful to think about what expenses you have for each income source and when these expenses occur at the same time. Thinking about the season when money is earned helps to estimate when and how much you earn during the different times of the year. Don't be too concerned with exact numbers. It is more important to make a good guess and keep the numbers simple, such as using 1,000 instead of 1,150.

- **Rice:** Jacob plants rice during the rainy season on one hectare of land. He sells the rice three months later for 1,000 per kilogram right after the harvest and for 1,500 per kilo if he waits and sells the rice 6 months after the harvest. Jacob sells approximately 90 kilograms of rice per year. He splits his sales between right after harvest and 6 months after the harvest. Each year, Jacob must purchase seeds, fertilizer, labor and pesticides to use during the planting season. Jacob must pay monthly storage fees for the rice that he sells 6 months after the harvest.

- **Chickens:** Sarah sells 3-5 chickens per month at around 3,000 per chicken. She has to purchase vaccination powder every 6 months and must buy feed, cereal, and bran on a weekly basis.

- **Vegetables and sesame:** Sarah grows and sells sesame seeds, earning around 150,000 spread out over nine months. Using the chicken droppings as fertilizer Sarah grows onions and tomatoes, mostly as food for her family but also to sell in the market. Onions sell at 500 per kilo, and she manages to grow and sell 200 kilograms of onions per year. To tend to her garden she needs to purchase a watering can, a hoe, a bucket, some rope, and improved variety vegetable seeds.

- **Firewood:** Jacob purchases an annual permit to chop and sell firewood for 5,000. He spends money each year on an axe, sharpening tools, cords, and rope to tie the wood. Each week he hires a cart to bring the wood to the market to sell.

Table Lesson 1.1: Jacob and Sarah's seasonal calendar—Income

SOURCE OF INCOME	SEASON / MONTH												
				PLANTING			LEAN / HUNGRY			HARVEST			
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Rice farming	28,800	21,600									64,800	28,800	**144,000**
Firewood selling	2,000	2,000	2,000	2,000								1,500	**9,500**
Vegetable selling													-
Sesame seeds	19,800	19,800	19,800	19,800	19,800	9,900				9,900	19,800	19,800	**158,400**
Tomatoes	48,000											36,000	**84,000**
Cabbage		48,000	48,000										**96,000**
Onions			48,000	48,000									**96,000**
Chickens	9,000	12,000	15,000	9,000	12,000	15,000	9,000	12,000	15,000	9,000	12,000	15,000	**144,000**
Total Income	**107,600**	**103,400**	**132,800**	**78,800**	**31,800**	**24,900**	**9,000**	**12,000**	**15,000**	**18,900**	**96,600**	**101,100**	**731,900**

Jacob and Sarah listed their expected income by month for each of the products that they sell. It gives them a clear overview as to when their income will be high and when it will be low. One interesting discovery was the importance of chicken raising and how that could be sustained throughout the year. They may want to look for other income generating activities during the leaner months to add to their income.

Their biggest business expenses are in the months of April and May (roughly half of their total expenses), followed by the months of September and October (roughly a quarter of their total expenses). With this knowledge they can develop strategies on how to cover the large expenditures during these periods (save money, take out loans, etc.).

Table Lesson 1.2: Jacob and Sarah's seasonal calendar—Business expenses

BUSINESS EXPNESES	SEASON / MONTH												
				PLANTING			LEAN / HUNGRY			HARVEST			
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Rice farming				92,880		18,576			55,728	18,576			**185,760**
Firewood selling	500	500	500	500								6,000	**8,000**
Vegetable selling													-
Sesame Seeds					18,000					12,000			**30,000**
Tomatoes					18,000						12,000		**30,000**
Cabbage		12,000			18,000								**30,000**
Onions			12,000		18,000								**30,000**
Chickens	1,000	1,000	1,000	6,000	1,000	1,000	1,000	1,000	1,000	6,000	1,000	1,000	**22,000**
Total Expenses	**1,500**	**13,500**	**13,500**	**99,380**	**73,000**	**19,576**	**1,000**	**1,000**	**56,728**	**36,576**	**13,000**	**7,000**	**335,760**

Second, after assessing the seasonality of their business expenses, Sarah and Jacob review their household expenses. Many of these costs are typical everyday costs, such as food, shelter, clothes, and toiletries that will not change much throughout the year. There are other large expenses that come up during particular periods of the year and—if not anticipated—could put a large strain on the family budget.

- **School fees:** Sarah pays school fees for David and Nadine every September, January, and April. Simon will not start school until next year when he turns 5.
- **Ceremonies:** Throughout the year there are various important holidays and festivals. Sarah usually spends more money during these periods on food and gifts for the celebrations.

Looking at their household expenses, the "payment of school fees" is a large expense three times a year. Meeting this cost in September—towards the end of the lean season—is particularly challenging. Understanding how their expenses flow throughout the year, helps Jacob and Sarah to better plan for when they will need more cash.

Table Lesson 1.3: Jacob and Sarah's seasonal calendar—Household expenses

HOUSEHOLD EXPENSES	SEASON												
				PLANTING			LEAN / HUNGRY			HARVEST			
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Food	12,200	13,200	13,200	13,200	13,200	13,200	12,200	12,200	12,200	13,200	13,200	12,200	**153,400**
Firewood	800	800	800	800	800	800	800	800	800	800	800	800	**9,600**
Transportation	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	**30,000**
School fees	10,000				10,000				10,000				**30,000**
Airtime	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	**12,000**
Soap	200	200	200	200	200	200	200	200	200	200	200	200	**2,400**
Ceremonies						15,000							**15,000**
Medicine		1,000		2,000			5,000						**8,000**
Total	**26,700**	**18,700**	**17,700**	**19,700**	**27,700**	**32,700**	**21,700**	**16,700**	**26,700**	**17,700**	**17,700**	**16,700**	**260,400**

Overall Jacob and Sarah were financially successful throughout the year, generating a surplus of 135,000. This surplus was not evenly distributed. Some months had a large surplus, while others had large deficits (especially during the months of greatest expenditures in April and May). Sarah and Jacob can plan to save as much as possible during those months of great surplus, so that they can have money to spend during April and May.

Table Lesson 1.4: Jacob and Sarah's seasonal calendar—Total expenses

HOUSEHOLD EXPENSES	SEASON												
				PLANTING			LEAN / HUNGRY			HARVEST			
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEV	TOTAL
TOTAL EXPENSES	28,200	32,200	31,200	119,080	100,700	52,276	22,700	17,700	83,428	54,276	30,700	23,700	**596,160**
Surplus (Deficit)	79,400	71,200	101,600	(40,280)	(68,900)	(27,376)	(13,700)	(5,700)	(68,428)	(35,376)	65,900	77,400	**135,740**

Finally, Jacob and Sarah can look at how they can save and when they will need to borrow money. If they can save their surpluses during the plentiful months after the harvest, they can use this money to cover the lean times of the year. They may still need to take out loans to cover all their expenses. Understanding these needs in advance will help Jacob and Sarah to have increased motivation to save during the months when they earn more income and think in advance for how they will cover their expenses during the lean months. In the end they benefited because they had to borrow less money than last year. Loans and borrowing will be discussed in more detail in lessons 8 – 11.

Table Lesson 1.5 demonstrates how Jacob and Sarah use their savings from after the harvest to pay for expenses during the lean season. It shows their use of a loan and their loan repayments. The numbers in parentheses are negative numbers and demonstrate when they used savings to pay for expenses.

Table Lesson 1.5: Jacob and Sarah's seasonal calendar—Savings and loans

SAVINGS AND LOAN		SEASON												
					PLANTING			LEAN/HUNGRY			HARVEST			
		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Income	LOAN									50 000				**50 000**
Expense	SAVINGS	79 400	71 200	101 600	(40 280)	(68 900)	(27 376)	(13 700)	(5 700)	(18 428)	(50 376)	50 900	62 400	**140 740**
	LOAN REPAYMENT										(10 000)	(10 000)	(10 000)	**(30 000)**
	INTEREST REPAYMENT										(5 000)	(5 000)	(5 000)	**(15 000)**

The seasonal calendar was a very helpful planning tool for Sarah and Jacob. They could better understand their cash flow and plan for the months when income is low. We will discuss saving and lending options in later modules. A summary version of the seasonal calendar is Table Lesson 1.6.

Table Lesson 1.6: Jacob and Sarah's Seasonal Calendar—Summary

	SEASON/MONTH												
				PLANTING			LEAN/HUNGRY			HARVEST			
ITEM	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Total Income	107 600	103 400	132 800	78 800	31 800	24 900	9 000	12 000	15 000	18 900	96 600	101 100	**731 900**
Business Expenses	1 500	13 500	13 500	99 380	73 000	19 576	1 000	1 000	56 728	36 576	13 000	7 000	**335 760**
Household Expenses	26 700	18 700	17 700	19 700	27 700	32 700	21 700	16 700	26 700	17 700	17 700	16 700	**260 400**
Total Expenses	28 200	32 200	31 200	119 080	100 700	52 276	22 700	17 700	83 428	54 276	30 700	23 700	**596 160**
+Surplus/-Deficit	79 400	71 200	101 600	(40 280)	(68 900)	(27 376)	(13 700)	(5 700)	(68 428)	(35 376)	65 900	77 400	**135 740**
Savings	79 400	71 200	101 600	(40 280)	(68 900)	(27 376)	(13 700)	(5 700)	(18 428)	(50 376)	50 900	62 400	**140 740**
Loan Disbursals									50 000				**50 000**
Repayments										(15 000)	(15 000)	(15 000)	**(45 000)**

The summary Table Lesson 1.6 (above) shows how Jacob and Sarah saved most of their surplus during the months where they earned more. They first used their savings to cover their needs during the lean months and only took out a loan when they had no more savings left.

QUIZ FOR LESSON 1.
UNDERSTANDING SEASONAL A CALENDAR

1. What are the six categories of a seasonal calendar?
   a. Season, income, expenses, savings, loan disbursements, loan repayments.
   b. Season, business expenses, household expenses, income, loans, and savings.
   c. Business expenses, household expenses, income, loan disbursements, loan repayments, and savings.
   d. Business expenses, needs, wants, income, loans, and savings.
   e. Season, expenses, business income, household income, loans, and savings.

2. What is seasonal incomer?
   a. A need.
   b. The amount of money you spend on household expenses.
   c. Earning money during only some parts of the year.

3. What are the two types of expenses in a seasonal calendar?
   a. Business expenses and household expenses.
   b. Loan repayments and seeds.
   c. Savings and school fees
   d. Ceremonies and medicines

Answers are located at the end of this booklet.

FIELD EXERCISE 1.
MAKING A SEASONAL CALENDAR

OBJECTIVE

- Help farmers see how needs and income change throughout the year.
- Make a seasonal calendar.

EQUIPMENT NEEDED

STANDARD	OPTIONAL
• Flip chart paper or large pieces of paper. • Marker pens. • Tape, twine, or string. • A4 size note cards or similar sized pieces of paper. • Small pieces of paper.	• Laminated A4 or letter paper sized cards, with color image of seasonal calendar, no color with two line of 6 months each (landscape), with November to April on the top row and May to October on the bottom row. • Laminated small pictures of different seasonal activities for a total of 12 (one for each month). The picture should fit in the box for the month on the seasonal calendar. Suggested images are: Nov. – 2 bags of rice; Dec. – 1 bag of rice; Jan. – firewood; Feb – vegetables; Mar. – vegetables (more); Apr. – a goat; May – plow and hoe; Jun. – fertilizer; Jul. – deficit (lean season when there is no money); Aug. – deficit (lean season when there is no money); Sep. – school fees; and Oct. – harvest.

EXPECTED OUTPUTS

- Group participants have learned the key elements and the techniques for making a seasonal calendar.
- Farmers will be able to visualize the fluctuations of their income, expenses, savings, and loan use throughout the year.

TIME

- 20 minutes in one session (meeting)

PREPARATION

- Draw a seasonal calendar on the flip chart or on the ground. It should look like “**Table Field Exercise 1.1: Seasonal Calendar,**” but only write down the categories (do not fill out the numbers or items).

SEASONAL CALENDAR (25 MINUTES) SUGGESTED PROCEDURE

- **Tell participants: A seasonal calendar helps us to think about how our income and expenses change from season to season. This is the first step in planning your finances It is important to think about the bigger picture, since the finances of many farmers can change from month to month, based on the production cycle.**
- Choose 4-5 volunteers to demonstrate seasonality analysis. Bring them to the center of the meeting space. Place the seasonal calendar on a table or the ground. Instruct everyone else to gather around where they can see and hear.
- Explain the following different parts of the seasonal calendar to the participants:
  - **Season:** Typical seasons can include a harvest season, a dry season, a rainy season, a hungry/lean growing season. Typical times of holidays or ceremonies. Each season can have different amounts of expected income and expenses. Thinking about specific times or months of the year can help you better plan your income and expenses and when you may need to find more money.
  - **Income:** It will show you when you are receiving the most money (when you should be saving as much as you can) and when times are harder, with little money is coming in.
  - **Expenses:** Expenses go up and down throughout the year. During the dry season food costs go up. During holidays you spend more money. During the planting seasons you have more business costs (seeds, fertilizer, etc.).
  - **Savings:** When income is higher, you may have a surplus. You should save for times when expenses exceed income. Savings can help you to cover the gaps in income during lean periods.
  - **Loans:** Sometimes you will not be able to cover all expenses and investments with the money you earn and the savings you have. During these months you may need to borrow money. By recording these patterns you can anticipate when you have to borrow money, how much, and for what purpose. You will have an overview when you have to make loan payments.

Teaching tip: When preparing the seasonal calendar, use the seasons that are applicable to your area as well as the appropriate months for each season.

- After covering the main ideas, create a seasonal calendar with the participants. Place the counters on the table or ground next to them.
- **Ask**: **Look at the income line. Place four counters on the season when you have the most income. Place one counter on the season when you have the least income.**

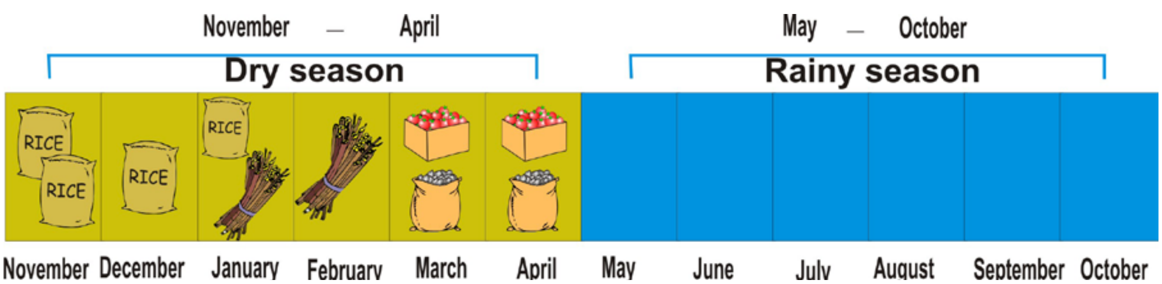
An alternative could be to change the number of counters to colors. Green is for the season that has the most income, blue is for the season with the second most income, yellow is for the season with the third most income, and red is the season with the least income.

When they finish: **Ask: Place two or three counters on the other seasons, depending on how much they earn. Work line by line to avoid confusion.**

- Repeat these steps for expenses, savings, and loans. Keep the activity moving and encourage the volunteers to come to an agreement. Do not spend too much time on any one item.

Table Field Exercise 1.1: Seasonal calendar

	SEASON			
		PLANTING	LEAN / HUNGRY	HARVEST
	JAN – MAR	APR – JUNE	JULY – SEPT	OCT - DEC
Income	***	**	*	****
Expenses	****	****	****	**
Savings	****	*	*	****
Loans	***	****	****	**



- When the entire seasonal calendar is filled, ask participants to take a look. It should look similar to **Table Field Exercise 1.1: Seasonal calendar.** Ask:
  - » **Why is your income greater in ________ season?**
  - » **Why is it smaller in ________ season?**
    (Repeat this question for expenses, savings and loans)
  - » **What are the benefits of a seasonal calendar?**
  - » **How does knowing your high and low periods of income and expenses help you to reach your goals?**
    Answer: You can make a plan to save more money when you have more income. With higher savings, you can perhaps pay large expenses (like school fees or farm inputs) with your own money instead of borrowing. You can wait to make main purchases during periods of high income.

- Allow 2-3 participants to answer the questions and stimulate a brief discussion (not more than 5 minutes). **Say: It is important for good money management to plan for expenses that do not occur regularly. You have mentioned some ways, like saving more or postponing purchases until the money is available. As we see from the seasonal calendar, sometimes income can be irregular.**

When you plan ahead you can think about how you will manage your times of reduced income in advance.

- Give each participant a seasonal calendar handout or draw one on the flip chart similar to Table Field Exercise 1.2 (below). Ask the participants to copy or memorize it. Tell them to think about their own lives.
- **Say: Now you will do the same seasonality calendar for yourself as we did for the entire group.**
- **First, think about your income. Mark an "X" in the same way that we used the counters. Four "X"s for the months in which your income is greatest, one "X" for the months when it is least, and two or three "X"s for the months where it is in between. If there are months when you have no income at all, leave those spaces blank. Do the same for expenses, savings, and loans. I will circulate to help you.**
- Circulate to help participants fill out their seasonal calendars.
- **Say: Continue tracking your income and expenses during the week so we can create a budget together at the next meeting.**

Table Field Exercise 1.2: Examples of seasonal calendars

	SEASON			
	JAN – MAR	APR – JUNE	JULY – SEPT	OCT - DEC
Income				
Expenses				
Savings				
Loans				

	MONTH											
	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC
Season												
Income												
Expenses												
Savings												
Loans												

LESSON 2. ESTABLISHING GOALS

OBJECTIVES

- Describe characteristics of achievable financial goals.
- Describe the difference between vague and achievable financial goals.

Goals are general guidelines that explain what you want to achieve in by a specific time in the future. Many people set goals based on timeframes. There are three key timeframes linked with goals.

1. SHORT-TERM GOALS

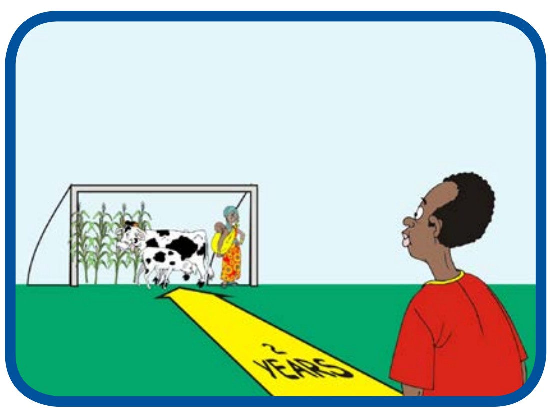
Short-term goals are the things we want to achieve over the next 1-2 months. These goals are things that take some planning; however, they can be done with our current level of education and within our current circumstances.

2. MEDIUM-TERM GOALS

Medium-term goals refer to things we want to achieve over the next 1-2 years. These goals could involve a significant change in our lives since there is time to develop a new skill or save for larger sums of money that may be necessary to achieve a medium-term goal.

3. LONG -TERM GOALS

Long-term goals are things that we want to accomplish sometime in the future. They are our dreams that will take more than 2 years to achieve.



Goals help everyone to prioritize how they spend their time and other resources. It is easy to be focused on today's expenses but forget to plan for tomorrow.

Many goals require money to achieve. **Financial goals** are decisions about how you want to spend your money over a specific period of time. They help you spend your money wisely, limit unnecessary spending, and increase your savings by setting clear goals for how you want to use your money in the future. This lesson will help you examine and define your financial goals.

Achievable financial goals have the following five – **S.M.A.R.T.** - characteristics.

- **Specific**: It has a defined monetary value.
- **Measurable**: It has milestones in place to assess your progress towards achieving your goal.
- **Achievable**: The actions to be taken will allow you to reach your goal. For example, you can break the goal into individual tasks or steps that are easier to complete.
- **Realistic**: It can be achieved given your available resources, which include time, money, support from others, environmental factors, etc. Different goals may have different requirements.
- **Time bound**: It has a specific timeframe or deadline.

Smallholder farmer families may have many goals that they would like to achieve, such as being able to pay for their three children's school fees or making it through the lean season without going hungry.

Mohammed is a smallholder farmer. He has many goals that he has struggled to achieve and would like to earn more income during the next harvest to achieve that goal. Mohammed wants to increase his yield by buying a bag of fertilizer and plans to make that purchase. Mohammed knows that the fertilizer cost 25,000 (about $50). He knows that if he puts money aside that he could probably save the 25,000 by planting season. He keeps thinking that he should put some money aside, but he always spends all of his money. When the planting season begins, Mohammed does not have the money needed to buy the fertilizer and is unable to find a loan for that money, so he plants without it.

» What happened to Mohammed's goal?
Answer: Mohammed had a specific goal to buy a bag of fertilizer for 25,000. He had a timeframe for when he needed the fertilizer, at the beginning of the harvest. He did not set up actions to set milestones that would enable him to see his continual progress towards achieving his goal.

Another farmer, Jacob, and his wife Sarah know that just having goals, such as paying for their children's school fees, is not enough because they have struggled to achieve them. One way to make it through the lean season without going hungry is to earn more income. Jacob knows that using fertilizer will increase the quality and quantity of what they grow, which could help them to earn more income. The planting season starts in 5 months. Sarah and Jacob made a goal to increase their income by planting with a bag of fertilizer that costs 25,000. They would like to make this purchase without borrowing money. They decide to save 5,000 per month until the planting season begins to achieve this goal. To purchase this bag of fertilizer without borrowing money Sarah plans to join a savings group and put aside some money (savings) each week. Every couple of weeks Sarah plans to check with the group secretary to see how much money she has saved. Knowing that they are saving 5,000 each month to invest in farm inputs that will increase their income will help Jacob and Sarah think more carefully about purchases that could prevent them from making their savings investment. When the planting season began, Jacob and Sarah have the 25,000 needed to buy the fertilizer.

- How did Jacob and Sarah achieve their goal?
  Answer: Jacob and Sarah's goal had all of the parts of an achievable goal. It was realistic, as they could save the 25,000 in the five months before the planting season. Similar to Mohammed's goal, the bag of fertilizer had a specific monetary value of 25,000. They needed the money in a 5 month timeframe. They made an action to set aside savings in Sarah's savings group. Finally, they set milestones to check in with the savings group's secretary to monitor their progress.

These financial education lessons will help smallholder farmers to achieve their financial goals by showing that with a good understanding of their expenses and income they can create a plan for how to spend their money. Planning how to spend your money can help you to prioritize putting your money towards your goals.

Field lesson plan 2 will guide participants to think about and identify their financial goals.

QUIZ LESSON 2. ESTABLISHING GOALS

1. Which one of the following is an achievable financial goal?
   a. I want to buy a motorbike in the next two weeks.
   b. I want to buy a goat that costs 20,000.
   c. I would like to earn more money to accomplish my goals.
   d. I will save 5,000 every month in the local cooperative to be able to buy a bicycle for 120,000 in 2 years.

2. A realistic financial goal is:
   a. Something that you can likely achieve within a specific period of time.
   b. Something with markers to assess progress towards the goal.
   c. Something one that does not involve planning

3. Which of the following is a specific financial goal:
   a. I want to buy a piglet to raise and later sell.
   b. I want to buy a plow for $75.
   c. Someday, I would like to buy a half acre piece of land.
   d. I want to save $75 for no specific reason.

4. Creating a milestone can help you to (check all that apply):
   a. rack your progress towards achieving a goal.
   b. Make a plan for how you will reach your goal.
   c. Save more money.
   d. Review your goals to establish better goals.

Answers are located at the end of this booklet.

FIELD EXERCISE 2.
SETTING FINANCIAL GOALS

OBJECTIVES

- Discuss and identify future life goals.
- Discuss characteristics of achievable goals.
- Link these life goals to achievable financial goals.

EQUIPMENT NEEDED

STANDARD	OPTIONAL
• Flip chart paper or large pieces of paper. • Marker pens. • Tape, twine, or string to hang flipchart paper.	• Laminated A4 or letter paper sized cards, with color image on one side and definition on the other side, one each for short-term, medium-term, and long-term goals.

EXPECTED OUTPUTS

- Participants identify their life and achievable financial goals.
- Group members can describe the specific characteristics of an achievable goal.

TIME

45 minutes. This lesson can either be done in one session or split into two shorter sessions.

The first session would focus on short-term, medium-term, and long-term goals.

The second session would focus on setting realistic goals

PREPARATION

- Review lesson 2.
- Review the stories used in the field exercise.

SUGGESTED PROCEDURE

2.1 Tell participants: Before we start learning about financial education, it is helpful to think about our financial goals. Focusing on a specific goal can make it easier to apply the financial tools that we will learn about in these sessions. Tell participants: Take a deep breath and imagine how your life will look 5 years from now. Allow a pause between each question. The purpose of this exercise is self-reflection rather than group discussion. **Say to the participants: Answer these questions silently to yourselves. Ask them:**

- **Where will you be living?**
- **Who will be there with you?**
- **What will your house look like?**
- **Where would you work?**
- **What goals will you have achieved?**

Allow participants to think about their goals for 2-3 minutes as you are repeating the questions. After a few moments, ask 1-2 volunteers to share their dreams with the group. **Optional:** Ask the volunteers to either draw images or write a word describing their dreams on a large paper.

2.2 Place participants into groups of 3-4 people. **Tell participants: I will read you two stories about two farmers, Ibrahim and Michael.**

Story 1: Ibrahim has a dream to make more money. Ibrahim knows that if he has more money, he can purchase many of the things that he and his family want.

Story 2: Michael, too, had a dream to make more money. He made a plan for how he will make more money. He decided he will double the yield of his vegetables and make more money by selling more. Michael has learned that he can increase his yield through the use of fertilizer. He therefore plans to buy a bag of fertilizer for 24,000 in time for the planting season, which starts in 4 months. To buy the fertilizer, Michael will save 6,000 every month starting now.

After reading both stories, **say: Tell me what you think is the difference between the two stories. Which one would be easier to achieve and why.**

ANSWERS

Story 1: Ibrahim's goal is very general. It is a positive goal that many people share. There is no plan for either how he will achieve the goal or what resources he needs to achieve the goal.

Story 2: Michael has a well-defined goal. It is **specific** (doubling vegetable yield). It has a detailed plan and defines the relevant costs (buying one bag of fertilizer for 24,000). this goal has a target date or a **timeframe** (in 4 months). This goal is realistic. It is something that he can achieve based on his current income. This goal has an **action plan** because Michael expects to save 6,000 every month. Finally, he has a way to check his progress over the next four months. These are called **milestones.**

2.3 Repeat the main points why statement 2 is a better goal, writing out **S**pecific, **M**easurable, **A**chievable, **R**ealistic, and **T**ime bound on a flipchart.

ACHIEVEABLE GOALS

- Specific so that it a defined target or value.
- Measurable so that it has milestones in place to measure your progress.
- Achievable so that you specific steps you can take to reach the goal.
- Realistic so that it can be achieved given your available resources.
- Time bound so they have a timeframe with a target date for completion.

If there is time, take some of the participants' examples and fill in the details for each goal. Share that *financial* goals should include the cost of the goal. If you have multiple goals, pick one to work on first.

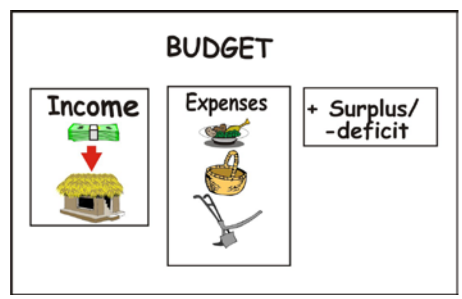
2.4 In closing **ask participants: Please, remember your goals. We will talk about ways to reach your financial goals throughout the training.**

LESSON 3.
UNDERSTANDING INCOME AND EXPENSIVES AND CREATING A BUDGET

OBJECTIVES

- Demonstrate tools that will enable participants to better understand their income and expenses.
- Describe the steps to create a budget.
- Explain how to compare a budget to actual income earned and money spent.

A **budget** is a summary of estimated **income** (money in) and **expenses** (money out) for a specific period of time (such as a week, month or year). Budgeting is an important money management tool that helps you to understand how you earn and spend your money. Anyone can use a budget because it allows you to tailor it to fit your financial realities. a good budget has a detailed list of your various sources of income and your expenses. Expenses should be separated and categorized as **necessary** household expenses (food, shelter, and loan payments), **optional** household expenses (soda or extra clothes), **business expenses**, and **savings** (savings will be discussed in lessons 5 – 7).



Many small farmers use one combined budget for both their household and business expenses. As your farm sales grow and your business develops, your income and expenses will become more complex. Keeping separate budgets for household and business makes it easier to understand your different expenses. **A budget is useful for everyone regardless of income level or financial situation. Anyone can create a budget.** For people with very small incomes, a budget can help them to manage very limited resources.

In the ideal budget, your income is greater than or equal to your expenses. If your budget shows that your expenses are greater than your income, you must correct this difference. You can make this correction by finding additional sources of income such as seeking additional work, taking out a loan, decreasing expenses, or using a bit of your savings. Creating a budget helps you to make these decisions in advance—before you spend any money or realize that you have already overspent. In the budgeting process, you can choose your most important expenses, such as key goals and necessary expenditures. For example, if a farmer wants to purchase a bag of fertilizer, keeping this financial goal in mind will help him refrain from buying soda every day.

A budget is *only a plan* for how you want to spend your money. How you *actually* spend your money based on your day-to-day realities may be different. Since a budget is for a specific period, it is essential to carefully record and track how you actually spend your money and what you earn during that period. Comparing how much you planned to spend and earn with the amount you actually spent and earned can help you to make adjustments to the next budget. As time passes you will be able to create more accurate budgets.

This lesson will cover understanding INCOME, EXPENSES, and drafting a BUDGET.

KNOW YOUR INCOME

Income is the money that flows into your household. It is the **money earned** from selling goods, providing services, or other income generating activities. Money and goods received as gifts, remittances and loan disbursements count as income. To estimate your total income, add up the **total value** of all the money you expect to receive from **all of your different income sources** in a given period. A good way to estimate future income is to track what you earn over a specific period of time, such as a week. There are several main sources of income to consider:

SELLING GOODS

Farmers can earn income by selling harvested produce and animals. Goods include items you make or produce (such as honey, textiles, and baskets) or items that you have bought and are reselling.

PROVIDING SERVICES

Farmers receive money by doing paid work for others.They can work for another farmer, provide special skills (working as a veterinarian or carpenter), or provide special equipment (a plow) for a fee.

LOANS

Money that you borrow today and must repay in the future is a loan. The money you receive from a loan is considered part of your income. It is money in. Loans can come both in cash and as goods (seeds, fertilizer and other farm inputs). The money you use to repay a loan along with the corresponding interest and fees is an expense. It is money out.

GIFTS OR REMITTANCES

Friends and relatives often help each other with gifts of different goods, services, and money.

KNOW YOUR EXPENSES

An **expense** is the **money** you **spend**. One of the first steps of money management is to understand how you spend your money.

A good way to start is to record each of your expenses over a short period of time, such as a week. With this knowledge, you can prepare a realistic budget. ask yourself: Do I need to reduce my spending to achieve my financial goals? Can I afford to buy a new watering can for the garden? Can I cover this year's school fees without borrowing money? Knowing your expenses will give you the answers to these questions.

Planning your expenses for a specific period of time has many benefits. It can help you plan how to cover major expenses and achieve your financial goals. Having a greater goal in mind helps you reduce the temptation to buy things that are lesser spending priorities. You will be aware of the things that are most important for you and how much they cost. It may be helpful to categorize expenses while you are prioritizing. Here are several types of expenses:

HOUSEHOLD EXPENSES

The money you spend to manage and run your household. Jacob and Sarah spend money every week on food, transportation, soda, and airtime. Roughly once a month they spend money on clothing and other treats. And when needed, they spend money on school fees and medicine. For many people, basic household expenses, such as expenses for food, transportation, and shelter, do not vary greatly from month to month. Expenses for items, such as school fees, clothes and phones can vary greatly depending on need.

BUSINESS EXPENSES

All the costs associated with your livelihood. The difference between business and household expenses is not always clear for smallholder farmers because they pay all expenses from the same pool of money. A farmer may have transportation expenses both for his business (to bring the goods to the market) and for personal needs (to visit a relative).

UNEXPECTED EXPENSES

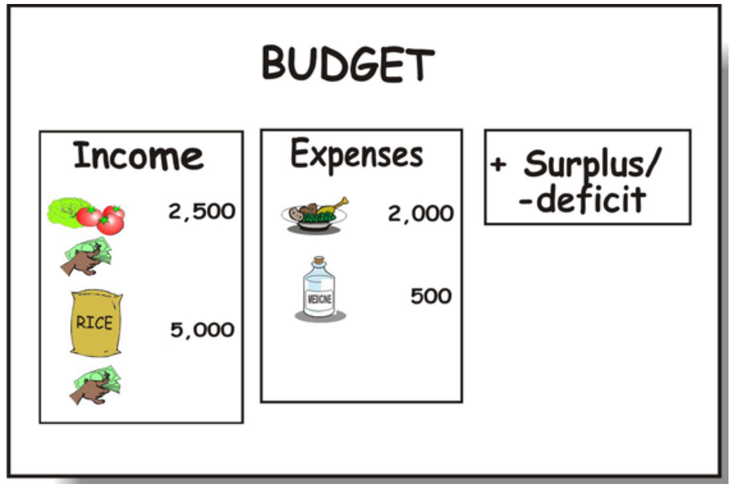
Life has many surprises and unfortunately many of these surprises are unexpected expenses, such as funerals, illnesses, natural disasters, crop failure, family members needing help, replacing broken items, etc.

SAVINGS

Is money that you put aside for later. It is considered an expense in your budget because you are subtracting it from your income and making it unavailable to spend on other items.

DRAFTING A BUDGET

Spending and saving are about making choices on how to use your money. A **budget** is an itemized list of income and expenses for a given period of time. When you make a budget, you are **recording** your **anticipated income** and **making choices** about how you will **spend your money**.



Regularly following a budget can help you to:

1. Reduce stress and anxiety over meeting basic needs.
2. Give you a sense of control over how your money is allocated.
3. Help you to accumulate assets—leading to more stability and improved life quality.

THREE STEPS TO PREPARING A BUDGET

STEP 1: KEEP TRACK OF YOUR DAILY INCOME AND EXPENSES

By recording your income and expenses over a specific period of time you will be able to better understand what happens to your money. It is common for people to spend all the money they make, without knowing exactly where it went. Many farmers depend on seasonal incomes, earning more after the harvest. It is best to save a large part of this money to pay for expenses during the lean season.

Sarah, a farmer, feels that her family is always under financial stress. There never seems to be enough money for emergencies, school fees or special occasions. Sarah's husband Jacob is worried about the rising cost of fertilizer. Sarah wants to be proactive about the family finances and has started to go to weekly meetings about finances given by a new NGO. In last week's meeting, Sarah learned how to record her weekly income and expenses. This week she recorded her income and expenses. It is currently the dry season after harvest.

ACTUAL INCOME (what I earned this week)

Day	Item (Source)	Amount
Sunday		0
Monday		500
Tuesday		0
Wednesday		500
Thursday (Market day)	RICE	10,000 3,500 3,000
Friday		5,000
Saturday		500
Total		23,000

ACTUAL EXPENSES (what I spent this week)

Day	Item	Amount
Sunday		
Monday		200
Tuesday		
Wednesday	SOAP	200
Thursday	SAUCE FLOUR	500 750 5,000 200 600
Friday	Phone minutes	200
Saturday		1,250
Total		8,900

Table Lesson 3.1: Jacob and Sarah's income

ACTUAL INCOME (What I earned this week)

DAY	ITEM	AMOUNT
Sunday		0
Monday	Sarah selling vegetables	500
Tuesday		0
Wednesday	Sarah selling vegetables	500
Thursday (Market day)	Jacob selling rice Sarah selling vegetables Sarah selling one chicken	10,000 3,500 3,000
Friday	Money received from Jacob's brother	5,000
Saturday	Sarah selling vegetables	500
TOTAL		**23,000**

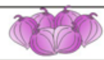
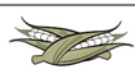
Table Lesson 3.2. Jacob and Sarah's expenses

ACTUAL EXPENSES (What I spent this week)

DAY	ITEM	AMOUNT
Sunday		0
Monday	Cooking oil	200
Tuesday		0
Wednesday	Soap	200
Thursday	Transportation (taking rice and vegetables to market)	500
	Lotion	750
	Staple foods and sauces	5,000
	Lunch for Jacob and Sarah	200
	Soda for Jacob and Sarah	600
Friday	Airtime	200
Saturday	Savings	1,250
	TOTAL	**8,900**
	Income – Expenses	**14,100**

Note that Sarah keeps a daily diary for her earnings and spending. Sarah lists each item separately so she can better understand how she spends and earns her money.

STEP 2: DETERMINE SOURCES OF INCOME AND ESTIMATE TOTAL INCOME

ACTUAL INCOME (what I earned this week)		
Day	Item (Source)	Amount
Sunday		
Monday		500
Tuesday		
Wednesday		500
Thursday (Market day)	 	3,000 10,000
friday		
Saturday		500
TOTAL		14,500

Determine all of your **sources of income** for the coming week or month and **how much** you **expect to earn** from each activity. Using her experience from recording income and expenses, Sarah estimated the family's budgeted income. Some sources of income—like selling rice or vegetables—provide money more frequently, while others will be less frequent – like selling a goat before a festival. To help her make the calculations, based on what she earned the previous week, Sarah first added the money she earned from each of the days when she sold vegetables.

Table Lesson 3.3. Sarah's Vegetable sales

ACTUAL INCOME (What I earned this week)

DAY	ITEM	AMOUNT
Monday	Sarah selling vegetables	500
Wednesday	Sarah selling vegetables	500
Thursday	Sarah selling vegetables	3,500
Saturday	Sarah selling vegetables	500
TOTAL		**5,000**

Sarah found that she earned 5,000 from her vegetable sales throughout the week. Since she expects to have the same amount of vegetables to sell next week, Sarah will budget that she will earn 5,000 from vegetable sales. As they received a gift from Jacob's brother last week, this week she does not expect any additional income.

Table Lesson 3.4: Jacob and Sarah's budgeted income

BUDGETED INCOME (What I plan to earn next week)

ITEM	AMOUNT
Jacob selling rice	10,000
Sarah selling vegetables	5,000
Sarah selling one chicken	3,000
TOTAL	**18,000**

STEP 3: SELECT EXPENSES AND ESTIMATE THEIR COSTS

Choose **all** of the things Sarah and Jacob may plan to **spend** money on and **how much** each item will cost. Sarah is carefully considering the expenditures for the coming week. Last week she bought lotion, so she does not need to buy that again this week. Unfortunately, her watering can has sprung a leak that she cannot fix. She will need to purchase a replacement. Simon told Jacob that he needs more school supplies, another important expense for next week.

Don't forget recurring expenses, such as loan repayments!

Since Jacob and Sarah are saving for the bag of fertilizer, they must remember to add in their savings as part of their expenses. They are saving 5,000 per month, which is 1,250 per week (5,000 ÷ 4 = 1,250). As discussed in lesson 4, many farmers do not earn the same amount of income each month. Savings may vary based on monthly income and do not need to be divided equally. For example, if Jacob and Sarah expected fluctuations in the next four months, They should set different savings goals for each month that still add up to 5,000. Lesson 4 looks at ways to prioritize spending and Lesson 6 looks at how to create a savings plan.

Table Lesson 3.5: Jacob and Sarah's budgeted expenses

BUDGETED EXPENSES (What I plan to spend next week)

ITEM	AMOUNT
HOUSEHOLD EXPENSES	
Airtime	200
School supplies for Simon	1,500
Food for the family	5,000
Lunch for Jacob and Sarah	200
Soda for Jacob and Sarah	600
Subtotal Household Expenses	**7,500**
BUSINESS EXPENSES	
Transportation to take rice and vegetables to market	500
Watering can for Sarah's vegetables	2,500
Loan repayment for fertilizer	2,500
Subtotal Business Expenses	**5,500**
Savings	**1,250**
TOTAL EXPENSES	**14,250**
Income less expenses (18,000 – 14,250	**3,750**

A budget is something that you create before you make or spend any money. You can look back at your budget and evaluate how much you actually earned and how you spent your money. It is helpful to periodically review your budget against your actual expenditures. Your budget can be for any period of time. Pick a period that is useful to you—not too short and not too long. It is helpful to start with shorter periods, like one week, and then when you feel more comfortable with the process to move on to planning a month or longer periods.

- **Too short:** one-day budgets are not very practical for long-term planning. It is important to track your income and expenses daily.
- **Too long:** If the budget covers a period that is too long, such as a year. It is harder to stick to it and the expense estimates are not very precise. Pick a short period that is useful, such as a week or a month, and then move on to planning longer periods. Yearly budgets are very helpful but they won't help you to control your day-to-day spending.

After the week was over, Sarah and Jacob compared their budgeted income and expenses with their actual income and expenses (see **Table Lesson 2.6: Sarah and Jacob's comparison budget**).

Table Lesson 3.6: Sarah and Jacob's comparison budget

INCOME (money in)

SOURCES OF INCOME	BUDGET (HOW MUCH I PLAN TO EARN)	ACTUAL (HOW MUCH I EARNED)
INCOME FROM AGRICULTRUAL ACTIVITIES		
Jacob selling rice	10,000	8,000
Sarah selling vegetables	5,000	5,500
Sarah selling one chicken	3,000	4,000
TOTAL INCOME	**18,000**	**17,500**

EXPENSES (money out)

TYPES OF EXPENSES	BUDGET (HOW MUCH I PLAN TO SPEND)	ACTUAL (HOW MUCH I SPENT)
HOUSEHOLD EXPENSES		
Airtime	200	200
School supplies for Simon	1,500	2,500
Food	5,000	5,000
Lunch for Jacob and Sarah	200	200
Soda for Jacob and Sarah	600	600
Subtotal household expenses	7,500	8,500
BUSINESS EXPENSES		
Transportation to take rice and vegetables to market	500	500
Animal feed		500
Watering can for Sarah's vegetables	2,500	3,000
Loan repayment for fertilizer	2,500	2,500
Subtotal Business expenses	5,500	6,500
Savings	1,250	1,250
TOTAL EXPENSES	**14,250**	**16,250**
Income less expenses	**3,750**	**1,250**

What happened to Jacob and Sarah's budget? They planned to spend 14,250 but they actually spent 16,250! Sarah forgot that she needed animal feed when she made her budget and did not include this cost. Additionally, the watering cans had increased in price.

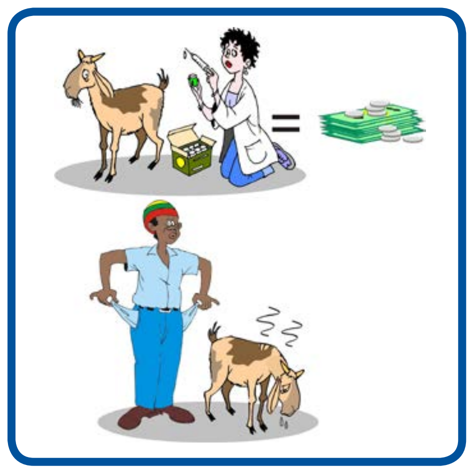
When Jacob and Sarah compared their income and expenditures at the end of the week, they saw that they earned 500 less than planned and spent 2,000_more than planned. after doing several budgets like this one, Jacob and Sarah will be able to create more accurate budgets and better understand their earning and spending patterns.

SURPLUS VS. DEFICIT

If your income is greater than your expenses, you have a **surplus**. A surplus means that you have money left over after you have covered all of your planned expenses. It is money that you can save. Farmers generally have surpluses when they sell their goods after the harvest. It is a good idea to make regular savings payments during times of surplus. Over time you will discover that even saving small amount regularly can really add up.

In the previous example, Jacob and Sarah's budget had a surplus of 3,750 (budgeted income 18,000 minus budgeted expenses 14,250). Their actual income was 17,500 and their actual expenses were 16,250. Jacob and Sarah's actual surplus of 1,250 was half of what they expected. They can save their surplus to help them achieve their financial goals.

If your expenses are greater than your income, then you have a deficit. A deficit means you did not make enough money to cover all of your expenses. Jacob and Sarah only earn 4,000 per week during the lean season. If they have 6,000 of expenses that week, then they would have a deficit of 2,000. Many farmers have several periods of surplus and several periods of deficits during the course of a year. The key point is to save money during the periods of surplus to help you cover the periods of deficit.



Small budget variations in actual income and expenses occur frequently. If your budget has large variations, it is a sign that you could be underestimating or overestimating. In this case, review your budgets to make sure the amounts are realistic.

KEY TERMS IN LESSON 3:

Budget	Estimated summary of income (money in) and expenses (money out) for a specific period of time (such as a week, month or year).
Income	Money that flows into your household (money in).
Expenses	Money you spend (money out).
Savings	To put aside money so that you can use it in the future.
Deficit	The money that is needed to cover expenses when expenses are greater than income. This is the amount that will either need to be pulled from savings or taken as a loan.
Surplus	The money remaining when income is greater than expenses.

QUIZ FOR LESSON 3.
BUDGET, INCOME AND EXPENSES

1. Select all of the items from which you consider income (money in).
   a. Selling goods
   b. Providing services
   c. Loan repayments
   d. Gifts and remittances
   e. Savings
2. Select the right definition for deficit.
   a. A deficit is when you have money left over after you have covered all of your planned expenses.
   b. A deficit is when you did not make enough money to cover all of your expenses.
3. Separate the following items between income, household expenses, and business expenses: (a) loan disbursement for school fees, (b) loan repayment for donkey purchase, (c) payment of school fees, (d) food for the family, (e) transportation of goods to market, (f) vegetable sales, (g) mat sales, (h) seed for vegetables, and (i) medicine.

INCOME	HOUSEHOLD EXPENSES	BUSINESS EXPENSES
1. ______	4. ______	7. _______
2. ______	5. ______	8. _______
3. ______	6. ______	9. _______

4. Take Jacob and Sarah's income tracking sheet from last week (week 1) and use it as the basis for their budget for next week (week 2). Sarah and Jacob expect to have similar sales in both week 1 and week 2. Except for the seed purchase, Sarah and Jacob expect to have similar expenses for both weeks. Note that the seed loan repayment will start in week 2, with a payment of 2,000 per week.

ACTUAL INCOME (What I earned in week 1)

DAY	ITEM	AMOUNT
Sunday		0
Monday	Sarah selling 1 chicken Loan disbursement for seeds	3,500 10,000
Tuesday	Sarah selling vegetables	1000
Wednesday	Sarah selling vegetables	500
Thursday	Jacob selling rice Sarah selling vegetables Sarah selling one chicken	8,000 2,000 3,000
Friday		0
Saturday	Sarah selling vegetables	500
	TOTAL	**28,500**

ACTUAL EXPENSES (What I spent this week)

DAY	ITEM	AMOUNT
Sunday		0
Monday	Cooking oil	200
	Airtime	500
Tuesday	Seeds	10,000
	Lunch at seed market	200
Wednesday	Soap	200
Thursday	Transportation (taking goods to market)	500
	Food for the family	5,000
	Lunch for Jacob and Sarah	200
	Soda for Jacob and Sarah	600
Friday	Airtime	200
Saturday		0
	TOTAL	**17,600**
	Income – Expenses (+ Surplus / - Deficit)	**+ 10,900**

BUDGETED INCOME (What I plan to earn next week)

ITEM	AMOUNT
1. ___________	4. ______________
2. ___________	5. ______________
3. ___________	6. ______________
TOTAL	**7.** ______________

Answers are located at the end of this booklet.

FIELD EXERCISE 3.
UNDERSTANDING INCOME AND EXPENSES AND CREATING A BUDGET

OBJECTIVES

- Identify common sources of income and common expenses.
- Develop and understand the parts of a budget.
- Understand how to review income and expenses.

EQUIPMENT NEEDED

STANDARD	OPTIONAL
• Flip chart paper or large pieces of paper. • Marker pens. • Tape, twine, or string. • A4 size note cards or similar sized pieces of paper. • Blank pieces of paper for each participant. • 50 Counters – use bottle tops, paper clips, small stones, etc.	• Laminated A4 or letter paper sized cards, with color image on one side and definition on the other side, one each for selling goods, providing services, loans, gifts or remittances, household expenses, business expenses, unexpected expenses, and savings. • Laminated A4 or letter paper sized card with color image of table for “Actual income (what I earned this week)” on one side and table for “Actual expenses (what I spent on this week)” on the other side. • Laminated A4 or letter paper sized card with color image on one side and definition on the other side, one each for surplus and deficit.

EXPECTED OUTPUTS

- Group members know the definition of a budget.
- Group members are able to identify their main expenses.
- Group members are able to identify their main sources of income.
- Group members understand how to review their own income and expenses.

TIME

- **75-90** minutes. This lesson should be divided into 2 sessions (meetings) of 35-45 minutes each.
- The first session should cover definition of a budget and part of creating a budget as a group
- The second session should cover the rest of creating a budget as a group and separating your business and household expenses

PREPARATION

- Review and understand key terms.
- Prepare to show participants how to make the charts and tables. Encourage participants to purchase a notebook, ruler, and pencil to use in the lessons. showing participants how to create the tables will allow them to make it on their own the next time.
- Practice tracking your own daily income and expenses and creating your own budget for at least two weeks before teaching this session.

DEFINITION A BUDGET (15 MINUTES), SUGGESTED PROCEDURE

3.1 **Tell participants:** **Today we will talk about a very important financial management tool – a budget. What is a budget?**

3.2 Allow 2-3 participants to give their ideas and definitions. Read the following definition (and write it on a flip chart for mostly literate groups):

A budget is a summary of the money you expect to come in (income / money in) and how it will be spent (expenses / money out) over a specific period of time.

3.3 Connect the ideas participants shared about a budget to the definition above (if relevant). **Tell them:** **Money management helps you to better understand the money coming into and out of your household and business. A budget is an important money management tool. it helps you understand and track your income (money in) and expenses (money out) over a certain period of time, such as a week or a month. it is more than just a plan of how to spend your money. it helps you divide your income among all of your different expenses.**

A budget is useful for everyone – regardless of your financial situation. after you become more comfortable with the process, you can make separate budgets for your business and your household. Today, we will focus on a budget that combines your household and business income and expenses.

KEY TERMS IN LESSON 3:

- Budget
- Income
- Expenses
- Savings
- Deficit
- Surplus

Note: Refer to page 20 for the definitions of these key terms.

3.4 Ask participants: Based on our definition of a budget, what information must you understand about your household and business before you can create a budget?

Answer: How much money I spend (my expenses) and how much money comes in (my income).

CREATE A BUDGET AS A GROUP (40-45 MINUTES), SUGGESTED PROCEDURE

3.5 Tell participants: Let us make a budget together! We will create a budget for a family. Let us decide on the names, ages, and activities for a typical family. Many of our financial education exercises will follow this family.

For example, Jacob and Sarah are married and in their early 30s. Jacob and Sarah have three children: David age 12, Nadine age 8, and Simon age 4. Jacob is a rice farmer. Sarah raises chickens and grows sesame, onions, tomatoes, and chickens.

Do not spend too much time on this step.

3.6 Draw a picture of the family on a flip chart. (You can bring a picture with you if you do not have a flip chart.)

3.7 Tell participants: Let us help Jacob and Sarah better manage their money by creating a budget for one week. Before they create their budget, Jacob and Sarah must first understand their expenses and income.

» **What expenses do Jacob and Sarah have? Remember that expenses are money out.**

Answer: There are four primary categories of expenses:

- **household expenses** (food, school fees, medicine, housing, weddings);
- **business expenses** (farm inputs, such as seeds and fertilizer; and loan payments, although loan payments could be either a household or business expense),
- **unexpected expenses** (emergencies, funerals), and
- **savings**.

Try to probe the group until there are examples from each category.

FACILITATOR'S NOTE

It is important to change the example of the family to include names and activities that are similar to the families in your community. You can either let the group decide on this information or create your own example and present it directly to the group.

Draw or write each answer on a card. Continue to probe until you have most of the following expenses. Place the cards on the left-hand side of the picture of Jacob and Sarah. Your illustration should look something like this:

3.8 Now move on to income. **Ask participants to: Think about the different sources of income:**

» **Where does Jacob and Sarah's money come from?**
Answer: There are four primary categories of income: selling goods (chickens, vegetables, rice, homemade items); providing services (working on other farms, gardening); loans (loan from a savings group); and **gifts** or **remittances** (from relatives or friends).

Draw or write their answers on cards, and place these to the right of the picture of Jacob and Sarah. Continue to probe until you have most of the following sources of income. Your illustration should look something like this:

3.9 Draw a blank weekly income and expense tracking sheet on the flip chart and have each person draw a similar chart on their own paper. For non-literate groups, they can draw pictures for the days and make markings for the amounts, such as = 500.

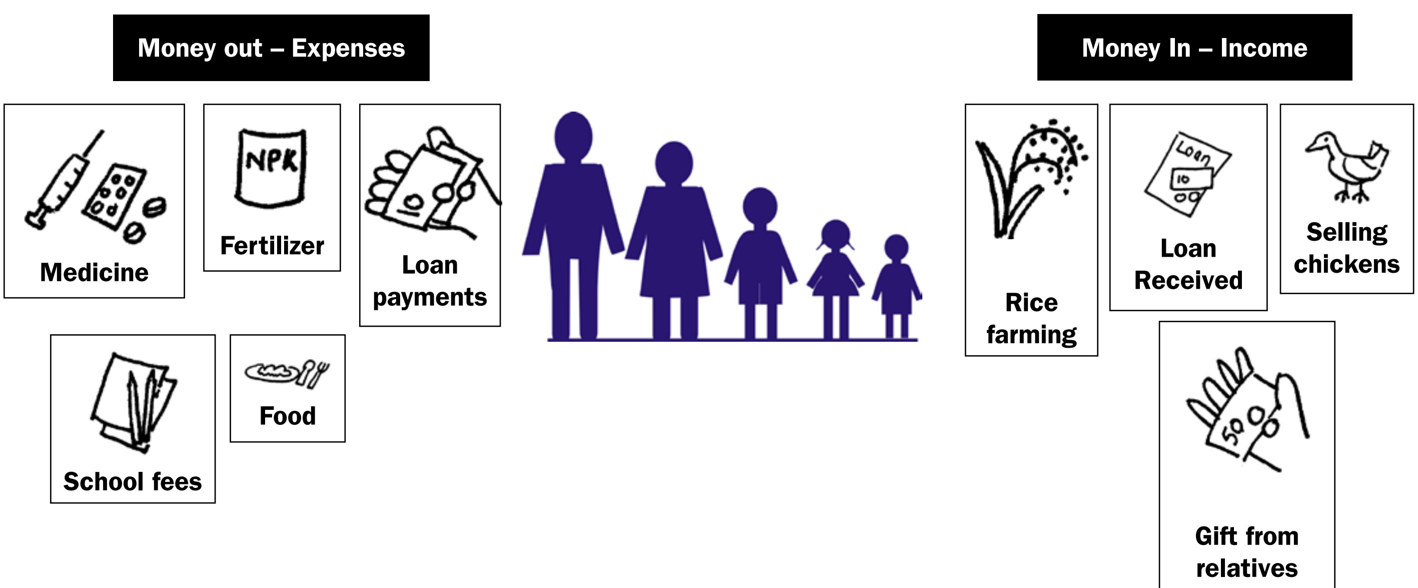


Table Field Exercise 3.1: Income Tracking Sheet

ACTUAL INCOME (What I earned this week)

DAY	DATE	ITEM	AMOUNT
Sunday			
Monday			
Tuesday			
Wednesday			
Thursday			
Friday			
Saturday			
TOTAL			

Table Field Exercise 3.2: Expense Tracking Sheet

ACTUAL EXPENSES (What I spent this week)

DAY	DATE	ITEM	AMOUNT
Sunday			
Monday			
Tuesday			
Wednesday			
Thursday			
Friday			
Saturday			
		TOTAL	
		Income – Expenses (+ Surplus / - Deficit)	

3.10 Split the participants into groups of 3-4. Read the following scenarios for each day of the week and have each group note their income and expenses for that day. Remind the group that they are the family we have described earlier and their income and expenses should be similar to that of the family. Read each day's activities slowly and repeat whenever necessary.

OPTIONAL – Have each group use a calculator or the calculator function on a mobile phone to separately add their total income and expenses for the week, explaining that the numbers may slightly vary. Ask the different groups to share what they learned by doing this exercise.

Sunday	You work on family chores at home.
Monday	A neighbor comes to your gate to buy tomatoes. You sell them for 500.
Tuesday	It is laundry day. You purchase soap for 200.
Wednesday	You sell your vegetables for 500 to the corner store.
Thursday	It is market day. At the market you sell most of your goods for the week. Today you sold rice for 5,000, 1 chicken for 3,000 and vegetables for 2,000. You make most of your purchases today. Food for the week cost 4,800. Don't forget to include money you spend on transportation to and from the market (1,000) or food you buy at the market (200 for soda) that you eat while you are there. School supplies for Simon cost 1,500.
Friday	A family member sends you 10,000. You buy airtime for 200.
Saturday	You sell more vegetables to the corner store for 1,000 and put 1,200 in savings with the local SACCO.

3.11 Tell the groups that the first step in creating a budget is to understand your current income and expenses. Ask groups if they would feel confident in doing this same exercise with their own families for the week. Encourage group members to use a similar method to track their own income and expenses over the coming weeks. Remember that communication and planning with the whole family is key and that they need to track everything!

3.12 Draw a blank chart of Jacob and Sarah's budget (see Table 3.3. Jacob and Sarah's budget for next week). Be sure to create space for INCOME (money in), EXPENSES (money out), SAVINGS, and SURPLUS / DEFICIT. The table is filled in with values to provide an illustration. Your example with the group will most likely have different categories and values.

Table Field Exercise 3.3. Jacob and Sarah's budget for next week

BUDGET FOR NEXT WEEK	
INCOME (MONEY IN)	
SOURCES OF INCOME	BUDGETED INCOME (HOW MUCH I PLAN TO EARN)
Selling rice	5,000
Selling vegetables	4,000
Selling chickens	3,000
Money from family member	10,000
TOTAL INCOME	**22,000**
EXPENSES (MONEY OUT)	
TYPES OF EXPENSES	BUDGETED EXPENSES (HOW MUCH I PLAN TO SPEND)
Airtime	200
School supplies for Simon	1,500
Food	4,800
Soda for Jacob and Sarah	200
Transportation to and from the market	1,000
Soap	200
Savings	1,200
TOTAL EXPENSES	**9,100**
Surplus or Deficit (Income – Expenses)	**+ 12,900 (22,000 – 9,100)**

3.13 Tell the participants: Using the income and expenses tracking sheets we just created, we are going to help Sarah and Jacob create their budget for next week. in creating Sarah and Jacob's budget think about the following things:

- **Was the money they received last week typical? did they receive any extra unexpected income last week? (Remember the gift from the family member.) Was their income smaller than expected last week? (Could someone not work due to illness?)**
- **Do they expect to receive any additional income this week? if yes, from what and how much?**
- **Do they expect their income to decrease this week? if yes, why and by how much?**
- **Were their expenditures last week typical? did they have any extra expenses last week? Were their expenses less than normal last week? (On Sunday, Sarah stayed home, normally Sarah spends money on a taxi**

to visit her cousins.)

» **Do Sarah and Jacob plan to make any additional expenditures for this week? If yes, from what and how much?**
» **Do they plan to decrease their expenditures this week? If yes, from what?**
» **What should Jacob and Sarah do if they earned or spent less than usual last week?**
[**Answer:** Either add or subtract those amounts from next week's budget.]

3.14 **Tell participants:** **Based on your answers, we're going to use the amounts you determined in your groups that Jacob and Sarah actually earned and spent last week to determine their budget for next week.**

3.15 Ask one of the participants to tell us the definition of income. After receiving a correct response **say:** **To make a budget we write down all of our income sources and how much we expect to receive. adding up the values gives the total income.** (Point to the total Income line.)

3.16 Ask for another participant to tell you the definition of expenses. After the participants say the correct response **say:** **We will estimate all of our expenses and how much we plan to spend. adding up the values gives the total expenses.** (Point to the total expenses line.)

3.17 Explain the remaining parts. **Say:** **When you subtract the total expenses from your total income you will either have a surplus or a deficit.**

- **Surplus: This is when you have money left over. This means you earned more money than you spent.**
- **Deficit: This is when you spent more money than you earned (probably by using your savings or borrowing to pay for the difference).**
- **Savings: This is when you put money aside to use sometime in the future. In this example, Jacob and Sarah decided to save 10 percent of their income. We will talk about this in much more depth in later sessions. For now, just know that it is one of the expenditure items.**

3.17 **Tell participants:** **We will now fill in the categories and amounts for Sarah and Jacob's budget.** Write them down on the board or the ground. **Ask participants:** **Give us an amount for each of the income and expense items.**

Don't spend too much time debating the amount. This is just practice to see how to analyze income and expenses.

3.18 Once you have amounts for each income or expense item, instruct participants to work in groups of 2-3 to add up the total income and total expenses. **Ask:** **Can one group share your answer for income and another group for expenses?** Write the correct answers in the lines given.

Ask participants:

- **Do Jacob and Sarah have a surplus or a deficit this week?**

If Jacob and Sarah have a surplus, **ask:**

- **How could Jacob and Sarah use their surplus?**

  Answer: They could save the money, invest it in their agriculture activities, spend it on a needed household item, or spend it on something they want.

If Jacob and Sarah have a deficit, **ask participants:**

- **How will Jacob and Sarah make up that money?**

  Answer: They could spend less on an unnecessary item, borrow money, or take money from savings.

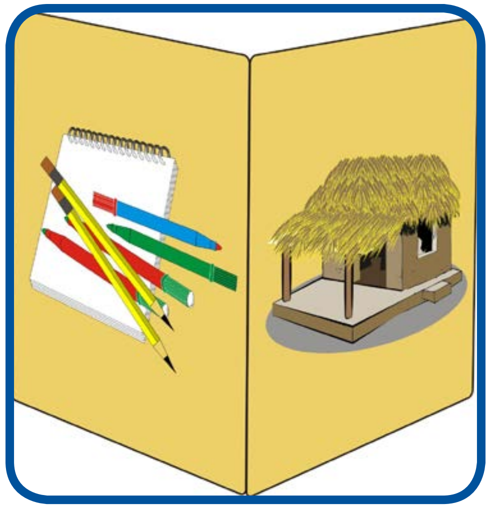
SEPARATING YOUR BUSINESS AND HOUSEHOLD EXPENSES. SUGGESTED PROCEDURE (20-30 MINUTES)

3.19 The following game will help participants to think about separating business and household expenses.

Say: **We will do a quick exercise. This exercise involves moving around. I will read a list of expenses, one by one. If you think the expense is related to business or work, move to your left** *(point to the participants' left).* **If you think the expense is related to home or family, move to your right** *(point to the participants' right).*

Read the list of expenses and have one person from each group (left and right side) explain why they chose to stand in that group. Feel free to replace the ideas below with ideas that fit your target population.

SCHOOL FEES (HOME/FAMILY)



TRANSPORT TO SELL ITEMS IN TOWN (BUSINESS/WORK)

ANIMAL FEED (BUSINESS/WORK)

MEDICINE FOR A SICK CHILD
(HOME/FAMILY)

FOOD FOR CHILDREN
(HOME/FAMILY)

SEWING MACHINE FOR
DRESSMAKING (BUSINESS / WORK)

3.20 When you have finished, ask the entire group:

- **What are other expenses related to work or business?**
  Answer: Business expansion, transportation of goods, repairs and maintenance, insurance of goods, salary and wages

- **What are other home expenses?**
  Answer: medical expenses, food, donations, holiday-related expenses.

- **Why is it important to think about home and business expenses separately?**
  Answer: to better understand your business profit and plan to prevent eating into the inputs you need to make your business grow.

3.21 Optional: **Tell participants: The first step to creating accurate budgets is to understand your income and expenses. I would like to ask you to track all your income and expenses over the next week using this analysis sheet.** Give participants each a copy of Table Field exercise 2.4: Income and expenses analysis sheet.

Please share the tips for making a budget.

Tips for understanding your income and expenses

1. Keep a daily diary of your income and expenses.
2. Create separate lists for your income and expenses.
3. Be as detailed as possible. List each income source and expense separately.
4. When recording income, some people find it helpful to note how many
5. Items they sell for how much money, such as 2 chickens at 3,500 each, which equals 7,000.
6. Don't forget to include savings as one of your expenses!

As an **alternative** you can draw it on a large paper or the ground for participants to copy. By allowing participants to copy the tables, they can easily make another table for the following week. If your participants are illiterate or semi-literate, explain that they can draw pictures or symbols for the different items and use tally marks.

Table Field Exercise 3.4: Income and expenses analysis sheet

ACTUAL INCOME / MONEY IN (What I earned this week)

DAY	DATE	ITEM	AMOUNT
Sunday			
Monday			
Tuesday			
Wednesday			
Thursday			
Friday			
Saturday			
TOTAL			

ACTUAL EXPENSES / MONEY OUT (What I spent this week)

DAY	DATE	ITEM	AMOUNT
Sunday			
Monday			
Tuesday			
Wednesday			
Thursday			
Friday			
Saturday			
		TOTAL	
		Income – Expenses (+ Surplus / - Deficit)	

3.22 Ask if there are any questions and answer them quickly. Congratulate everyone on a job well done!

LESSON 4.
DIFFERENT TYPES OF EXPENSES AND REVIEWING YOUR BUDGET

OBJECTIVES

- Describe the difference between needs and wants.
- Explain ways to prioritize expenses.

NEEDS AND WANTS

Needs are expenses that are absolutely necessary, such as food and shelter. **Wants** are optional purchases, such as buying a soda or grilled meat at the market. A well-defined financial goal provides strong motivation to save and reduce spending on unnecessary wants. For example, Jacob's goal is to purchase a bag of fertilizer for 25,000 before the planting season without having to borrow money. If Jacob buys a soda for the entire family each week at the market it will cost him 3,000. One soda costs 600. Jacob's family has 5 members. If Jacob decides not to buy soda for a month he can save 12,000 (4 x 3,000). Since the bag of fertilizer costs 25,000, the savings on soda is almost half the cost of the fertilizer. Knowing that the money would go for something very important for his family – the bag of fertilizer – made it easier to give up the sodas.

Some items might be needs for some people and not for others. For example, Jacob uses his mobile phone to communicate with traders and get information on pricing, so the cost of airtime is critical for his livelihood. For others, such as Jacob's daughter Nadine, who do not use a mobile for their livelihood activities, owning and using a mobile phone is more of a want.

When creating a budget put your expenses in categories. First look at the needs (they are of highest priority) and then continue to the wants.

PRIORITIZING YOUR EXPENSES

Most people earn less income than what they need to purchase everything they need or want. to help you decide which expenses to prioritize and include in your budget, label each expense as a need or a want. It may be helpful to draw pictures of your expenses and separate them. some expenses, such as airtime, may be both a need and a want. You can create a third group for expenses like those.

After you have separated your expenses, it will be easier to decide what to cut from your budget based on your expected income. You may choose to add in savings towards one of your financial goals. You can review your expenses to see which ones are most important to have now and those that can be purchased at a later time.

REVIEWING YOUR BUDGET

After the period of your budget has passed, you can compare your real expenses and income from what you planned in your budget. this comparison can help you to determine how realistic your budgets are. It will allow you to decide if there are ways you want to change your spending to help you achieve your goals.

QUIZ FOR LESSON 4.
DIFFERENT TYPES OF EXPENSES AND REVIEWING YOUR BUDGET

1. Match the word to the correct definition.

Word	Definition
1. Want ________	a. Something that depends on the purpose for which it is purchased.
2. Need _______	b. Optional purchases
3. Both a need and a want _______	c. Expenses that are absolutely necessary, such as food and shelter

2. Prioritizing expenses between needs and wants allows you to do the following: Note all that apply.
   a. Decide which expenses are more important to include in a budget.
   b. Decide what I may not need now and can wait to purchase.
   c. Ensure that I can purchase all of my wants.

3. Select the correct definition for each picture:

Picture	Definition
1. 	a. Need b. Want c. Both a need and a want
2. 	a. Need b. Want c. Both a need and a want
3. 	a. Need b. Want c. Both a need and a want

Answers are located at the end of this booklet.

FIELD EXERCISE 4.
DIFFERENT TYPES OF EXPENSES AND REVIEWING YOUR BUDGET

OBJECTIVE

- Make a distinction between items that are needs and those that are wants.
- Understand the difference between business and household expenses.
- Learn how to make spending decisions, by examining common expenses and their associated cost.
- Help farmers to apply their knowledge of income and expenses to analyzing consecutive budgets, identifying trends.
- Guide farmers through the process of analyzing a sample budget.

EQUIPMENT NEEDED

STANDARD	OPTIONAL
• Flip chart paper or large pieces of paper. • Marker pens. • Tape, twine, or string. • A4 size note cards or similar sized pieces of paper. • Small pieces of paper.	• Mobile phone (or calculator) to be able to demonstrate calculator functions (+, -, x, ÷) • Laminated A4 or letter paper sized cards, with images of needs and wants. Suggested images (as found on pages 96-97 of booklet 3 of 4 – one per page): (a) plow and hoe, (b) dress and shoes, (c) lotion, (d) mobile phone, (e) chickens, (f) pots and pans, (g) bed and chest of drawers, (h) small house, (i) new shoes, (j) school supplies; and (k) seeds and fertilizer.

EXPECTED OUPUTS

- Group members understand the difference between needs and wants and have sorted common household expenses along these categories.
- Group members are able to separate their business and household expenses.
- Group members are better able to prioritize their spending needs and adjust their personal budgets based on their priorities.
- Group members understand how to analyze budgets and identify trends and key points (regarding their income, expenses, surplus and deficit).
- Group members have analyzed the sample budget.

TIME

- 45 minutes in one session (meeting)

PREPARATION

- Gather the card needed for the needs and wants activity.
- Prepare chart and potential expenses for the spending game.
- Prepare charts for the budget analysis and personal budget exercise.
- Prepare your own personal budget as practice before the Field exercise.

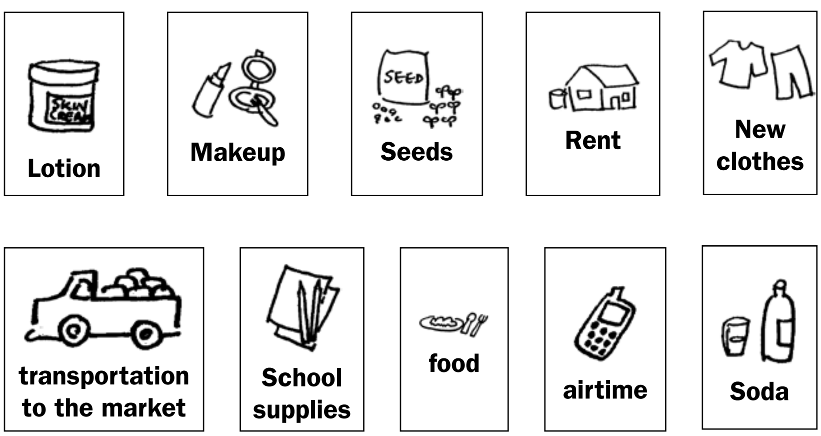
Facilitator's note: It may be easier for you to have some ideas of estimated costs to reduce discussion time on the amounts.

WANTS AND NEEDS SUGGESTED PROCEDURES (15 MINUTES)

4.1 Ask participants: What are some of the things that you and your family spend money on each month and how much do each of these items cost?

Allow all participants to give their ideas, but do not allow too much debate. Write down or draw 8-10 items and their costs on cards and display them for the group to see.

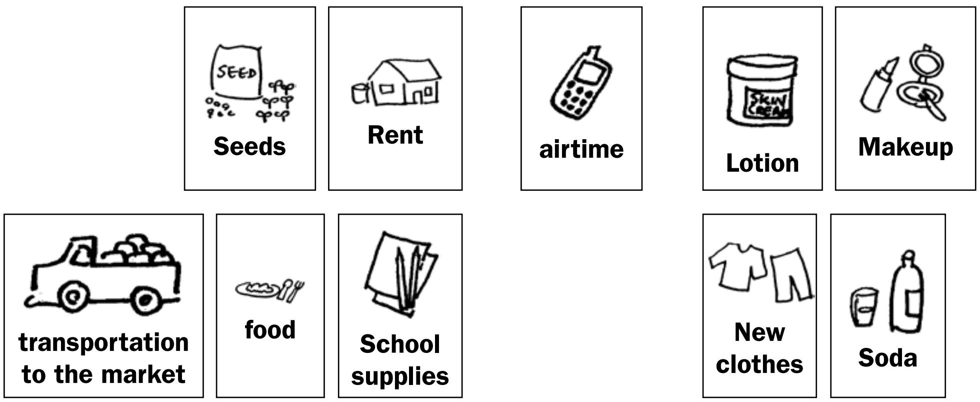
Facilitator's note: It may be easier for you to have some ideas of estimated costs to reduce discussion time on the amounts.



4.2 Tell the participants: Look at the expense cards and think about the answer to the following questions individually:

- **What are the three most important, or necessary, items for you? Why?**
- **What are the three least important, or unnecessary, items for you? Why?**

4.3 Ask several volunteers to share their opinions. encourage debate and discussion, but be mindful of the time (not more than 5 minutes). As participants share their preferences, move items that are identified as most important to the left side, and those that are least important to the right. Any items that they cannot agree upon leave in the center. You will have a display that looks something like this:



4.4 Ask participants:

» **What is the difference between the items on the right and those on the left?**

Answer: the items on the left are necessary for survival. The items on the right are optional – things that people want, but can live without. The items in the middle might be necessary for one person, but optional for another.

4.5 Say to the participants: We spend money on many things. Some of these things are necessary for our survival. These things are called needs. Other things we may want – and when we buy them we feel happier – but actually do not need to survive. These are called wants. Please, keep in mind the difference between needs and wants as we look at how all of our expenses fit together. It is important to think of longer term wants, such as buying a bicycle that would take some time to achieve. Thinking about bigger goals may make it easier not to buy a smaller want today.

THE SPENDING GAME
SUGGESTED PROCEDURE (10 MINUTES)

4.6 Say: We are going to practice making decisions as a group. please, keep in mind the difference between wants and needs as well as household and business expenses.

4.7 On the flipchart or on the ground draw a table similar to "**Table Field Exercise**

4.1: Type of expenses (monthly)." Fill in the various expenses the group identified under "type of expense". Be sure to include line items for loan repayment and savings. Your flip chart should look something like this:

Teaching tip: You should substitute the expenses with examples from your particular group. the items below (transport, school supplies, etc.) are only examples of things that participants *might* say.

Table Field Exercise 4.1 Type of expenses (monthly)

EXPENSES (Money out)

TYPES OF EXPENCES	BUDGET (HOW MUCH I PLAN TO SPEND)
HOUSEHOLD EXPENSES	
Airtime	200
School supplies for Simon	1,500
Food	5,000
Lunch for Jacob and Sarah	200
Coca-Cola for Jacob and Sarah	600
Subtotal household expenses	7,500
BUSINESS EXPENSES	
Transportation to take rice and vegetables to market	500
Watering can for Sarah's vegetables	2,500
Loan repayment for fertilizer	2,500
Subtotal Business Expenses	5,500
Savings	1,000
TOTAL EXPENSES	**14,000**

4.8 Ask participants: Estimate how much is needed for each expense (transport, school supplies, etc.). Go through the entire list and give each item a value.

4.9 When all values have been filled in, instruct participants to form groups of three. Quickly add all values. Calculate 80% of this number by multiplying total expenses by 0.8. Use a calculator as needed. **Tell participants: You have 11,200 to spend on the items on the list.** In our example the total expenses are 14,000, so the groups would have 11,200 to spend (14,000 x 0.8 = 11,200).

Facilitator's note: It may be easier for you to have some ideas of estimated costs to reduce discussion time on the amounts.

4.10 Instruct participants: You will have to make some choices about which items to buy and which not to buy since you do not have enough money to purchase everything on the list. Circulate and answer any questions the groups have. At the end of five minutes, call everyone back together and ask one group to share how they spent their money.

Ask:

- **Do you agree with how this group spent their money? How did other groups spend the money differently?**
- **What challenges did you face in deciding what to purchase or how much of each item to purchase?**
- **Which groups chose to cut out savings? Why? Why would it be important to always try to save some money? We will talk more about savings in later sessions.**

4.11 Encourage participants to look at their own expense analysis and examine which expenses are closer to needs and which ones are closer to wants. Participants should start to think about their long-term goals and how reducing certain wants now could help them to achieve their long-term goals.

REVIEWING YOUR BUDGET (20 MINUTES)

4.12 Tell participants: You can use the skills you have developed in tracking your income and expenses to make a budget. After the period of the budget has passed, you can compare the real costs and income from this period with what you planned in the budget. For example, if you make a budget for next week, at the end of next week you can compare your budget with what you actually earned and spent. using this information you can make a more realistic budget for the next period. Remember that your budget is an estimate of your income and expenses. Your real costs and income is what you actually spent and earned.

4.13 Create the chart of Jacob and Sarah's budget using "**Table Field Exercise 4.2: Jacob and Sarah's Budget (actual income and expenses for 3 months)"** as a model on a flip chart sheet. Use picture cards or make sketches for each item if your participants are illiterate or semi-literate. Feel free to change the numbers and line items below for your target group. explain that each column is for one month. Sarah has taken out a loan of 4,500 from her savings and loan group for growing vegetables. While not income, this cash will be part of Jacob and Sarah's cash flow and budget.

If your participants are illiterate or semi-literate, you may simplify the chart and read all numbers out loud.

Optional: If your participants are literate, divide them into groups of 3-4 and ask them to look over the budget with their group members.

Table Field Exercise 4.2: Jacob and Sarah's Budget (actual income and expenses for 3 months)

BUDGET (actual income and expenses for three months)

	MONTH 1	MONTH 2	MONTH 3
STARTING CASH (loan from savings group)	4,500	(300)	0
MONEY IN (INCOME)			
Selling vegetables	1,000	1,500	2,000
Collecting wood	500	500	1,000
Selling chickens	2,500	3,500	-
Other (gifts, etc.)	100	-	-
TOTAL INCOME:	**4,100**	**5,500**	**3,000**
TOTAL + STARTING CASH	**8,600**	**5,200**	**3,000**
MONEY OUT (EXPENSES)			
Food	3,000	1,000	500
Lunch for children	100	500	250
Clothing for holidays	500	100	-
Kola nuts	-	400	250
HOME NEEDS TOTAL:	3,600	2,000	1,000
Farm inputs	4,000	1,000	-
Transport	300	200	100
Loan repayment	-	1,500	1,500
BUSINESS NEEDS TOTAL:	4,300	2,700	1,600
TOTAL WANTS (OPTIONAL):	1,000	500	200
TOTAL EXPENSES	8,900	5,200	2,800
SAVINGS	-	-	-
+ Surplus / - Deficit = (includes money from loan)	**(300)**	**0**	**200**

4.14 Say: Jacob and Sarah have been budgeting on a weekly basis for about 3 months. They have been selling vegetables for a long time, but they want to begin making the best use of their money. They tracked their expenses using their budget worksheets, and what we see on the chart is what they found.

4.15 Say: Please discuss Jacob and Sarah's budget with the person next to you for about ten minutes and answer these questions:

- **What do you observe about Jacob and Sarah's money management during these three months?**
- **How does their income relate to their expenses?**
- **What do you think about their savings patterns?**
- **What are they spending on wants vs. needs?**
- **What expenses require advance planning?**

Answers:

- Compared to their income, their business expenses are high. They may want to find a way to reduce their business expenses or look for a different, less costly business.
- They should start to save money. Currently they are not saving.
- They are spending a lot of money on optional expenses. They should look at their wants and decide if there is anything they can cut.
- During months when Jacob and Sarah make more money than usual, they should save some money instead of spending so much on optional expenses.
- They spent a lot of money – much more than usual – on food in month 1. If they plan ahead of time, they might not spend so much more than usual on food.
- They were good to plan for repayment of their loan. Loans will be discussed in more detail in lessons 8 – 11.

4.16 Ask:

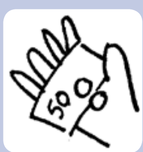
- **Why is it important to review income and expenses regularly?**
  Answer: To see if you are making enough money to cover your expenses; to know if your business is turning a profit; to know if there are places you can reduce your spending; to know when your expenses are very high and plan accordingly; and to know when your income is high and plan to save.

4.17 Either hand out or have the participants copy "Table Field Exercise 4.3. My personal budget." If participants are illiterate or semi-literate **say: Draw pictures or use tally marks.** Ask participants to make separate budget sheets for each budgeting period and to track their budgeted and actual expenses for several periods (weeks or months). Continue to track your income and expenses. after several periods, they should compare and analyze the "actual (how much I earned)" column of several budgets. You can sort your expenses according to needs and wants. It will help you to identify places where you can reduce your expenses. the resulting observations will help them make better decisions about how to plan their money to reach their financial goals.

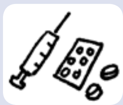
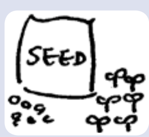
Table Field Exercise 4.3: My personal budget

Budget period: Week 1

INCOME (money in)

TYPE OF INCOME		BUDGET (EXPECTED) (HOW MUCH I PLAN TO EARN)	ACTUAL (HOW MUCH I EARN)
HOUSEHOLD EXPENSES			
Rice farming			
Vegetable farming			
Making mats or baskets for trade in local market			
Money from Relatives			
Loans			
Livestock sales			
Total Household Income			

EXPENSES (money out)

TYPE OF EXPENSE		BUDGET (EXPECTED) (HOW MUCH I PLAN TO SPEND)	ACTUAL (HOW MUCH I SPENT)
HOUSEHOLD EXPENSES			
Medicine			
School fees			
Food			
Rent (home)			
Ceremonies and festivals			
Total Household Expenses			
BUSINESS EXPENSES			
Farming inputs (seeds, fertilizer, etc.)			
Animal feed			
Labor (sowing, harvesting, etc.)			
Rent on market stall			

EXPENSES (money out)

TYPE OF EXPNESE		BUDGET (EXPECTED) (HOW MUCH I PLAN TO SPEND)	ACTUAL (HOW MUCH I SPENT)
Transportation to work / markets	Budget (Expected) (how much I plan to spend)	Actual (how much I spent)	
Loan Repayment			
TOTAL BUSINESS EXPENSES			
		Savings	
		TOTAL EXPENSES	
		INCOME – EXPENSES = + Surplus or – Deficit	

QUIZ ANSWERS

QUIZ FOR LESSON 1. UNDERSTANDING SEASONAL A CALENDAR (Page 9)

1. Answer: b.
2. Answer: c
3. Answer: a

QUIZ LESSON 2. ESTABLISHING GOALS (Page 17)

1. Answer: d. This goal has a specific amount to be saved, with a plan for achievement, and a defined time frame before the funds are needed.
2. Answer: a.
3. Answer: b.
4. Answer: a, b, c, and d.

QUIZ FOR LESSON 3. BUDGET, INCOME AND EXPENSES (Page 34)

1. Answer: a, b, and d. While loan disbursals are considered income, loan repayments are expenses. Similarly, savings is an expense.
2. Answer: b
3. Answer:

INCOME	HOUSEHOLD EXPENSES	BUSINESS EXPENSES
1. (a) Loan disbursement for school fees 2. (f) Vegetable sales 3. (g) Mat sales	4. (c) Payment of school fees 5. (d) Food for the family 6. (i) Medicine	7. (e) Transportation of goods to market 8. (h) seed for vegetables 9. (b) loan repayment for donkey purchase

4. Answer:

BUDGETED INCOME (What I plan to earn next week)

ITEM	AMOUNT
Jacob selling rice	8,000
Sarah selling vegetables	4,000
Sarah selling two chickens	6,500
TOTAL	**18,500**

Optional: The budgeted income does not include the loan disbursement from the previous week. Only if you expected to receive another loan would you include those monies in your budget for the following week. If you only had one chicken to sell this week, you would change the amount accordingly.

BUDGETED EXPENSES (What I plan to spend next week)

ITEM	AMOUNT
HOUSEHOLD EXPENSES	
Airtime	700
Cooking oil	200
Soap	200
Food for the family	5,000
Lunch for Jacob and Sarah	200
Soda for Jacob and Sarah	600
Subtotal Household Expenses	6,900
BUSINESS EXPENSES	
Transportation (taking goods to market)	500
Loan repayment for seeds	2,000
Subtotal Business Expenses	2,500
TOTAL EXPENSES	**9,400**
Income less expenses	**+9,100**

The budgeted expenses must include the loan repayment even though it was not part of the previous week's expenses.

QUIZ FOR LESSON 4. DIFFERENT TYPES OF EXPENSES AND REVIEWING YOUR BUDGET (Page 63)

1. Answers: 1. b; 2. C; 3. b
2. Answer: a, b
3. Answer: 1. a; 2. c; 3. b

REFERENCE MATERIAL

LIST OF DOCUMENTS USED IN THE LESSONS AND FIELD EXERCISES

Lesson and Field Exercise 1: Making a Seasonal calendar

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FDIC Money Smart for Young Adults, Instructor Guide, Module 3 "Setting Financial Goals."

Lesson and Field Exercise 3: Understanding Income, Expenses, and Creating a Budget

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FDIC Money smart Financial Education Curriculum, "Module 4: Money Matters Participant Guide," March 2010.

Lesson and Field Exercise 4: Understanding Different Types of Expenses

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