FINANCIAL EDUCATION MODULE

FOR THE YOUTH AND MSMES

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NATIONAL BANK OF ETHIOPIA

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nbe.gov.et

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Acronyms/Abbreviations

ATM	Automatic Tailor Machine
BMC	Business Model Canvas
CFPB	Consumer Financial Protection Bureau
DFS	Digital Financial Services
EM	Electronic money
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
ILO	International Labor Organization
MFS	Mobile Financial Service
MMS	Mobile Money Service
MSMEs	Micro, Small and Medium Enterprises
OECD	Organization for European Economic Cooperation and Development
PFM	Personal Financial Management
PLC	Private Limited Company
POS	Point of Sale
WB	World Bank

Preface

The National Bank of Ethiopia, in collaboration with the Mastercard Foundation and First Consult under the BRIDGES program, has undertaken a groundbreaking initiative to develop and standardize a comprehensive national financial education module. This module aims to equip youth and Micro, Small, and Medium Enterprises (MSMEs) with the necessary knowledge, skills, and confidence to make informed financial decisions and improve their financial well-being.

We are delighted to present the "Financial Education Module for Youth, Women, and MSMEs," a comprehensive module developed in collaboration between the National Bank of Ethiopia and the Financial Education Working Group.

Acknowledging the significance of financial education in promoting financial inclusion, the National Bank of Ethiopia (NBE) has formulated the Financial Education Strategy (2021-2025) to ensure that 75% of adults in the country possess knowledge about financial products and services by 2025. The lack of nationally coordinated financial education programs, fragmented modules, and ineffective delivery channels have contributed to Ethiopia's low financial education and literacy levels. To address this issue, the strategy emphasizes the necessity of developing and standardizing national financial education materials, modules, and delivery channels.

The National Bank of Ethiopia, as a key regulatory institution, provided valuable insights and guidance to ensure the module's alignment with national financial education strategies and objectives. The Mastercard Foundation, in partnership with First Consult under the BRIDGES program, brought expertise in inclusive finance and sustainable development, contributing to the module's comprehensive approach.

The Financial Education Working Group was pivotal in this collaborative effort, bringing diverse perspectives, experiences, and expertise together. The contributions of the working group members, including financial experts and representatives from various organizations, enriched the module's content and ensured its practicality and effectiveness.

Drawing on international best practices, local insights, and research-based methodologies, the financial education module seeks to provide accessible and practical information on a wide range of financial topics. The module aims to cater to diverse audiences, including youth, women, MSMEs, and entrepreneurs, through interactive learning materials, workshops, and innovative delivery mechanisms.

This module aspires to foster a culture of responsible financial behavior, promote savings habits, encourage entrepreneurship, and facilitate access to financial services by equipping individuals with financial literacy skills. Ultimately, the module's goal is to contribute to building a financially inclusive society where individuals have the knowledge and tools to navigate the financial landscape effectively. Most importantly, it increases the financial inclusion target set by NBE to achieve 75% of adults to report on their awareness about financial products and services by 2025.

Let us embark on this journey towards financial empowerment and inclusive growth together.

H.E. Mamo Mihretu

Governor, National Bank of Ethiopia

Samuel Yalew

Ethiopia Country Director, Mastercard Foundation

Nebil Kellow

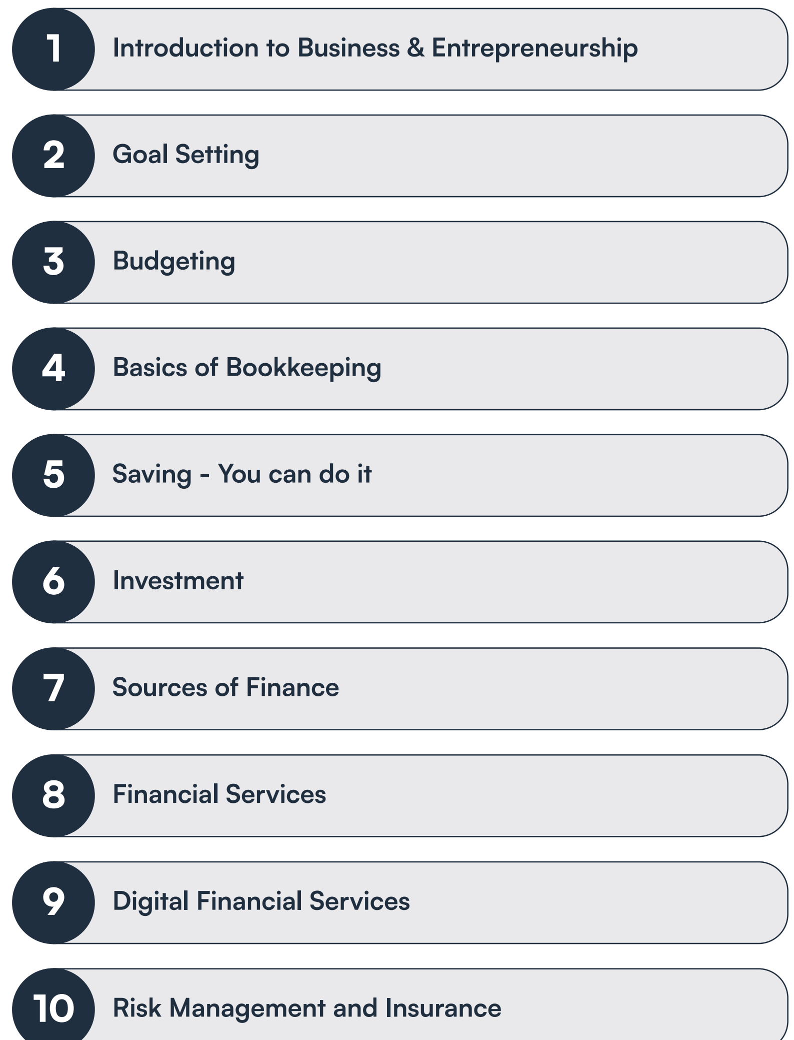
Managing Director, First Consult

Introduction - Setting the Scene

Financial literacy is the ability to understand finance. It refers to the set of skills and knowledge that allows an individual to understand the available financial services and make informed and timely financial decisions. Financial literacy is not automatically achieved with access to finance; deliberate financial education measures are needed to improve it.

Financial education is a way to increase financial literacy. Financial education teaches the knowledge, skills, and attitudes required to adopt good money management practices for earning, spending, budgeting, borrowing, saving, and using other financial services such as insurance, money, and transfers. Participants in financial education are equipped with the information and tools to make better financial choices and work towards their financial goals to enhance their economic well-being. Because of this, the importance of financial education programs has been an area of interest to both developing and developed countries. Given the cost of education programs, taking financial education measures with target segments of especially low financial literacy may be cost-effective. As a result, many countries have taken comprehensive national initiatives and programs that different donor organizations support. This financial education material has been supported by the Mastercard Foundation to develop a national standardized document. St. Mary's University developed this document in close collaboration with First Consult and the National Bank of Ethiopia.

This document contains ten specific and interrelated modules, which are listed below:



Aims of the Module

This training module aims to provide learners with the essential knowledge, skills, and attitudes to help them manage their finances in the most beneficial way possible. It will also give the youth and MSMEs the basic tools necessary to improve their financial situation and broaden their understanding of the business environment, which can contribute to scaling up Ethiopia's financial inclusion and literacy strategies.

Scope of the Module

The module is prepared at the basic level. It mainly targets the youth and MSME operators. The module is written in plain language and designed to ensure the participants understand it as quickly, easily, and thoroughly as possible. Regarding the learning curve between the rural and urban trainees, participants in urban areas generally have more resources and better facilities, such as books and other learning materials, compared to their rural counterparts. Thus, reducing the geographical learning gap between rural and urban participants requires improving rural participants' educational opportunities up to the level of their urban peers.

Training Delivery Approach

The module is prepared to serve as financial education training material for youth and MSMEs. Its contents are customized and prepared to address the specific needs of the participants to ensure sound transfer of financial knowledge.

Thus, the module would be a guideline, reference material, and working document primarily for financial institutions regulated by the NBE and other financial education providers where appropriate. The NBE would promote its effective implementation and ensure that the materials are updated when the circumstances in regulatory and market environments are requires to do so,

The trainers' manual is prepared with this module as a blueprint. This manual guides trainers in knowing and understanding the curriculum, preparing training, gathering needed materials, lesson planning, and one's eventual relationship with each participant. All trainers who will deliver this training to the youth and MSME operators need to complete a Training of Trainers (TOT) delivered by the experts involved in preparing this module or other specialists in the area. The TOT training should ideally be run over three days to go through the curriculum in detail and for trainers to be well prepared to deliver the training successfully. It is strongly advised that the number of TOT participants not exceed 20. At least two experts and a facilitator need to run the TOT to ensure the high quality of the training. To be fully certified, trainees need to attend all training on the ten modules. The training will be delivered in three phases.

> **Phase 1** covers the first three modules: Introduction to Business & Entrepreneurship, Goal Setting, and Budgeting. After completing the three-day training, trainees will take assignments that will be returned to the trainers when they return for the second training phase. The details of the assignments are indicated in the trainers' manual.
>
> **Phase 2** covers the next four modules: Basics of Bookkeeping, Saving, Investment, and Sources of Finance. After completing the four-day training, trainees will take assignments that will be returned to the trainers when they return for the third training phase. The details of the assignments are indicated in the trainers' manual.

Phase 3 covers the last three modules: Financial Services, Digital Financial Services, Risk Management and Insurance. The last phase will take three days. After completing all ten modules, trainees will get certificates of attendance.

The training sessions are designed with concrete examples of the youth and MSME operators in their daily lives, as well as interactive activities, audios, exercises, and assignments, to make the content interesting, relevant, and entertaining. It is recommended that those trainers know English and the local language.

Trainers need to use adult learning techniques with due consideration for the unique learning needs of participants. Using adult learning principles and practices can increase the likelihood that the learners will enjoy and use the training to change their financial behaviors. Adults learn more effectively with a "learner-centered approach." Adults must have an opportunity to reflect on new content, relate it to their personal situations, practice using it, and determine how they can apply it (nine adult education principles and practices are presented below). Therefore, trainers are expected to act as facilitators, not lecturers. Moreover, trainers should act as role models to the beneficiaries and be able to think outside of the box. Trainers need to personalize the content and use the curriculum as a guide that can be adapted to the participants and their levels of knowledge and understanding.

Table 1. The Nine Principles and Practices of Adult Education

Principle	Description
Relevance	• Learners learn best when drawing on their own knowledge and experience. • Learning must meet the real-life needs of the adult; for example, job and family life issues.
Dialogue	• Learning must be two-way to allow learners to interact with the teacher and other learners.
Engagement	• Learning must involve learners through discussion, small groups, and learning from peers.
Immediacy	• Learners must be able to apply the new learning immediately.
20/40/80 Rule	• Learners remember more when visual aids support verbal instructions, and adults recall best when they practice the new skill. (We remember 20% of what we hear, 40% of what we hear and see, and 80% of what we hear, see, and do.)
Cognitive, Affective, and Psychomotor Interaction	• Learning should involve thinking and emotions as well as doing.
Respect	• Learners need to feel respected and as equals.
Affirmation	• Learners need to receive praise, even for small efforts.
Safety	• Learners need to feel that others value their ideas and contributions— that others will not belittle or ridicule them.

The first seven principles are designed into the learning activities, while the last two need to be practiced in delivering the learning event.

Adopted from: Microfinance Opportunities

Training Evaluation

Training sessions will be organized by NBE and other stakeholders to realize the module objectives and expected learning outcomes. The trainers' manual indicates that trainers are expected to prepare training program outlines and reports, including survey results and participant feedback. The evaluation methods used during and at the end of each training session will vary per the trainers' approach. However, as a general rule, trainers are expected to encourage participants to engage in group discussions and to forward self-reflections on the main agenda carefully chosen for discussions. Finally, participants' conceptual and practical understanding will be evaluated using practical exercises and exams.

Moreover, Kirkpatrick's four-level model of training evaluation criteria will be used to verify the effectiveness and goal achievement and identify the areas that require improvement. The model helps conceptualize the assessment of learning outcomes of the financial education training program with metrics and instruments. It is instrumental in determining the strengths and weaknesses of the financial education training process. The model consists of four levels: reaction, learning, behavior, and results.

Figure 1. Kirkpatrick's Four-Level Model of Training Evaluation

Reaction
Measures whether learners find the financial education training engaging, favorable, and relevant to their jobs.

Learning
Measures whether learners acquire the intended knowledge, skills, attitude, confidence, and commitment to the FET

Behavior
Measures training impact.

Result
Measures the learning against the organization's business outcomes

1

Module One

Introduction to Business and Entrepreneurship

Welcome to Financial Education's **Module One.** In this module, you will learn the basic theoretical and practical skills entrepreneurs need to set up a successful enterprise. The module will also guide you in identifying the components of a business model canvas and business plan.

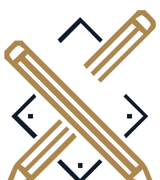
Objectives

By the end of this module, the participants will be able to:

- Describe what entrepreneurship means and the qualities of entrepreneurs;
- Generate a list of their business ideas;
- Understand what a business plan is; and
- Develop a simple business plan.

Training methods

- Brainstorming
- Lecturing
- Presentation
- Exercises
- Case studies
- Discussion
- Roleplaying



Training aids

- Flip chart
- Posters
- Overheads
- Whiteboard
- Markers
- Notebook, and
- Pen/pencil

Module content

- Introduction to Business
- The Business Plan
- Contents of a Business Plan
- Business Model Canvas (BMC)
- Module Summary

Duration

7 hours

Brainstorm

Dear participants, in groups, discuss what a business is and the different forms of business organizations.

1.1. Introduction to Business

Business, also known as an enterprise or a firm, is an organization that trades goods, services, or both to consumers to make a profit. The Commercial Code (2021) presents the following types of business organizations:

a. **General partnership:** A business organization consisting of partners jointly and severally liable with/ to the partnership itself for its obligations. Any agreement to the contrary may not be invoked against third parties.

b. **Limited partnership:** This type of partnership comprises partners with different types of liability: general partners who are fully liable jointly and severally with the partnership for its obligations, and limited partners who are liable for the partnership's obligations only to the extent of their pledged contributions.

c. **Limited liability partnership:** A business organization formed by two or more persons to render professional services and services complementary to it, in which the partners' liability is limited to the amount of their contributions.

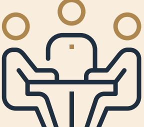
d. **Joint venture:** A business organization established by an agreement between two or more people. It has no legal personality, and its existence is unknown to third parties. Registration formalities required of other business organizations do not apply to a joint venture.

e. **Share Company:** A company whose capital is fixed in advance, divided into shares, and whose liabilities are met only by the company's assets. The shareholders' obligation is limited to making the contribution they pledged to the company.

f. **Private limited company:** A business organization whose capital is fully paid in advance and divided into shares and whose members are not liable for the company's debts, provided they have paid their contributions. Shares of the company shall not be open for subscription to the public.

g. **One-person private limited company:** A business organization incorporated by the unilateral declaration of a single person. The company has a legal personality separate and distinct from that of the member. The member shall not be personally liable for debts due by the company in so far as he has fully made his contribution.

On the other hand, being an entrepreneur is distinct from being a businessperson. Unlike businesspeople who work with existing ideas, entrepreneurs are generally seen as innovators and leaders. Entrepreneurship is about looking forward— identifying opportunities, creating a vision of how the business will grow, innovating, and taking risks.



Dear participants, write the name of one person you consider a your role model entrepreneur, and the key qualities that make the person a successful entrepreneur.

Important Message

An entrepreneur is an individual who:

- Has a dream and vision.
- Has the ability to identify and pursue a business opportunity.
- Undertakes a business venture.
- Gathers physical, financial, and human resources needed to operate the business venture.
- Sets goals for him/herself and others.
- Initiates appropriate actions to ensure success.
- Assumes all or a major portion of the risk.
- Is a job creator, not a job seeker.

1.2. The Business Plan

Putting your ideas and information together is called making a business plan. It is a guide to follow so you do not overlook anything when preparing to open your new business. You need to prepare the business plan because it helps you to:

- **Decide** if you should start your business. Starting a business will change your life completely. Therefore, you need to make sure that you make the right decision. The business plan will help you judge whether or not starting a business is the right decision.
- **Organize** your ideas so that you will see how to start and run your business best. The business plan follows a standard sequence of relevant topics, which will help you visualize the road ahead.
- **Present** your business plan to investors or a lending institution, such as a bank or a microfinance institution, to obtain a loan. By preparing the business plan yourself, you can answer most of the questions they may ask.

A business plan will vary depending on the nature of your business and the audience you are preparing it for. Regardless of the audience, a business plan allows you to map out your business, its timeline, and its responsibilities and explore its viability. If you are using your business plan to get a loan, you must show how your business will make money to repay the loan.

Important Message

You may find information for your business plan from the following sources:

- Business development services providers
- Industry-specific associations
- Accountants, lawyers, and business consultants
- Financial institutions
- Government and non-governmental organizations

1.3. Contents of a Business Plan

1.	General description of the business	• Name of business, business location, and address • Nature of business activity • Type of business organization (partnership, cooperative, new, old) • Any further explanation summarizing why the business will be successful
2.	Personal background	• Name of business owner(s), promoter(s) • Educational, professional background & relevant experience in business activities
3.	Market plan	• Business market area and targeted customers/ customer groups • Why you will be able to compete with existing products/services and how you compare competitors (price, quality, appearance, performance) • Past, current, and future (projected) market demand for your product/service (if possible, in terms of volume/units per day/months) • Suppliers and supply terms and conditions • How you will be selling your produce (direct, dealers) • Tip: Include the market research survey report as an annex
4.	Business management plan	• Who will be the actors in this business • Specify their roles and the division of labor (if applicable) • How will the business work be organized (e.g., working shifts, working times)
5.	Operational plan	• Describe the production process of your product/ service • Explain the day-to-day running of the business. Include production details such as development, technique, costs, inventory, etc. • Is there a need for further research and development? Who will do this? • How do you acquire your products? • What are the business hours? • Elaborate on the supply chain of your product/service • List, at minimum, the number of employees, type of labor, who does what tasks

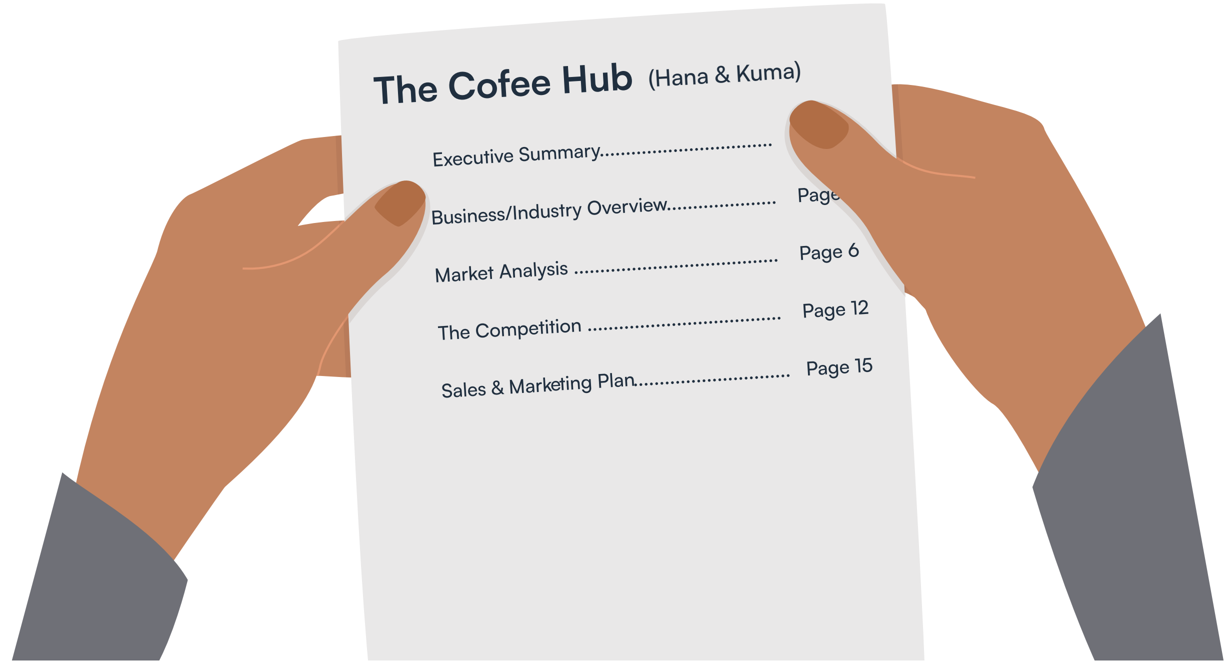
6.	Financial need	• Investments required, fixed assets/starting equipment (e.g., land, tools, machinery) • Preliminary expenses/pre-operative expenses (e.g., legal fees, licensing fees) • Start-up expenses (e.g., water, electricity connection, cleaning of premises, etc.) • Working capital (raw materials, rent, water, transport, etc.)
7	Sources of raising funds	• Total fund requirements • Own contributions/investments • Family/friends' contributions/already secured loans, credits, etc. • Total funds available • Deficit/funding gap • Loan support required
8	Financial forecast	• Projected income statement • Break-even analysis • Cash flow projection

1.4. Story: The Coffee Hub

Dear participants, Read carefully and understand the story of The Coffee Hub, which Hana and Kuma will open.

1.5. Business Model Canvas (BMC)

A business model describes the rationale of how an individual firm creates, captures, and delivers value. The BMC is a template to develop or document business models. It helps you describe your customer, the value you bring, how you bring it, how you create revenue and the activities, resources, and partners you need to operate. The BMC provides a snapshot of your business you can easily present to stakeholders without providing a complete business plan.

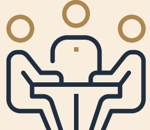


		Designed for:	*Designed by:*	*Date:*

Business Model Canvas

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
Who are your key partners? Who are your key suppliers? Which key resources are you acquiring from partners? Which key activities do partners perform?	What key activities do your value propositions require? Your distribution channels? Customer relationships? Revenue streams?	What value do you deliver to the customers? Which one of your customer's problems are you helping to solve? What bundles of products and services are you offering to each customer segment? Which customer needs are you satisfying?	What type of relationship does each customer segment expect you to establish and maintain? Which ones have you established? How are they integrated with the rest of your business model? How costly are they?	For whom are you creating value? Who are your most important customers? Is your customer base a mass market, niche market, segmented, diverse, or diversified, multi-sided platform?
	Key Resources		**Channels**	
	What key resources do your value propositions require?		Through which channels do your customer segments want to be reached? How are you reaching them now? How are your channels integrated? Which ones work best? Which ones are the most cost-efficient?	

Cost Structure	Revenue Streams
What are the most important costs inherent in your business model? Which key resources and activities are the most expensive?	What value are your customers really willing to pay? What do they currently pay? How are they currently paying? How would they prefer to pay? How much does each revenue stream contribute to overall revenues?



Dear participants: After reviewing the nine blocks of the BMC presented on the previous page, fill out the BMC for The Coffee Hub.

1.6 Summary

- A business is an organization that trades goods, services, or both to consumers to make a profit. Forms of business ownership vary by jurisdiction; according to the current Commercial Code of Ethiopia, the Chapter presents seven types of businesses.
- In order to start or expand a business, you need a well-developed business plan. The chapter presents a business plan's major components and briefly explains each. Moreover, it provides the BMC, a template for developing or documenting business models.

1.7 Retrospective Questions on Business and Entrepreneurship

Discuss in groups that will be organized by the training facilitator as indicated below:

Question #1 — Group 1

Question #2 — Group 2

Question #3 — Group 3

Question #4 — Group 4

Question #5 — Group 5

Dear participants

1. Are you happy with what you learned in this business and entrepreneurship module?
2. Do you think the conceptual, theoretical, and practical explanations/engagements presented about business and entrepreneurship help fill your knowledge gaps? Explain how.
3. Do you now have a better understanding of business and entrepreneurship? Explain how helpful it is to manage your business.
4. Identify and discuss the benefits of preparing a business plan. Explain how it is instrumental to your business and family.
5. How much of the information discussed in this module will you be able to apply to manage your business practically?

2

Module Two

Goal Setting

Welcome to **Module Two.** This module aims to teach you the fundamental skills of setting goals and the information needed to achieve them.

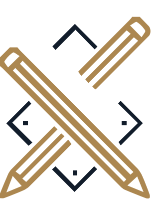
Objectives

By the end of this module, the participants will be able to:

- Explain the reasons for setting goals;
- Differentiate between short-term, medium-term, and long-term goals;
- Set financial goals and explain how to reach them; and
- Describe what a financial plan is, and how it can help achieve financial well-being.

Training methods

- Brainstorming
- Lecturing
- Presentation
- Exercises
- Gamification
- Case studies
- Discussion
- Roleplaying
- Coaching
- E-learning



Training aids

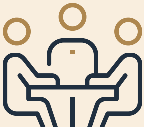
- Flip chart
- Posters
- Overheads
- Whiteboard
- Educational videos
- Markers
- Notebook
- Pen/pencil

Duration

7 hours

Module Content

- Understanding goals
- Understanding financial goal-setting
- Timeframes in goal setting
- Why do some people fail to reach their financial goals?
- Steps in financial goal setting

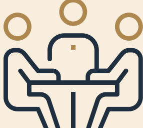


Brainstorm

Dear participants, answer the following questions:

- Do you have goals in life?
- Do you think it is important to have goals?
- Explain why some people don't reach their financial goals.

2.1. Understanding Goals



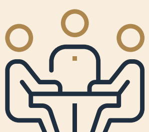
Dear participants: Hana and Kuma have their own idea of building a Coffee Hub in the future.

What Hana and Kuma want to accomplish in the near future needs to be well articulated, as that is instrumental in differentiating between a dream and a goal.

- From the perspective of The Coffee Hub, a goal can be defined as a statement about what Hana and Kuma want to accomplish.
- A goal provides a direction to a plan of action, as exemplified by what Hana and Kuma want to achieve at a specific time in the future.
- A goal helps Hana and Kuma decide what to prioritize and how to spend their time and resources.
- Dreams will remain fantasies until Hana and Kuma take steps to make them real.
- The difference between dreams and goals is the level of commitment.
- Goals are a source of motivation and confidence when realizing a dream.

Goal setting

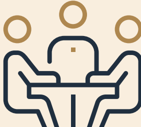
- Refers to determining what Hana and Kuma want to be, do, or have (i.e., what they want to accomplish by offering a unique coffee experience through The Coffee Hub business).
- Goal-setting involves developing an action plan to motivate and guide a person or group toward a goal.



Dear participants:

- The wishes of Hana and Kuma can become goals only through the power of planning. Thus, a goal without a plan is just a wish.
- If you walk without knowing where you want to go, you will end up somewhere, but not in the right place.
- You must know that the "perfect" time to start planning will likely never come.
- There is no better time than now to get started.
- Goals evolve during a lifetime and differ from person to person.
- Hana and Kuma can have personal, family, financial, and/or business goals.

2.2 Understanding Financial Goal Setting



Dear participants, Hana and Kuma need to understand financial goal setting for The Coffee Hub.

- A financial goal is an objective individuals/institutions set to attain certain monetary milestones.
- Setting a financial goal is key to success and attaining financial freedom.

Benefits of having financial goals to Hana and Kuma

1. Helps them decide their spending priorities for the future.
2. Gives them discipline for spending and saving.
3. Helps avoid unexpected money shortages.
4. Helps them feel less financial stress.

The Coffee Hub Dream: Practical Exercise

Dear Participants: Read The Coffee Hub Dream below and answer the questions that follow:

Hana and Kuma are young entrepreneurs keen to establish a new business named The Coffee Hub. Whenever they meet, they usually discuss their future plans. Since they graduated from Addis Ababa University, they have considered of starting a small business. They would like to set up The Coffee Hub to offer a unique coffee experience to busy professionals around Sengatera, Addis Ababa. They know they can rely on the expertise they have learned from similar businesses. Furthermore, Hana and Kuma would like to do some entrepreneurship training by way of preparation and also buy the necessary equipment for the business. At the same time, they are thinking of helping two of their close friends, Yohannes and Meseret, to set up a barbershop. Hana and Kuma also dream of buying an automobile for door-to-door delivery service.

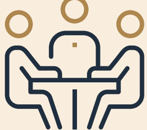
Questions

What are Hana and Kuma's dreams?

Have you ever thought about your goals? If so, what are they?

What do you think they need to do to realize The Coffee Hub Dream?

2.3. Timeframes in Goal Setting



Dear participants, in groups, discuss the importance of having a timeframe for setting goals for The Coffee Hub.

- What do you want for yourself and your family in the short, medium, and long-term?

Financial goals serve as a guide to help Hana and Kuma define their path and keep them on it. This requires them to set their financial goals in terms of a timeframe. Some goals may be achieved very quickly, some may take a few years, and others may take longer or even decades.

Table 2. Types of financial goals

As the table below indicates, personal financial goals differ in the time needed to achieve them.

Types of financial goals	Description
Short-term goals	• They are immediate priorities that can be accomplished shortly in two years or less.
Medium-term goals	• These are priorities that can be accomplished within two to five years.
Long-term goals	• These are priorities that may take more than five years to accomplish. • Most long-term goals require regular savings.

Group exercise

Give them five minutes for this discussion. Then, invite each group to present in plenary **(give 2 minutes per presentation).**

2.4. Personal Financial Management (PFM)

Dear participants, share your personal experiences with how you plan and manage your money.

What do you do to use money wisely?

- Personal financial management is the process of planning and managing personal financial activities such as income generation, spending, saving, investing, and protection.
- Personal financial management requires understanding your financial situation to make the most of your assets in your daily life and planning for your future.

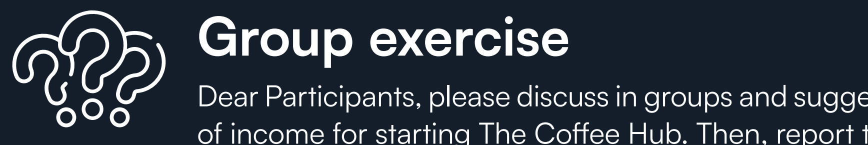
Figure 2. Areas of Personal Financial Management

Dear Participants, how do you understand:

- Income
- Spending
- Saving
- Investing
- Protection

Income

- It refers to a source of cash inflow you receive and then use to support yourself and your family.
- It is the starting point for your financial planning process.
- The common sources of income, such as crop production, dairy production, forest production, petty trade, construction, artisan, salary, bonuses, pensions, etc., generate cash that you can use to spend, save, or invest.
- Income can be thought of as the first step in our personal finance roadmap.



Group exercise

Dear Participants, please discuss in groups and suggest some sources of income for starting The Coffee Hub. Then, report the results to the other participants.

Spending

- Spending includes expenses you incur related to buying goods and services.
- The common sources of spending are rent, taxes, food, travel, entertainment, etc.
- Expenses reduce the cash available for saving and investing.
- If your expenses exceed your income, then you face a deficit.
- Managing expenses is just as important as generating income.
- Good spending habits are critical for sound personal finance management.

Group exercise

Dear Participants, discuss in groups and identify an exhaustive list of expenses that will be incurred to start The Coffee Hub. Report the result to the other participants.

Saving

- Saving refers to excess cash retained for future investing or spending.
- If there is a surplus between what you earn as income and what you spend, the difference can be directed towards savings or investments.
- Managing your savings is a critical area of your personal finances.
- The common forms of savings include physical cash, savings bank accounts, checking bank accounts, and money market securities, etc.

Investing

- Investing relates to the purchase of assets expected to generate a rate of return.
- Common forms of investing include stocks, bonds, house purchases, and Private Limited Companies (PLCs).

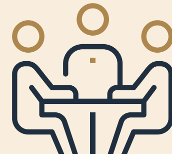
Group exercise

Dear Participants: Recall the story of Hana and Kuma and identify the areas and specific types of investment areas.

Protection

In personal financial management, personal protection refers to a wide range of products that can be used to guard against an unforeseen and adverse event. Common protection products include life insurance, health insurance, etc.

2.5. Why do Some People Fail to Reach Their Financial Goals?



Dear Participants: There are many reasons why some people don't reach their financial goals. In relation to this, about 15 empirically validated reasons explain such failure:

- They don't know where they are now financially.
- They don't have a clear idea of where they want to be financially.
- Their reason is insufficient, so people lose interest or motivation.
- They set unrealistic goals.
- Their goals are too big or seem too far away.
- They don't have a strategy to achieve their goals.
- Their goals change.
- They don't measure their progress toward their goals.
- They don't have a support system (financial planner, coach, and friends/family).
- Someone close (friend/family) is negative or doesn't offer support.
- They have limiting beliefs about themselves or money.
- Their goals or financial plan was developed by someone else— it's unrealistic for them.
- They make excuses for their financial situation.
- They hang out with negative people who only talk about financial problems.
- They don't take action.

Group exercise

Dear Participants: have some short, medium, or long-term financial goals. As a matter of fact, you may not be able to reach all of them. Thus, out of the above empirically validated reasons, identify five key reasons that explain such failure. Share the result with the other participants.

2.6. Financial Goals Setting Formula

Exercise

Using the piece of paper given to you by the trainer and training facilitators, list out your financial goals based on timeframe (short, medium, and long-term)

Dear Participants:

- If you map out your journey to financial success, you can confidently move forward. This helps you to know that you are in the driver's seat! Thus, the first step in mapping a route to your financial success is to know where you are now and where you want to go.
- You can't plot a route unless you know the starting point and the destination. If you have trouble reaching your financial goals, you often know where you want to go but don't know the best route. Without the map, you take many wrong turns or encounter obstacles, slowing your progress.
- Susan Fay's famous quote states, "With a solid and sensible route for your financial journey, you will find the journey much easier. You will be at your destination before you know it!"

To start mapping your route to financial success:

1. List all your financial goals;
2. Classify your financial goals into short, intermediate, and long-term perspectives;
3. Determine the date you would like to reach that goal;
4. List any potential obstacles that could slow or prevent you from reaching that goal; and,
5. For each obstacle, plan how you will get around it.

Apply the following SMARTEST financial goals-setting formula

Specific	Make your goal as specific as possible. Measurable Find a way to measure progress toward your goal.
Achievable	Develop a plan of action— steps you need to take.
Realistic	Determine if the goal is realistic for you.
Target	Identify obstacles or roadblocks to success.
Exhibit	Write goals down—put them where you can see them.
Support	Find people who support you and hold you accountable.
Time	Set a realistic timeframe for achievement.

2.7. Steps in Setting Financial Goals

Dear Participants, in addition to the SMARTEST formula, you should use the following steps to set your financial goals.

STEP 1: Determine where you are now and where you want to be

Hints:

- Get a clear picture of your current net worth, debt, income, and spending habits.
- Set one or two intermediate and long-term financial goals.
- Set a date for achieving each goal.

STEP 2: Determine your whys

Dear Participants, in determining your whys, keep in mind the following issues:

- Your whys lead to motivation.
- Motivation is the key to achieving your financial goal in any area of your life.
- Financial goals are dreams with deadlines.

STEP 3: Determine how to get there

Hints:

- Create a list of all the steps to reach your financial goals.
- Make sure to write down your goals or put a picture of them on a vision board. Look at them often!
- Review your goals often— they can change!

STEP 4: Identify potential obstacles and solutions

- Identify the obstacles you may face when working to achieve your goals, then find solutions.

Hints:

- List anything you could think of that prevents you from reaching your goals.
- Make a list of things you could do to overcome the obstacles to your goals.

STEP 5: Write down your goals!

Hints:

Write down your goals using the Financial Goals Worksheet attached below.

- Post your goals in a place where you can see them often.
- Create a vision board.

STEP 6: Imagine!

- You can imagine your way to success!

Hints:

Use the following hints to create a vision of who you want to be, and then live up to that picture as if it were already true.

- Create a story about the person you want to be.
- Make the story as real as possible. Include what you see, feel, hear, taste, and smell.
- Make sure that your story makes you feel great when you read it.
- Set aside time each day to read your story. You can record the story and listen to it. As you read or listen to your story, imagine you are living it now.

STEP 7: Be accountable

Hints

Use the following hints to create a vision of who you want to be and then live up to that picture as if it were already true.

- Find a supportive friend, family member, mentor, or financial coach to help you stay on track with your goals. Choose someone you trust to tell you the truth and hold you accountable. Remember, every great athlete has a coach!
- Evaluate your progress often. You may find that you have made more significant strides than you thought.
- Review your goals often. You may need to revise them as you go along.

STEP 8: Make the SMARTEST goals

- Apply the SMARTEST financial goal-setting formula stated in the preceding section.

STEP 9: Excuses must be gone!

Hints:

- Stop making excuses.
- Decide to change your life.
- Create positive affirmations (statements) to replace any negative self-talk.

STEP 10: Balance your life

- Set goals in all areas of your life. The same goal-setting formula can improve your health, relationships, and spiritual life.

Practical Exercise

Dear Participants,
Use “Setting SMARTEST oals” to identify goals that will help you plan for and attain the things that matter most to you.

Develop your financial goals worksheet using the following format:

FORMAT 1.

Long-term financial goal #___________ Expected completion date: __________

Long-term financial Goal	Reasons for setting this goal	Potential obstacles to reaching this goal	Your action plan for this goal

Following the draft of the long-term plan, make a list of short-term goals needed to reach this long-term goal. This is your action plan.

Short-term financial goal #___________ Expected completion date: __________

Short-term financial goal	Reasons to achieve this short-term goal	Obstacles to reaching this short-term goal	Strategies to overcome each obstacle	Means of verification

2.8. Summary

Dear participants, you have learned the fundamental skills of setting goals and the information needed to achieve them in this module. The key issues discussed in the goal-setting module can be shortly summarized as follows:

- A goal is a statement about what a person wants to be, do, or have accomplished by taking specific steps. It provides directions to a plan of action that explains what you want to achieve at a specific time in the future. It helps you prioritize how you spend your time and other resources. Your goals are sources of motivation and confidence in realizing your dream.
- Goal setting means determining what you want to accomplish as a person or business institution. It involves developing an action plan to motivate and guide oneself or a group toward a goal.
- A financial goal is an objective individuals/institutions set to attain certain monetary milestones. Setting a financial goal is key to success and attaining financial freedom.
- Financial goals serve as a guide to help you define your path and keep you on it.
- This requires you to set your financial goals in terms of timeframe. Some goals may be achieved very quickly (e.g., short-term goals); some may need a few years (medium-term goals); and others may need a longer time or even decades (long-term goals).
- Personal financial management is the process of planning and managing personal financial activities, such as income generation, spending, saving, investing, and protection. It requires understanding one's financial situation to make the most of one's assets in day-to-day life and in planning for one's future.
- There are many reasons why some people don't reach their financial goals. Thus, failure to know where you are now financially, failure to have a clear idea of where you want to be financially, failure to set realistic goals, setting too big goals, and lack of strategy to achieve their goals are the main

reasons why some people don't reach their financial goals.

- To start mapping your route to financial success, you need to list all your financial goals, classify them into short-term, intermediate, and long-term perspectives, determine the date you would like to reach each goal and plan how you will overcome each obstacle.
- Finally, when setting your financial goals, make sure they are specific, measurable, achievable, realistic, and attainable within a certain period of time.

2.9. Retrospective Questions on Goal Setting

Dear trainer, ask the participants to form groups as indicated below with the help of the assistant. Ask the participants to take out and discuss each of the questions assigned to them. After 10-15 minutes, ask volunteers to share their insights for 2 minutes. Congratulate them for their good work.

Discuss in groups that will be organized by the training facilitator as indicated below:

Question #1 — Group 1

Question #2 — Group 2

Question #3 — Group 3

Question #4 — Group 4

Question #5 — Group 5

Dear participants

1. Are you happy with what you have learned in this module about the concept of goal-setting?
2. Do you think that the conceptual, theoretical, and practical explanations/engagements presented about goal setting help fill your knowledge gaps? Explain how.
3. Do you now have a somewhat better understanding of goal setting? Explain how helpful it is to manage your business.
4. Identify and discuss the benefits of goal setting. Explain how it is instrumental to your business and family.
5. How much of the practical information discussed in this module do you feel confident in applying to manage your business?

3

Module Three

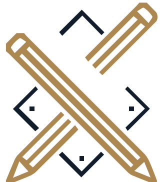
Budgeting

Welcome to **Module Three**. This module aims to teach you the fundamental skills of financial budget preparation and its administration.

Objectives

By the end of this module, you will be able to:

- Understand the concept of budget;
- Explain why creating a realistic budget is beneficial;
- Identify the steps followed to create a budget;
- Use a budget as a tool to manage business effectively; and
- Comprehend the reasons to adhere/stay to the budget.



Training aids

- Flip chart
- Posters
- Overheads
- Whiteboard
- Educational videos
- Markers
- Notebook
- Pen/pencil

Training methods

Say the following:

- Brainstorming
- Lecturing
- Presentation
- Exercises
- Case studies
- Discussion
- Role playing
- Coaching
- E-learning

Duration

7 hours

Module Content

- The concept of budget
- Characteristics of budget
- Benefits of having a budget
- Essentials of effective budgeting
- Why is a budget so critical to business success?
- Types of budgets
- Steps to develop a budget
- Things to keep in mind as you create a budget
- Best practices and properties of budgeting
- Stay within your budget
- Summary
- Retrospective questions on budgeting

Brainstorm

Instruction: in groups discuss the following

1. How do you explain what a budget is?
2. Have you ever prepared a budget? If yes, examine your experience of budgeting practices.

3.1. The Concept of Budget

Before Hana and Kuma begin to create and use a budget for The Coffee Hub, they need to understand exactly what a budget is. Some basic definitions are presented below to help Hana and Kuma understand the purpose of a budget: what it is and why it is important.

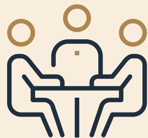
- A budget can be defined as a plan and financial projection of your business that lays out what you will do with your money.
- A budget is an annual financial plan that converts business goals and objectives into money.
- A budget is a tool to decide, plan, and use your money to achieve your goals.
- A budget can help you decide how to spend your money and save to reach your goals wisely.

In addition to the above definitions, some important messages about budget can be found below.

Important

- A budget helps you measure the success of your business.
- A budget should be part of your overall business plan.
- A budget is a plan that divides your income among necessary living expenses, savings and investment a certain period.
- A budget expresses business goals and objectives in financial terms.

3.2. Characteristics of Budget

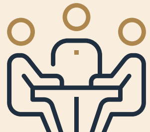


Dear participants, discuss the main characteristics of the budget you will prepare for The Coffee Hub. Report the result.

The following are the basic characteristics of a budget:

- It is mainly a forecasting and controlling device.
- It is prepared in advance before the actual operation of the business.
- It has a definite period, with a beginning and ending.
- Before implementation, it is to be approved by the management.
- It shows capital, recurring expenditure, or expenses to be employed during the period.

3.3. Benefits of Having a Budget

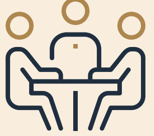


Dear participants, what are the benefits of having a budget for The Coffee Hub?

Dear Participants: A good budget helps you pay for what you need and save for what you want. You can gain the following benefits from having a budget:

Figure 3. Benefits of having a budget

3.4. Essentials of Effective Budgeting



Dear participants, effective budgeting is instrumental for the success of your business. The following figure presents the essentials of effective budgeting.

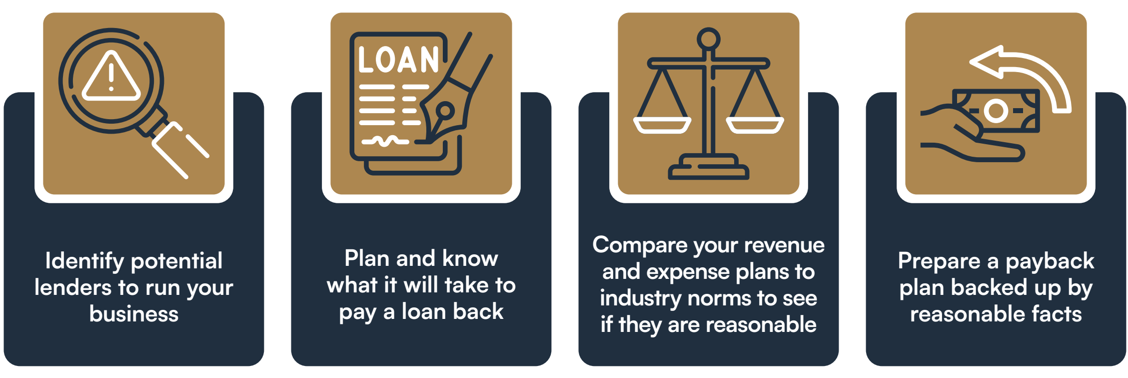
Essentials of Effective Budgeting

3.5. Why is a Budget So Critical to the Success of a Business?

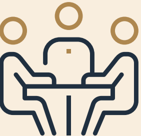
Dear Participants, a budget is critical for the following primary reasons:

Dear participants, the following details how a budget helps you demonstrate a loan repayment strategy.

Your budget is instrumental in demonstrating a loan grant and repayment strategy by helping you:



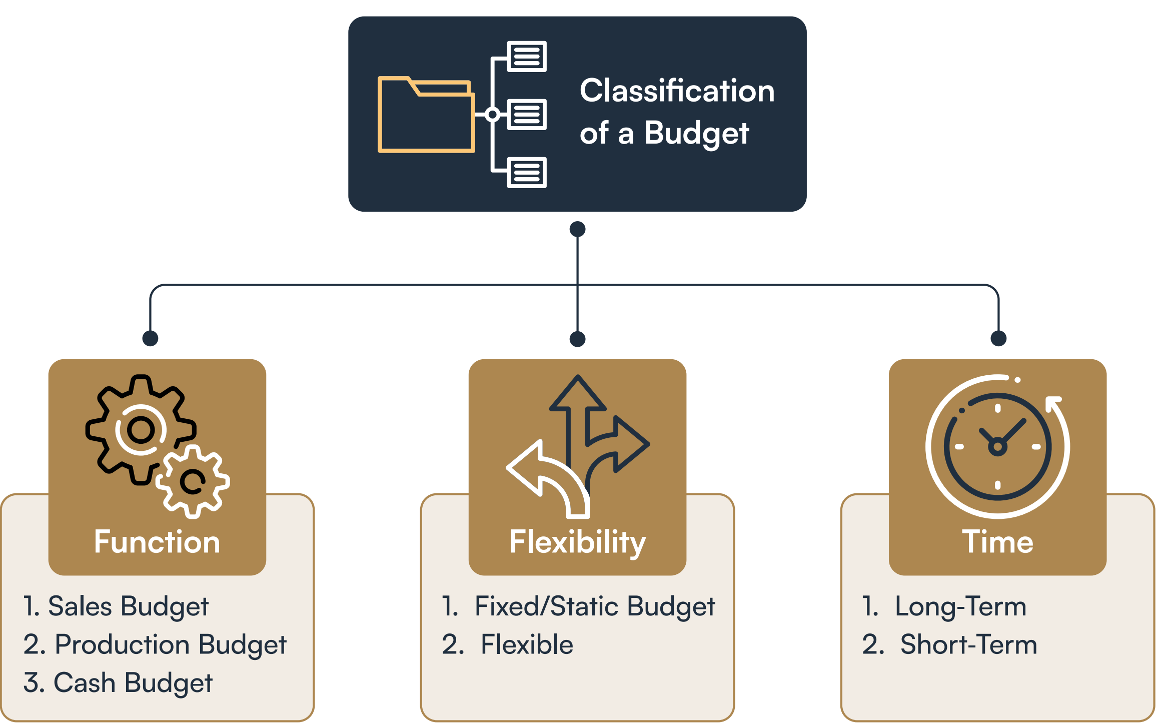
3.6. Types of Budgets



Dear participants, mention and discuss some types of budgets that you know of so far. Identify the specific type of budget that is workable for The Coffee Hub and why.

Dear participants, there are several ways you can approach budgeting. Depending on what you are trying to measure, track, and communicate, you can determine which budgeting approach is best and why. The extent of budgeting activity varies from firm to firm. A smaller firm like The Coffee Hub may have a sales forecast, a production budget, or a cash budget. Larger firms generally prepare a master budget. Budgets can be classified in different ways from different points of view. For this module, the following are the important bases for classification:

Figure 4. Some classifications of budget



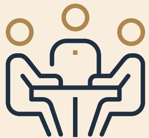
Dear participants, brief descriptions of some of the budget types are presented below:

Table 3. Budget Classifications

Criteria	Budget types	Description
Function	Sales budget	• The sales budget is an estimate of total sales which may be articulated in financial or quantitative terms.
	Production budget	• The production budget is prepared based on estimated production for the budget period. • The production budget envisages the production program to achieve the sales target.
	Cash budget	• The cash budget is a sketch of the business's estimated cash inflows and outflows over a specific period. • The cash budget is one of the most important and last to be prepared.
Flexibility	Fixed budget	• A fixed budget is prepared for one level of output and one set of conditions. • This is a budget in which targets are tightly fixed.
	Flexible budget	• This is a dynamic budget. • A flexible budget is designed to change in relation to the level of activity attained
Time	Long-term budget	• This budget is prepared based on long-term projections and portrays a long-range plan. • It generally covers plans for three to ten years.
	Short-term Budget	• In this regard, it is mostly prepared in terms of physical quantities rather than monetary values. • This budget gives forecasts and plans for about one to five years in light of its operations. • It is generally prepared in monetary units and is more specific than a long-term budget.

Dear Participants: The second section of the budgeting template summarizes your information from the first section. This summary will help you succeed throughout the budgeting cycle.

3.7. Steps to Develop a Budget



Dear participants, discuss steps that Hana and Kuma need to follow in creating the budget for The Coffee Hub. Report the result.

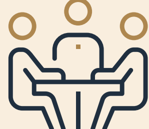
Dear participants:

- It is important to learn the steps involved in creating a budget.
- A budget is a plan on how to save and spend money.
- Budgets include the sources of funds and the outflow of funds.
- An annual budget is typically developed and broken down by quarters, months, or weeks.
- Hana and Kuma are expected to apply the following steps to prepare a budget for The Coffee Hub:

Figure 5. Steps to develop a budget

1. Review your financial goals
2. Estimate income from different sources
3. List all expenses and amounts needed
4. Make sure your expenses do not exceed your income
5. Decide how much you will save
6. Review and adjust as needed

3.8. Things to Keep in Mind While Creating a Budget

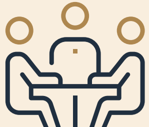


Dear participants, discuss things that Hana and Kuma need to keep in mind as they create a budget for The Coffee Hub. Report the result.

Dear participants: Creating a solid budget using key operational data will help Hana and Kuma make crucial decisions about The Coffee Hub business. To do so, Hana and Kuma can follow the tips below when they create a budget:

- Create manageable and meaningful categories of revenues and expenses.
- The categories should mirror how to track income and expenses.
- Use the category size (% of the total) to decide to break the category down further.
- Categories over 50% of the total should be broken down.
- Similar revenues or expenses should be combined in categories less than 2% of the total.
- Check the budget against the industry's financial information to see if your business is aligned with industry averages; otherwise, find out why or make necessary adjustments.

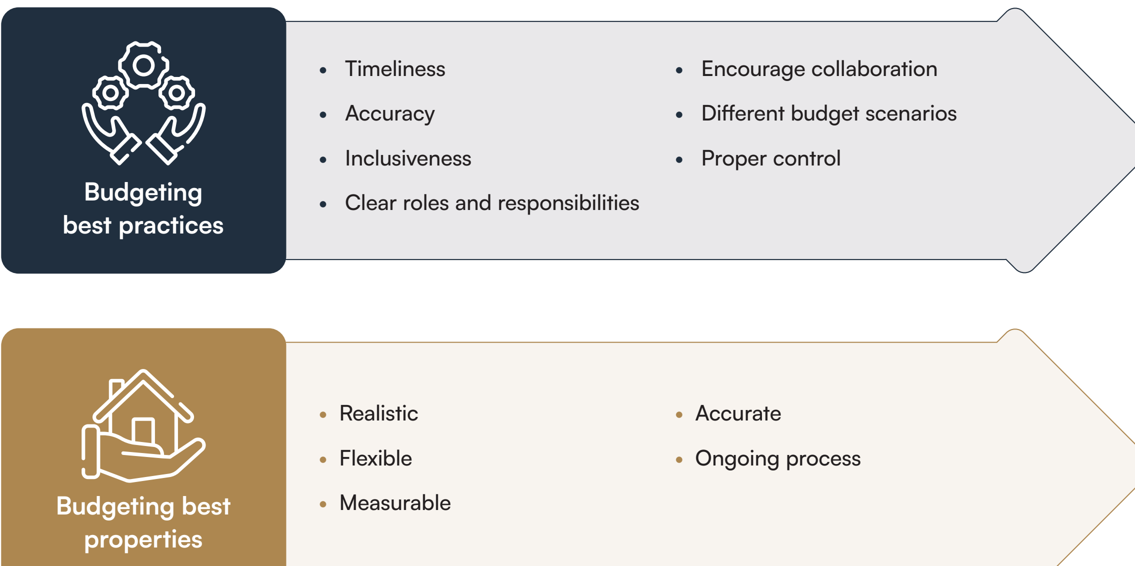
3.9. Best Practices and Properties of Budgeting



Dear participants, discuss the best practices and properties of budgeting in groups. Then, present the result.

Dear Participants: When it comes to creating a strong budget, how you approach it (best practices) and how it functions (best properties) is very important. A brief list of the best practices and properties of budgeting are presented in the figure below:

Figure 6. Best Practices and Properties of Budgeting



The details of the common best practices of budgeting are discussed below:

1. Timeliness

- As timeliness is key in budgeting, you need to start early and give yourself enough time to gather all the information and input from business partners to build a strong budget that accurately reflects your business goals and objectives for the fiscal year.

2. Accuracy

- You need to make sure that your budget is an accurate reflection of your goals and objectives.
- If you are preparing a budget for a currently functioning business, make sure that the budget is coherent with the annual operational and ongoing strategic plans.

3. Inclusiveness

- You need to make the budgeting process participatory and inclusive.
- Make sure that all persons sharing business responsibilities have participated in the budgeting process.

4. Clear roles and responsibilities

- You need to clearly determine the roles and responsibilities of staff members who will be involved in and accountable to the budget and communicate these roles and responsibilities well in advance.

5. Encourage collaboration

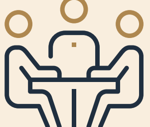
- You need to encourage collaboration among all relevant stakeholders in the budgeting process.

6. Different budget scenarios

- In business, having different scenarios will allow you and your team to quickly adapt to take advantage of new opportunities or adjust to challenges or funding cuts.

7. Proper control

- A budget allows you to monitor and evaluate budget implementation.



Dear Participants, based on the tips presented above, you can now consider budgeting as a simple cyclical process consisting of four simple steps:

Step 1 — Prepare

- Estimate your expected money coming in, money going out, and money set aside for later use as accurately as possible.

Step 2 — Create

- Ensure your money coming in equals your money going out and money set aside for later use—this is your budget.

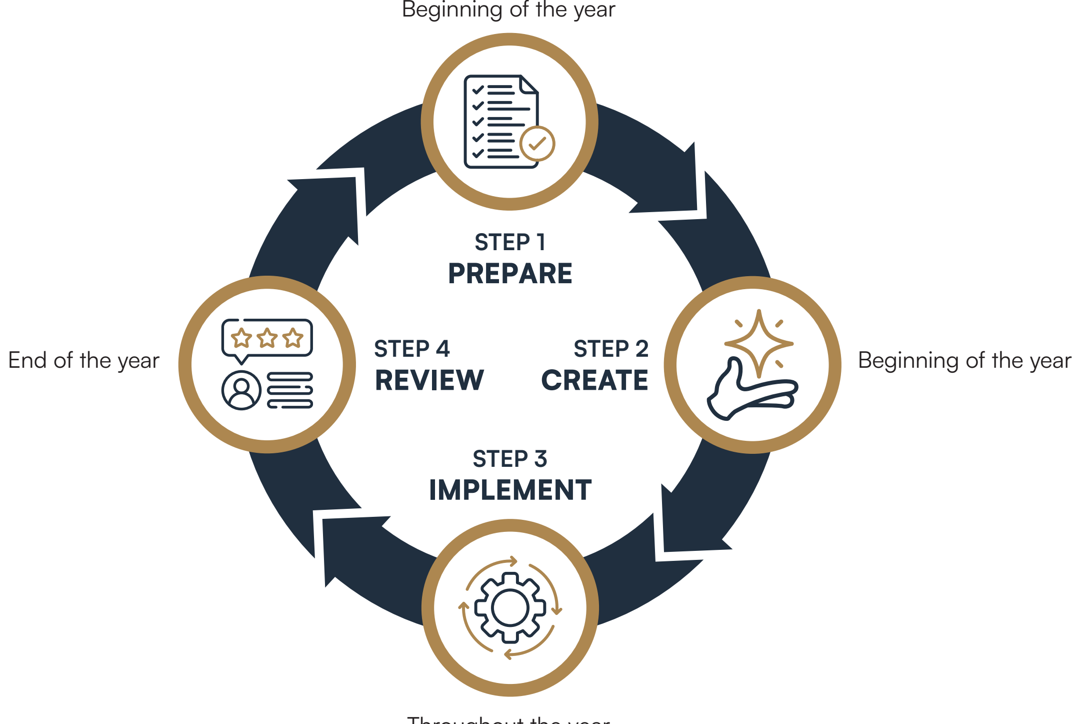
Step 3 — Implement

- Put the budget in place and refer to it when making decisions.

Step 4 — Review

- Regularly compare what happened against your estimated budget, and use this information to adjust for your next budgeting period.

Figure 7. The budgeting cycles



Practical exercise: Develop budget for The Coffee Hub

For practical exercise, use the budgeting template below to develop a budget for The Coffee Hub. You will later prepare your completed budget after completing the training. To create the budget for The Coffee Hub, you calculate the necessary income and expenses. With this calculation, to cover all expenses and save The Coffee Hub's goal.

Dear Participants: The first section of your budgeting template needs to have three basic categories:

1. Income (money coming in, e.g., salary, sale of livestock, etc.);
2. Expenses (money going out, e.g., utility fee, rental fee, transport cost, etc.); and
3. Savings (money set aside for later use, e.g., bank balance, cash on hand, etc.).

Table 4. Income budgeting template (money coming in)

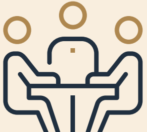
Income (after taxes and deductions)	Amount (Birr)	Frequency Per Month	Monthly equivalent
Employment	Xxx	2	xxx
Petty trade	Xxx	2	xxx
Farm	Xxx	1	xxx
Construction	Xxx	2	xxx
Friends	Xxx	2	xxx
Retirement	Xxx	1	xxx
Social assistance	Xxx	2	xxx
Others	Xxx	3	xxx
Total Income (after taxes and deductions)	Xxxx		xxxx

Table 5. Expenses budgeting template (money going out)

Expenses	Amount (Birr)	Frequency per month	Monthly equivalent
Housing rent	Xxx	1	xxx
Food	Xxx	1	xxx
Transportation	Xxx	2	xxx
Health	Xxx	1	xxx
Education	Xxx	2	xxx
Miscellaneous	Xxx	1	xxx
Total expenses	Xxxx		xxxx

Table 6. Savings budgeting template (money set aside for later use)

Savings	Amount (Birr)	Frequency of deposits	Monthly equivalent
Emergency fund	Xxx	1	xxx
Financial goals	Xxx	1	xxx
Total savings	Xxxx		xxxx



Dear Participants: The second section of the budgeting template summarizes your information from the first section. This summary will help you succeed throughout the budgeting cycle.

Table 7. Balancing your budget

Make adjustments to your income, savings, and expenses so that your budget is balanced		
Period	**Every month**	**Status**
Total income	xxx	
Total savings	xxx	
Total expense	xxxx	
Difference	xxx	

Practical Exercise

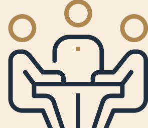
Dear participants:

Under the guidance of the trainer and the facilitator, develop an annual budget for The Coffee Hub using the three budget templates.

3.10. Stay Within Your Budget

What do you need to do to stay within your budget?

- At the end of the budget period, your business's financial success or shortcomings will ultimately reflect how well you composed, followed, and adjusted the budget.
- It is extremely important to compare your actual financial results against your budget every week, month, and year and track the variances.
- Tracking and using your actual versus budget variances will help devise improvements and plans for the future.



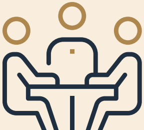
Dear Participants:

There are many ways to make sure you stay within your budget. You can use a spreadsheet or an application (for MSMEs). When budgeting, try to live within your budget and discipline yourself. Keep a notebook to record everything that goes in and out, and spread money across storage bins for different things (e.g., weddings/funerals, transport, school fees).

Figure 8. Tips to stay within your budget

1. Remind yourself often what you planned to spend.
2. Put in the budget a line item for unexpected spending needs.
3. Keep savings out of reach so you do not spend them.
4. Keep track of what you spend.
5. Make sure you do not spend more than what is budgeted.
6. If you spend more on one item, spend less on something else.
7. Make a list of ways to cut planned expenses.

3.11. Summary



Dear participants: In this module, you have learned the fundamental skills of setting a budget and the information needed to stay within one. It discusses the purpose of a budget: what it is and why it is important. It deliberates on the importance of building a budget as a critical tool for your success. It underlines the use of a budget to manage business effectively. The module identifies the best practices for creating and maintaining a budget.

- Finally, this module provides tips that help you stay on the budget by making it a regular part of your routine. The key issues discussed in the budgeting module can be shortly summarized as follows: A budget is a plan and financial projection of your business that lays out what you will do with your money. It is an annual financial plan that converts business goals and objectives into money. A budget is a tool for deciding, planning, and using money to achieve your goals. It can help you decide how to spend your money wisely and save to reach your goals.
- A budget helps you measure your business's success. It should be part of your overall business plan. This plan divides your income among necessary living expenses, savings, and investments during a certain period. It expresses business goals and objectives in financial terms.
- A financial budget is mainly a forecasting and controlling device. It is prepared in advance before the actual operation of the business. In terms of period, it has a definite period with a beginning and an end. Thus, before implementation, it must be approved by the management. A budget shows capital, recurring expenditures, or expenses to be employed during the period.
- A budget helps you pay for what you need and save for what you want in life. Its primary benefits are that it encourages decision-making about saving and investing, helps you control your money, meet financial goals, and run your business smoothly, gives you a greater sense of control, and is a planning tool.
- The essentials of effective budgeting include top management support, teamwork, realistic objectives, and an excellent reporting system.
- A budget is critical for business success for the following primary reasons: It helps you predict cash flows and avoid surprises; it serves as a loan repayment strategy; it quickly highlights areas that need improvement; it helps you project the future and take actionable steps.
- A budget can take different forms: sales budget, production budget, cash budget, long-term budget, medium-term budget, and short-term budget. The sales budget estimates total sales, which may be articulated in financial or quantitative terms. The production budget is prepared based on estimated production for the budget period.
- The cash budget is a sketch of the business's estimated cash inflows and outflows over a specific period of time. Long-term budgets are prepared based on long-term projections and portray long-range planning. A short-term budget forecasts and plans for about one to five years in light of its operations.
- To prepare a budget, you are expected to follow the following steps: review your financial goals; estimate the income from different sources; list all expenses and amounts needed; ensure your expenses are not more than your income; decide how much you will save; and review the budget and adjust it on time.
- The best practices in budgeting include accuracy, inclusiveness, clear roles and responsibilities, encouraging collaboration, different budget scenarios, and proper control.
- Finally, at the end of the budget period, your business's financial success or shortcomings will ultimately reflect how well you composed, followed, and adjusted the budget.

3.12. Retrospective Questions on Budgeting

Discuss in groups that will be organized by the training facilitator as indicated below:

Question #1 — Group 1

Question #2 — Group 2

Question #3 — Group 3

Question #4 — Group 4

Question #5 — Group 5

Dear participants

1. Are you happy with what you have learned about budgeting in this module?
2. Do you think the conceptual and theoretical explanations presented above are helpful to fill your knowledge gaps? Explain how.
3. Do you now have a somewhat better understanding of budgeting? Explain how helpful it is to manage your business.
4. Identify and discuss the benefits of budgeting and explain how it is instrumental to your business and family.
5. How much of the information discussed in this module will you be able to apply to manage your business?

4

Module Four

Basics of Bookkeeping/Accounting

Welcome to **Module Four**. This module will provide a brief understanding of the nature and advantages of bookkeeping in a small business context. You will learn about the importance and fundamental concepts of bookkeeping, including basic accounting terminology, common financial reports, and components of financial reports. Bookkeeping is essential for MSMEs to manage their finances effectively, comply with tax laws, plan for the future, and access financing. By keeping accurate financial records, businesses can improve their efficiency, credibility, and overall success.

Objectives

By the end of this module, the participants will be able to:

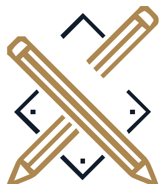
- Define bookkeeping and explain its importance;
- Understand the basic accounting concepts and principles;
- Identify the key components and processes involved in bookkeeping;
- Develop the skills to organize and maintain financial records effectively;
- Apply the accounting equation to analyze and record business transactions accurately;
- Identify the different users of financial reports and their specific information needs; and
- Understand the nature and advantages of tax management.

Training methods

- Brainstorming
- Lecturing
- Presentation
- Exercises
- Case studies
- Discussion
- Role playing
- E-learning

Duration

7 hours



Training aids

- Flip chart
- Posters
- Overheads
- Whiteboard
- Educational videos
- Markers
- Notebook
- Pen/pencil

Module Content

- The concept of bookkeeping
- Advantages of bookkeeping
- Basic Bookkeeping concepts and principles
- Key tips for effective bookkeeping
- Theobjective and users of financial reporting
- Basic accounting equation
- Tax and tax management

Brainstorm

Dear participants, answer the following questions:

- What is bookkeeping?
- How do you think bookkeeping could help your business?

4.1. The Concept of Bookkeeping

What is bookkeeping?

Bookkeeping is the process of recording and tracking financial transactions. It is essential to running any business; however, it can be especially challenging for MSMEs. MSMEs often lack the resources and expertise to hire a full-time accountant, so they must rely on their employees to handle bookkeeping tasks. Efficient bookkeeping will enable businesses to assess their profitability, manage costs, evaluate the success of their business model, and ensure compliance with financial regulations. By implementing key steps for effective bookkeeping, business organizations can establish a strong foundation for financial stability and growth in their venture.

4.2. Advantages of Bookkeeping

Bookkeeping records the money received and spent by micro and small enterprises. Hence, it can provide several advantages, including:

1. **Better Financial Management:** Bookkeeping enables micro and small enterprises to keep track of income and expenses and helps them manage their finances more effectively.
2. **Improved Cash Flow Management:** Bookkeeping helps micro and small enterprises monitor their cash flow, enabling them to make better decisions about spending and investment.
3. **Better Business Planning:** Bookkeeping provides valuable financial data that can be used to create business plans and forecasts for businesses to make informed decisions about future growth and development.
4. **Easier Access to Financing:** Accurate financial records make it easier for MSMEs to obtain loans or other forms of financing from banks or other lenders.
5. **Increased Efficiency:** Bookkeeping helps micro and small enterprises streamline their financial processes, reducing the time and resources required to manage their finances. This frees up resources for other essential business operations.
6. **Enhanced Credibility:** Accurate financial records help build credibility with customers, suppliers, and other stakeholders. This can be critical for building a successful business and establishing a solid market reputation.
7. **Accurate Tax Reporting:** Bookkeeping ensures that all financial transactions are accurately recorded so tax returns can be prepared and filed easily. Proper tax management is crucial for businesses to avoid penalties and legal issues.

4.3. Basic Bookkeeping Concepts and Principles

Understanding basic accounting concepts is essential for effective financial management and business decision-making. Here is a note on the basic accounting concepts:

Entity Concept: The business should be treated as a separate legal and financial entity from its owners; this concept ensures that the business's financial transactions and records are distinct from the owners' finances.

Money Measurement Concept: The business transactions should be recorded and reported in monetary terms. This concept allows quantifying and measuring the business's financial activities, such as revenue, expenses, and assets.

Going Concern Concept: The business should be assumed to continue operating indefinitely unless there is evidence to the contrary. This concept allows for preparing financial statements, assuming the company will continue its operations and fulfill its obligations.

Matching Concept: The business should match its expenses with the related revenues in the same accounting period. For example, in the Coffee Hub case, the costs of purchasing coffee beans and other supplies should match the revenues generated from selling coffee during the same period. This concept helps to determine accurate net income for each accounting period.

Consistency Concept: Apply consistent accounting methods and practices from one period to another. Consistency in financial reporting ensures comparability and reliability in presenting financial information over time.

Measurement Principles

Historical cost: The business should record its assets at their historical cost, the original cost incurred to acquire them. This concept ensures that the financial statements reflect the actual cost of the assets and provide a reliable basis for decision-making.

The fair value principle states that assets and liabilities should be reported at fair value (the price received to sell an asset or settle a liability).

4.4. Key Steps for Effective Bookkeeping

Effective bookkeeping requires an understanding of the basic steps. Businesses should systematically record and organize their financial transactions for effective bookkeeping. Here are the key steps they should consider:

1. Chart of Accounts

This is a categorized list of all the accounts used to record financial transactions, such as sales, expenses, inventory, and assets. It helps to organize and classify transactions accurately. Here is a sample chart of accounts for The Coffee Hub:

1. Asset Accounts:

1.1. Cash on Hand
1.2. Accounts Receivable
1.3. Inventory (Coffee Beans, Food, Merchandise)
1.4. Prepaid Expenses
1.5. Equipment and Fixtures

2. Liability Accounts:

2.1. Accounts Payable
2.2. Accrued Expenses
2.3. Loans Payable

3. Equity Accounts:

3.1. Capital (Hana's Investment)
3.2. Capital (Kuma's Investment)
3.3. Retained Earnings

4. Revenue Accounts:

4.1. Coffee Sales
4.2. Food Sales
4.3. Merchandise Sales
4.4. Catering Services

5. Expense Accounts:

5.1. Cost of Goods Sold (COGS)
5.2. Rent and Lease Expense
5.3. Utilities
5.4. Salaries and Wages
5.5. Employee Benefits
5.6. Marketing and Advertising
5.7. Supplies and Ingredients
5.8. Equipment Maintenance and Repairs
5.9. Insurance
5.10. Professional Fees (e.g., legal, accounting)
5.11. Depreciation and Amortization
5.12. Bank Charges
5.13. Miscellaneous Expenses

Note: This is a general chart of accounts, and you can modify or expand it based on your business's specific needs and structure. It is recommended to consult with an accountant or a bookkeeping professional to tailor the chart of accounts to your business accurately.

2. Sales Recording

Sales is exchanging a commodity or service for money.

Implementing a point-of-sale (POS) system and automatically tracking and recording sales transactions is recommended. This system should capture details like the date, time, products sold, and payment method. It will provide an accurate daily sales record and simplify the reconciliation process.

The following is a sample sales recording table for The Coffee Hub:

Transaction	Date	Time	Product	Quantity	Unit price	Total
1	9/16/2023	10:30 AM	Cappuccino	10	40.00	400
2	9/16/2023	10:35 AM	Latte	1	40.00	40
3	9/16/2023	10:40 AM	Espresso	2	35.00	70
4	9/16/2023	10:45 AM	Espresso	3	35.00	105
5	9/16/2023	10:50 AM	Muffin	2	25.00	50
6	9/16/2023	10:55 AM	Coffee	2	32.00	64
7	9/16/2023	11:00 AM	Tea	2	15.00	30
8	9/16/2023	11:05 AM	Tea	2	15.00	30
9	9/16/2023	11:10 AM	Coffee	2	32.00	64
10	9/16/2023	11:15 AM	Coffee	3	32.00	96
					Total Sales	**ETB 949**

The above is a sample format of sales records. You can change it according to your preference.

By maintaining a sales recording like this, business organizations can track their daily sales, analyze popular products, monitor customer preferences, and evaluate their overall performance. Data like this can then be used to make informed business decisions, optimize inventory management, and improve customer satisfaction.

3. Expense Tracking

Expense refers to all resources paid or consumed to generate sales. Business organizations need to keep track of all expenses incurred by the business. Categorize expenses into relevant accounts, such as rent, utilities, inventory, supplies, and wages. Retain receipts and invoices as supporting documentation.

Here is a sample expense tracking table for The Coffee Hub:

Date	Category	Expense Description	Amount (ETB)
01/9/2023	Rent	Monthly Shop Rent	2500
6/9/2023	Utilities	Electricity Bill	200
6/9/2023	Supplies	Coffee Beans	300
6/9/2023	Marketing	Social Media Advertising	150
6/9/2023	Equipment	Espresso Machine Repair	120
7/9/2023	Salaries	Barista Wages	800
7/9/2023	Insurance	Business Liability Insurance	250
8/10/2023	Utilities	Water Bill	50
10/9/2023	Supplies	Milk and Syrups	100
11/9/2023	Marketing	Print Flyers	50
		Total Expenses:	**ETB 4,520.00**

The above is a sample format of expense tracking. You can change it according to your preference. This expense tracking table allows Hana and Kuma to record their business expenses, monitor spending in different categories, and analyze their overall expenditure. By maintaining accurate expense records, they can effectively assess their financial health budget and make informed decisions to ensure The Coffee Hub's financial stability and success.

4. Cash Management

Maintain a cash register or drawer to record all transactions. Reconcile the cash register daily to ensure accuracy and identify any discrepancies. You can use a format similar to a sales recording table.

5. Bank Reconciliation

Regularly reconcile the business bank account(s) with the corresponding records in the bookkeeping system. Compare bank statements with recorded transactions to identify discrepancies, such as missing transactions or errors. This process helps ensure that the recorded financial data is accurate.

6. Inventory Management

Implement an inventory management system to track the quantities and values of coffee beans, supplies, and other items in the coffee hub case. Regularly update inventory records to reflect purchases, sales, and any adjustments such as spoilage or wastage.

7. Payroll Records

Maintain accurate records of employee wages, benefits, and deductions. This includes tracking hours worked, calculating payroll taxes, and ensuring compliance with labor laws. Consider using payroll software or outsourcing payroll services for efficiency and accuracy.

I. Financial Statements: Prepare regular financial statements, including the income statement (profit and loss statement) and statement of financial position.

II. The income statement presents the revenues and expenses and the resulting net income or net loss for a specific period.

- **Net income:** revenues are greater than expenses
- **Net loss:** If revenues are less than expenses

III. Statement of financial position: reports the assets, liabilities, and owners' equity at a specific date.

Income Statement (Profit and Loss Statement)

The Coffee Hub Income Statement For the Year Ended 07-July-23	
Sales	ETB XXX,XXX
Cost of Goods Sold	(XXX,XXX)
Gross Profit	ETB XXX,XXX
Operating Expenses	
• Rent	(XX,XXX)
• Utilities	(XX,XXX)
• Salaries	(XX,XXX)
• Marketing	(XX,XXX)
• Other Expenses	(XX,XXX)
Total Operating Expenses	(XXX,XXX)

Note: The Income Statement presents the revenues, expenses, and resulting net income for a specific period (in this case, the year ended on December 31, 2023). It starts with sales, subtracting the cost of goods sold to calculate gross profit. Then, operating expenses such as rent, utilities, salaries, marketing, and other expenses are deducted to arrive at the net income. The net income represents the profit or loss generated by the business during the specified period.

If your business is small and may not require formal financial reporting, you can use the following format to calculate revenues and expenses.

Revenues (+)			Expenses (-)		
Date	**Description**	**Amount**	**Date**	**Description**	**Amount**
xx	xxx	Xxx	xxx	xxx	xxx
xx	xxx	Xxx	xxx	xxx	xxx
Total revenues		Xxx	Total Expenses		xxx

The statement of financial position (Balance sheet)

The Coffee Hub Statement Of Financial Position /Balance Sheet As of December XX, 2023	
Assets	
• Cash and Cash Equivalents	ETB XX,XXX
• Accounts Receivable	ETB XX,XXX
• Inventory	ETB XX,XXX
• Prepaid Expenses	ETB XX,XXX
Total Assets	**ETB XXX,XXX**
Liabilities	
• Accounts Payable	ETB XX,XXX
• Short-term Loans	ETB XX,XXX
• Accrued Expenses	ETB XX,XXX
Total Liabilities	**ETB XXX,XXX**
Equity	
• Owner's Capital	ETB XXX,XXX
• Retained Earnings	ETB XX,XXX
Total Equity	**ETB XXX,XXX**
Total Liabilities and Equity	**ETB XXX,XXX**

Note: The statement of financial position provides a snapshot of the company's position on a specific date. It lists the assets (for example, cash, accounts receivable, inventory, prepaid expenses), liabilities (for example, accounts payable, short-term loans, costs accrued), and equity (owner's capital, retained earnings). The total assets should equal the total liabilities and equity, representing the company's financial worth.

These financial statements can help to track and analyze financial performance and position. They are essential for monitoring profitability, managing expenses, making financial decisions, and presenting the business's financial health to potential investors or stakeholders.

8. Backup and Security

Regularly back up financial data to prevent loss or damage. Implement security measures to protect sensitive financial information, such as using secure servers and restricting access to unauthorized personnel.

9. Periodic Review:

Conduct regular reviews of the financial records to identify trends, analyze expenses, and assess the business's overall financial health. This will enable business managers to make informed decisions and identify areas for improvement.

It is recommended to consult with an accountant or bookkeeping professional to ensure compliance with local regulations, optimize their bookkeeping processes, and receive guidance on best practices specific to their business.

Exercise (Profit Calculation)

The following is a practical numeric exercise to calculate the profit for a small coffee business based on the provided information.

Assumptions:

Average price per coffee: Birr 25

Average number of daily customers: 100

Number of operating days in a month: 30

Monthly rent: Birr 10,000

Monthly utilities: Birr 2,000

Monthly salaries: Birr 12,000

Other monthly operating expenses: Birr 5,000

Now, let's calculate the profit step by step:

Revenue Calculation:

Average daily revenue= Average number of daily customers * Average price per coffee**= 100 * 25 = Birr 2,500**

Monthly revenue= Average daily revenue * Number of operating days in a month **= 2,500 * 30 = Birr 75,000**

Cost of Goods Sold (COGS) Calculation:

Let's assume the average cost per coffee, including ingredients and packaging, is Birr 10.

Monthly COGS= Average cost per coffee * Number of coffees sold in a month

(Since we don't have specific information, let's assume 80% of the revenue comes from coffee sales)

Number of coffees sold in a month= **(Monthly revenue * 0.8) / Average price per coffee**

= 75,000 * 0.8 / 25 = 2,400

Monthly COGS= Average cost per coffee * Number of coffees sold in a month

= 10 * 2,400 = Birr 24,000

Operating Expenses Calculation:

Monthly operating expenses= **Monthly rent + Monthly utilities + Monthly salaries + Other monthly operating expenses= 10,000 + 2,000 + 12,000 + 5,000 = Birr 29,000**

Gross Profit Calculation: **Gross Profit= Monthly revenue - Monthly COGS**

= 75,000 - 24,000 = Birr 51,000

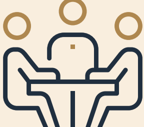
Net Profit Calculation: Net Profit= Gross Profit - Monthly operating expenses `= 51,000 - 29,000 = Birr 22,000

Based on the assumptions, the small business would generate a net profit of **Birr 22,000 per month.**

Please note that these calculations are based on the assumptions provided, and the actual values may vary. It is important to regularly review and adjust the calculations based on a small business's specific costs, prices, and expenses as the business progresses and circumstances change.

4.5. The Objective and the Users of Financial Reporting

Financial reporting aims to provide useful information to decision-makers (users). It is the language used to communicate with stakeholders.



Dear participants, who do you think are potential users of your company's financial reports, and for what purpose?

Potential users of financial reports can be internal or external stakeholders of the business.

Internal users:

Managers - To analyze performance and make strategic decisions.

Employees — To understand the financial health and stability of the company

External users:

Investors - To analyze risk and assess whether to invest in the company.

Lenders - To determine the ability to repay loans and interest.

Suppliers - assess the ability to pay accounts receivable in full and on time.

Customers - interested in the company's stability and ability to provide ongoing service and support

Government - for tax assessment and policy decision-making

Public - interested in the overall financial strength and stability of corporations

Competitors - analyze performance and spot potential weaknesses.

Analysts - journalists, researchers, and rating agencies use it for industry performance evaluation.

Special interest groups - To assess social impact and lobby.

Trade unions - analyze the company's ability to pay workers and meet future pay demands.

Hence, since your reports have several users, you need to properly design and implement a strong accounting system that will enable you to build smooth relationships with stockholders and achieve your goal.

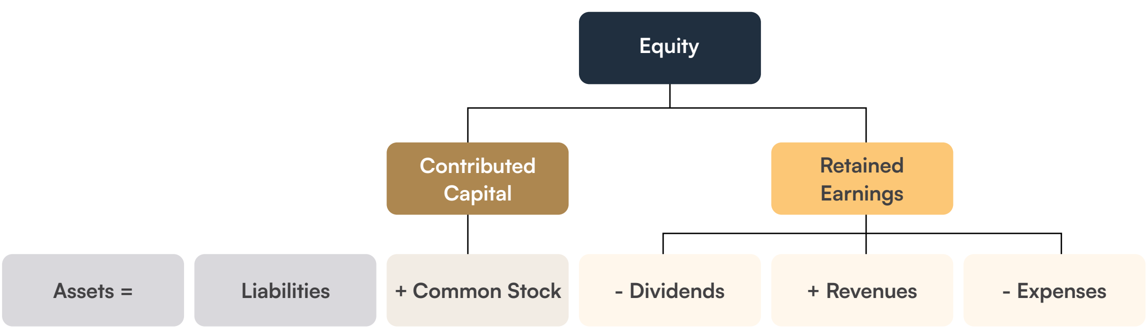
4.6. The accounting equation

The basic accounting equation states that:

ASSET = LIABILITIES + OWNER'S EQUITY

The extended accounting equation is presented in the following figure:

Figure 9. The extended accounting equation



Assets

Assets are things of value owned by the business and expected to benefit the business in future years. They can be current or fixed.

Current Assets are cash, cash equivalent, or assets held for collection, sale, or consumption within the entity's **normal operating cycle** or assets held for trading within **the next 12 months**. Examples include:

- Cash
- Inventories
- Accounts receivables

Fixed assets/non-current assets last a long time. Examples include:

- Buildings
- Furniture
- Equipment
- Machinery
- Motor vehicles

Depreciation is the loss of value of an asset due to wear and tear.

Liabilities

Liabilities are debts owed to others. Examples include:

- Debts owed to suppliers (accounts payable) and
- Debts owed to a bank or mortgage company (bank loan payable and mortgage payable).
- They can be current or long-term.

Current Liability:

Current liabilities are:

- Debts that must be settled within the entity's normal operating cycle,
- Due within 12 months,
- Held for trading, and
- Not eligible for deferred payment beyond 12 months.

Examples include:

- Accruals, payables due
- Anything prepaid receivable
- Creditors (people to whom you owe money)

Long-Term Liabilities: They take longer than one year to pay off. Example: Long-term bank loan.

Owners' equity refers to:

- The value of assets remaining after deducting all liabilities;
- Investments made by the owner to start the business;
- Profits (or losses) earned through the operation of the business;

Revenue/income

Revenue is the earnings from selling goods and/or services to customers. Sources include:

- Producing and selling goods
- Buying and selling goods
- Giving a service (e.g., a taxi driver who provides transport)

Expense

Expenses are the costs of operating a business, typically including rent, salaries, utilities, telephone, supplies, and advertising. It is money out of your business to generate revenue. Reasons include:

Materials or ingredients (like fish and firewood for fish smoking, cloth for dressmaking, flour for bread baking).

Services such as:

- Transportation (taxi, bus)
- Market stall
- Electricity
- Rent

Salary and wage

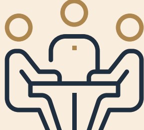
If people are helping you in your business, they must be paid a salary.

Replacement and repair of equipment and utensils: You must keep separate funds to pay for expenses such as repairing a machine, replacing worn-out utensils, or unexpected costs.

Profit

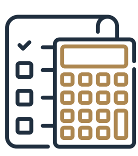
Profit is the difference between revenues and expenses.

- Profit earned if revenues are more than expenses.
- Expenses greater than revenue result in a loss.



Dear participants, assume you have your own business and list the types of assets, liabilities, revenue sources, and expenses.

4.7. Nature and Advantages of Tax



Tax and Tax Management

Brainstorm

Dear participants, answer the following questions:

- What is tax?
- Why should you pay taxes?
- How can you manage your tax payments?

Tax is a mandatory fee or financial charge levied by any government to collect revenue for public use on an individual or an organization.

Having a Tax Identification Number (TIN)

While forming a business, it is required to have a Tax Identification Number (TIN). It is a unique identification number assigned to businesses for tax purposes. Regardless of the nature of the business, obtaining a TIN would be necessary for several reasons:

1. **Tax Obligations:** Like any other business, the Coffee Hub must fulfill its tax obligations to the Ethiopian government. This includes filing tax returns, reporting income and expenses, and paying applicable taxes such as income tax, value-added tax (VAT), or other relevant taxes.
2. **Legal Compliance:** A business without a TIN could face legal issues and penalties. The TIN is an official identification number for tax authorities to track and monitor the business's tax compliance.
3. **Business Transactions:** A TIN enables the engagement of various business transactions. It may be required when opening a business bank account, entering into contracts with supp
4. **Employee Payroll and Withholding Taxes:** If The Coffee Hub plans to hire employees, having a TIN is essential for payroll purposes. It allows the business to deduct and remit taxes from employee salaries, including income tax and social security contributions.
5. **Access to Government Services:** A TIN may be required to access certain government services or benefits related to business operations, such as applying for permits and licenses or participating in government-sponsored programs.

Hence, obtaining a TIN for a business would ensure compliance with tax regulations, facilitate business transactions, and enable the business to operate legally while fulfilling its tax obligations.

Why Should Businesses Pay Tax?

Taxes are paid to the government for several purposes, including:

1. **To fund public services:** Taxes finance essential public services such as healthcare, education, infrastructure, and national defense.
2. **To redistribute wealth:** Taxes can transfer wealth from the wealthier members of society to the poorer ones, thereby reducing inequality.
3. **To regulate the economy:** Taxes can influence economic behavior, such as promoting investment or consumption and reducing inflation.
4. **To support social welfare programs:** Taxes can finance social welfare programs such as unemployment benefits and social security.
5. **To pay off government debt:** Taxes can be used to pay off government debt and to ensure that the government can continue to borrow funds when needed.

Dear participants, assume that you have your own business, and list the potential types of tax your company will pay and the tax category of your company.

4.8. How to Manage Taxe Payments

Tax management is especially critical for micro and small enterprises, as they often have limited resources and may not have dedicated tax departments. The following are some tips on how to manage tax;

1. **Keep Accurate Records:** Use accounting software or hire a bookkeeper to manage your financial records.
2. **Separate Business and Personal Finances:** Keep your personal and business finances separate to avoid confusion and ensure you only claim business expenses on your tax return.
3. **Understand Tax Obligations:** Understand your tax obligations, including the types of taxes you must pay, filing deadlines, and payment schedules.
4. **Take Advantage of Tax Deductions:** Identify all tax deductions and credits available to your business to minimize tax liability. For example, you may be able to deduct expenses related to office rent, salary, and equipment depreciation.
5. **Use Online Tax Filing:** Consider using online tax filing services to simplify the tax filing process and avoid errors.
6. **Seek Professional Advice:** Seek professional advice from a tax specialist or accountant to ensure compliance with tax laws and regulations and maximize tax savings.
7. **Plan for Taxes:** Plan for tax payments in advance to avoid cash flow problems. Set aside funds for tax payments and make payments on time to avoid penalties and interest charges.

4.9. Summary

Bookkeeping is the systematic process of recording and organizing financial transactions within a business. It involves maintaining accurate and up-to-date revenue, expenses, assets, and liabilities records. It serves as the foundation for financial management and decision-making in companies. The advantages include providing a clear financial picture of the business, facilitating informed decision-making, ensuring compliance with tax regulations, assisting in budgeting and forecasting, and enabling accurate financial reporting.

Basic accounting principles guide the practice of bookkeeping. These principles include the accrual basis, consistency, materiality, and double-entry bookkeeping. Adhering to these principles ensures financial reporting accuracy, consistency, and reliability.

Key steps for effective bookkeeping involve maintaining the chart of accounts, recording transactions accurately, and preparing financial statements. These steps help to ensure the integrity of financial data and provide a solid foundation for financial analysis and reporting.

The basic accounting equation (Assets = Liabilities + Equity) is the foundation for double-entry bookkeeping. It ensures that the financial records remain balanced and provides a framework for analyzing the impact of transactions on assets, liabilities, and equity. Financial reports are prepared to provide relevant and reliable financial information to various stakeholders such as investors, creditors, and management.

Users of financial reports rely on this information to make informed decisions, assess the financial performance and position of the business, and evaluate its ability to meet obligations.

Tax and tax management involve understanding tax regulations, planning tax strategies, and ensuring compliance. Effective tax management helps businesses minimize tax liabilities, take advantage of available deductions and credits, and meet their tax obligations.

Based on sound accounting principles, bookkeeping is vital in maintaining financial records, facilitating decision-making, and providing stakeholders with accurate and reliable financial information. Effective bookkeeping practices contribute to businesses' financial success and sustainability.

4.10. Retrospective Questions on Basics of Bookkeeping/Accounting

Discuss in groups that will be organized by the training facilitator as indicated below:

Question #1 — Group 1

Question #2 — Group 2

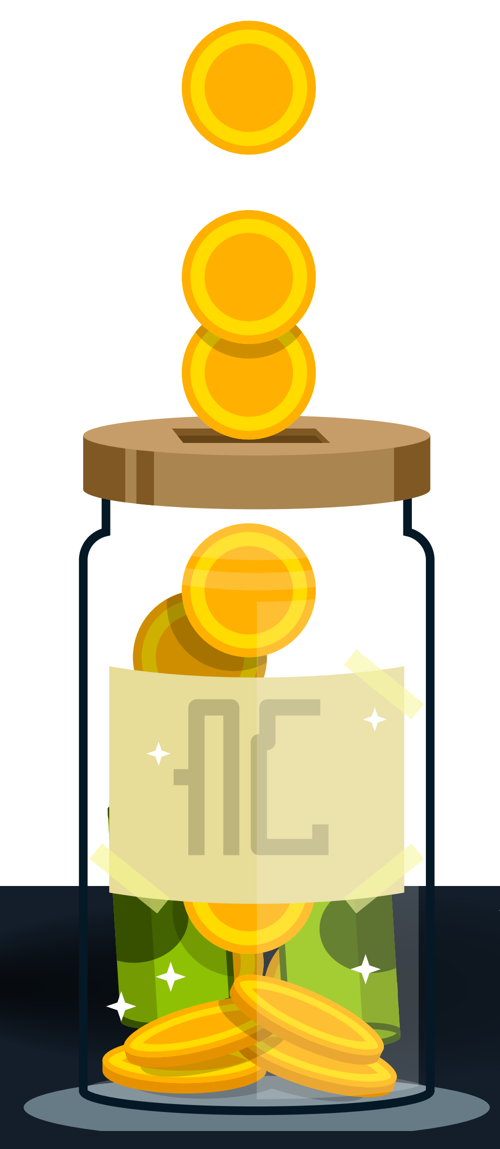
Question #3 — Group 3

Question #4 — Group 4

Question #5 — Group 5

Dear participants

1. Are you happy with what you have learned in this module about the basics of bookkeeping/accounting?
2. Do you think the conceptual, theoretical, and practical explanations/engagements presented about bookkeeping/accounting help fill your knowledge gaps? Explain how.
3. Do you now have a somewhat better understanding of bookkeeping/accounting? Explain how helpful it is to manage your business.
4. Identify and discuss the benefits of having a book of accounts/records. Explain how it is instrumental to your business and family.
5. How much of the information discussed in this module will you be able to apply to manage your business practically?



5

Module Five

Savings

Welcome to **Module Five.** In this module, you will learn the importance of savings, how and where to save, and how to make a savings plan. The objective is to present the various savings mechanisms, their advantages and disadvantages, and enable you to establish linkages between savings goals and savings products.

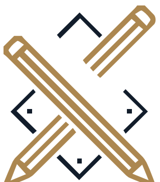
Objectives

By the end of this module, the participants will be able to:

- Understand what saving is and why it is important;
- Recognize saving goals;
- Know how to make a savings plan; and
- Compare and select appropriate saving products.

Training methods

- Brainstorming
- Lecturing
- Presentation
- Exercises
- Gamification
- Case studies
- Discussion
- Roleplaying
- Coaching
- Simulation
- E-learning



Training aids

- Flip chart
- Posters
- Overheads
- Whiteboard
- Educational videos
- Markers
- Notebook
- Pen/pencil

Module Content

- What are savings?
- Reasons for savings
- Saving goals
- Methods of saving
- Important factors for deciding where to save
- Making a savings plan

Duration

7 Hours

5.1. What are Savings?

Brainstorm

Dear participants, in groups discuss what savings are and why people save.

Saving refers to money left over after income is spent on the consumption of goods and services. It is putting aside part of your current earnings for future use. It is not done once but over a period of time. A key to good money management, savings help individuals and households manage risk, deal with emergencies, smoothen income, build assets, and meet financial goals.

5.2. Reasons for Savings

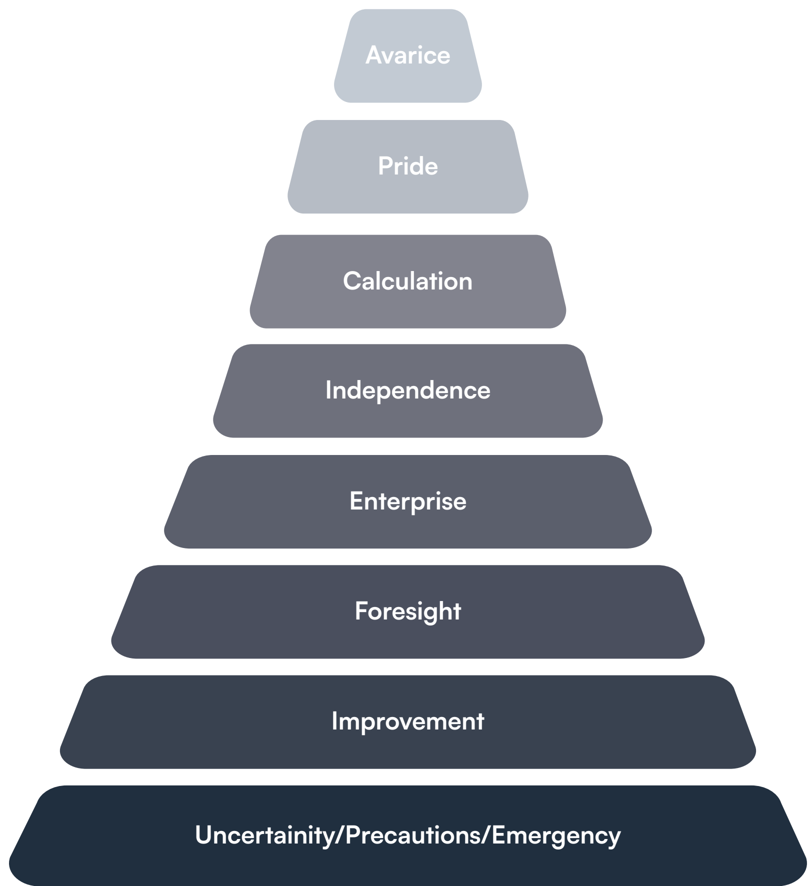
There are many reasons to save, and most of the reasons fall into one of the following three categories:

1. For unexpected life cycle events (emergencies), e.g., accidents, health problems, fires, floods, landslides, family illnesses, etc. Without savings, we would have to borrow money to pay for these expenses, creating an added financial and emotional burden.
2. For expected life cycle events such as marriage, education for the family, food, etc. These needs require additional money.
3. To achieve long-term goals and build assets, such as building or buying a house, starting a business, etc. An asset is something that you own and has long-term value. An asset can be sold and converted to money if the need arises. Some assets, such as a house, can also generate income for us (if we rent it out). Buying these assets that could provide us with long-term security would be difficult without savings.

On the other hand, economist Keynes (1936) distinguished eight motives for saving:

1. **Pre-cautionary motive:** refers to building up a reserve against unforeseen contingencies.
2. **Independence motive:** refers to enjoying a sense of independence and the power to do things, though without a clear idea or definite intention of a specific action.
3. **Life-cycle motive:** refers to providing for an anticipated future relationship between the income and the needs of the individual.
4. **Intertemporal substitution motive:** refers to enjoying interest and appreciation.
5. **Improvement motive:** refers to enjoying a gradually increasing expenditure.
6. **Enterprise motive:** refers to securing the required resources for carrying out speculative or business activity by investing money when available and possible.
7. **Avarice motive:** refers to satisfying pure miserableness, i.e., unreasonable but insistent inhibitions against acts of expenditure. It is related to being miserly, which assumes that there are enough resources left after the other motives have been satisfied.
8. **Bequest motive:** refers to leaving behind a large inheritance to bequeath a fortune.

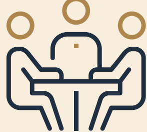
The figure below presents the hierarchal saving motives of the eight items:



Hierarchical Structure of Saving Motives

Important

In general, saving is important because it helps us to ensure our long-term health, security, happiness, and stability.



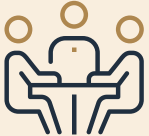
Dear participants: Use your imagination to complete the following table by listing the main reasons for Hana and Kuma.

Unexpected life cycle events (emergencies)	Expected life cycle events	Building assets	Other reasons

5.3. Savings Goals

Saving goals can be short-term or long-term.

- Short-term goals, such as paying off school fees, will be reached in less than one year.
- Long-term goals will take over a year to reach, e.g., home improvements or buying a house.

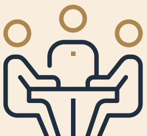


Dear participants: Review the goals in the above activity and identify the short- term and long-term goals.

5.4. Ways of Saving Your Money

Hana and Kuma are discussing with their close friends, Meseret and Yohannes, about where they should save the money earned by The Coffee Hub.

- Hana does not trust anyone to manage her money, and she prefers to keep it in a hiding place in her house.
- Meseret advises them to keep their savings in a savings account at a microfinance institution. This way, they can earn interest and might bring an opportunity to request a loan after they reach (deposit) a certain amount.
- Yohannes has a different idea and advises them to join an *ekub* group, where they and the other members set aside a small amount of money each week.



Dear participants:

- What do you think regarding the saving methods suggested by the characters above?
- Are they formal or informal?
- What saving methods do you use?

Dear participants:

You can choose to save through formal, semi-formal, or informal institutions and in the form of cash or non-cash.

- **Non-cash forms of saving** are assets, such as land or animals, that can quickly and easily be converted to cash, and generally retain their value. Land is less liquid than animals.
- **Informal savings** include saving cash at home, which keeps your cash accessible and allows you to avoid the transaction costs associated with saving at formal saving institutions. This form of informal savings has two significant disadvantages: the temptation to spend the money and the risk of theft. You need strong discipline to avoid spending these savings yourself and deny the pleas of other family members.
- **Semi-formal savings** encompass group savings mechanisms, including savings associations, village savings and loan associations, solidarity groups, and self-help groups. The advantage of associations is that each member receives a lump sum of money at one time, with no loan or interest payments.

- **Formal savings** involve financial institutions, including banks, credit institutions, cooperatives, or microfinance institutions, and offer another widely used option for saving cash. Savings in formal financial institutions are generally safe and earn interest. They offer a range of savings accounts tailored to different financial needs. However, the requirements for opening and maintaining an account, such as minimum deposits, user fees, and withdrawal requirements, can be costly.

5.5. Important Factors for Deciding Where to Save

Brainstorm

In deciding where to save, what factors do you recommend Hana and Kuma to consider?

After the discussion, you can summarize their suggestions using the following ideas:

- **Deposit requirements.** Is there a minimum deposit required to open the account? Is there a minimum balance required to keep the account open? Are small deposits accepted? Can variable sums be deposited? Can deposits be made frequently? What paperwork is required?
- **Terms of use.** Is the savings program compulsory or voluntary? Do you have to commit to saving a set amount at regular intervals or over a certain time period? Are there rules about how much you must deposit and when? Are there rules about how much you are allowed to withdraw and when? Can you withdraw the money at any time without penalty?
- **Cost.** What fees are charged for deposits, withdrawals, or passbooks? Some forms of saving may lose value during inflation or economic instability. You need to consider such costs even though they do not involve payment of actual fees.
- **Access/Ease of use.** Is the account convenient? What are the institution's hours of operation? Is it open at convenient times? How far is the institution from your home or workplace? Are transactions quick and confidential? What is the quality of customer service? Is the atmosphere comfortable and friendly? Are there long lines at the teller windows? Is the information on the account easily available? Does it provide statements? Are they easy to understand? Are the application procedures easy to follow? Does it have an ATM network?
- **Safety.** What is the institution's reputation? Does it have insurance or other guarantees to safeguard funds? Are telephone or electronic transactions safe? Is the bank or its branch located in a safe neighborhood location?
- **Liquidity.** How easy is it to withdraw funds from the account? Can the full amount be withdrawn? Are fees charged if the funds are withdrawn before a specified date?
- **Interest.** Will your savings earn interest? If so, how much? How and when is the interest paid? What is the difference in interest rates earned across different types of savings products or plans?

Important

Choose to save in an institution that is easy to reach and work with. The institutions you choose should at least:

- Be safe and secure;
- Be easily accessible;
- Have an easy process for opening an account;
- Have good interest earned on savings;
- Have little or no charges on your account (make sure that your monthly interest is more than the monthly charges); and
- Value and treat you well as a client.

5.6. Making a Savings Plan

A savings plan is critical for managing money to meet short- or long-term financial goals. To make a savings plan, follow the following steps:

1. Set savings goals.
2. Figure out how much you need to save over what period of time to meet your savings goals. Set a savings target.
3. Figure out how much you are earning over this period of time, the regularity (or irregularity) of your earnings, and how much you can expect to save regularly.
4. Identify which expense you can cut back (for example, video rental, alcohol, or tea breaks) and reallocate this amount to your savings.
5. Decide where you will save. Identify places to save, available savings products, and their pros and cons.
6. Plan how much and how often you will save. For example, you could put a specific amount aside in an envelope when you are paid or at the end of each business day and keep it in a safe place until you can take it to the bank. Go to the bank on a set day of the week or month. If you are a wage earner and your employer is linked to a bank, consider a deduction from your paycheck that is automatically deposited into your savings account.
7. Keep track of your savings. Monitor progress towards your saving target regularly by checking the amount you have saved and how close you are to your goal. Check bank statements, passbooks, or other sources of information on your savings.

Important

To save, we must spend less than we earn.

We must save regularly, with discipline, and have objectives; it is a slow and gradual process but rewarding.

No savings means less security, difficulties meeting social obligations and the unexpected, less well-being, and a more precarious situation in old age.

5.7. Summary

- Saving is the practice of putting aside part of your current earnings for future use.
- It is not done once but over a period of time. You may have different reasons to save, summarized as unexpected life cycle events (emergencies), expected life cycle events, and to achieve long-term goals and build assets.
- Savings goals can be short-term or long-term. Having a savings plan for managing money to meet short- or long-term financial goals is important.
- In deciding where to save, some factors to consider are safety, interest, liquidity, service charge, and accessibility.

5.8. Retrospective Questions on Saving

Discuss in groups that will be organized by the training facilitator as indicated below:

Question #1 — Group 1

Question #2 — Group 2

Question #3 — Group 3

Question #4 — Group 4

Question #5 — Group 5

Dear participants

1. Are you happy with what you have learned in this module about the basics of savings?
2. Do you think the conceptual, theoretical, and practical explanations/engagements presented about savings help fill your knowledge gaps? Explain how.
3. Do you now have a somewhat better understanding of savings? Explain how helpful it is to manage your business.
4. Identify and discuss the benefits of having a saving plan. Explain how it is instrumental to your business and family.
5. How much of the information discussed in this module will you be able to apply to manage your business practically?

6

Module Six

Investment

Welcome to **Module Six** of Financial Education. In this module, you will learn what an investment is and the main factors that you should consider when deciding on an investment opportunity. You will also learn about diversification when making investment decisions.

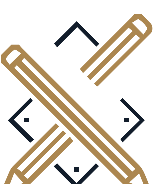
Objectives

By the end of this module, the participants will be able to:

- Understand what investment is;
- Describe the different types of investments;
- Describe the different reasons to invest;
- List the factors that influence people to invest; and
- Understand diversification as a risk management tool.

Training methods

- Brainstorming
- Presentation
- Exercises
- Discussion
- Roleplaying



Training aids

- Flip chart
- Posters
- Overheads
- Whiteboard
- Markers
- Notebook
- Pen/pencil

Module Content

- Definition of investment
- Source of funds for investment
- Factors to consider in making investment decisions
- Diversification

Duration

4 Hours

Brainstorm

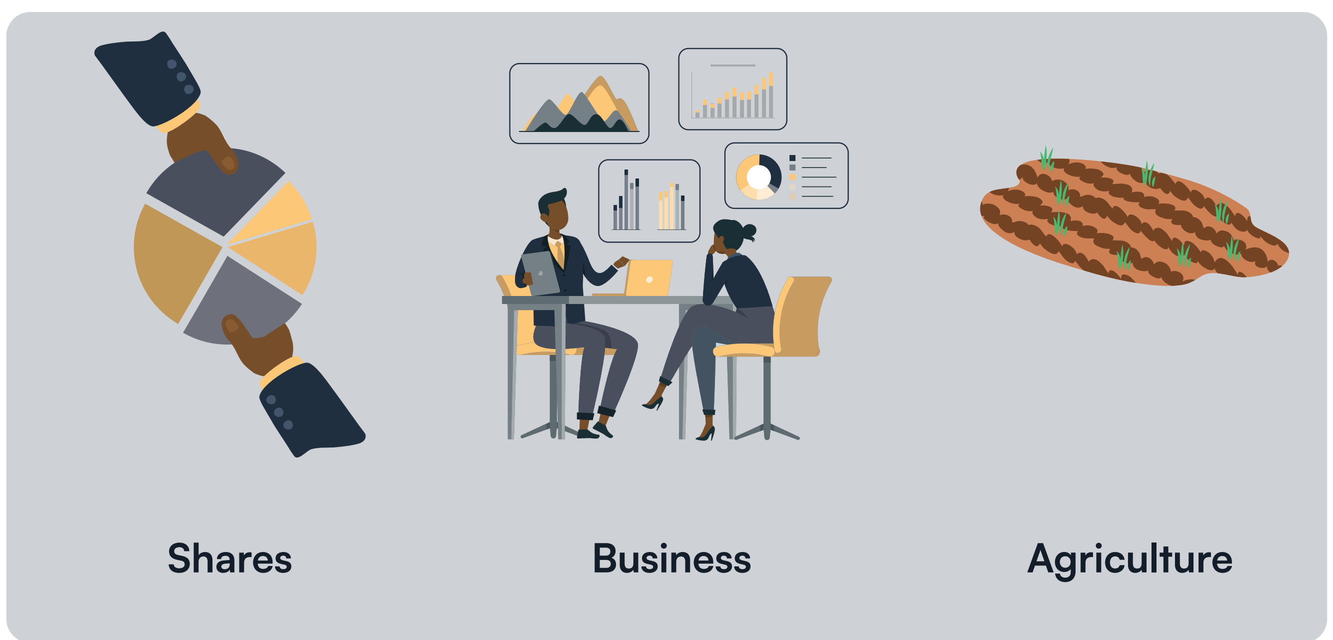
Dear participants, in groups, discuss what an investment is and list some of the investment opportunities in your area?

6.1. Definition of ‘Investment’

Investment is the purchase of goods not consumed today but used in the future to create wealth and appreciation. An asset or item purchased with the hope that it will generate income or appreciation in the future is an investment.

Types of investment

- **Business:** It includes a business set up for production, processing, and exportation. Common businesses include beauty salons, restaurants, retail and wholesale shops, etc.
- **Farming:** Ethiopia has an agricultural economy, and most investments are carried out in this sector. Opportunities are available for investment in production, processing, and exportation, e.g., in poultry, flowering, crop production, fruit farming, processing and packaging, or setting up a vegetable stall in the market.
- **Real Asset:** Property or real estate investment is good business, especially when the market is right.
- **Stocks (Shares):** A share is an instrument that represents part ownership of a company. When you invest in shares, you become a shareholder in the company and are entitled to dividends from the company’s profits.
- **Fixed Deposit or Certificate of Deposit:** This is an investment where you lend your money to a financial institution and benefit from the interest that accrues on the money. This gives you a fixed amount of interest, which may be paid periodically over the life of the investment or cumulatively at the end.



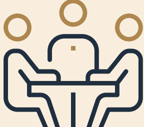
Important

Investment is putting money into a productive activity.

The purpose is to multiply what you have today in the future.

Investment means foregoing today's consumption for an activity that will bring you more income in the future.

Before you venture into any business, you need to first conduct a feasibility study or determine whether it is profitable to operate.



Dear participants: what factors should Hana and Kuma consider before investing in The Coffee Hub?

6.2. Some Factors to Consider in Making Investment Decisions

The factors that Hana and Kuma should consider are summarized using the following key issues:

- What are our investment goals— short-term capital accumulation or long-term financial security?
- Do we have the knowledge and skills to understand how this investment works?
- What is the investment cost involved; do we have the money?
- What is its income potential; is it good enough for our goal?
- How long will the investment yield short, medium, or long-term returns?
- What risks are involved in the investment; are we willing to take these risks?

6.3. Diversification

Brainstorm

Hana and Kuma are discussing the old adage: “Don’t put all of your eggs in one basket.” Dear participants, in groups discuss what it really means and why they shouldn’t put all their eggs in one basket?

Dear participants:

Every investment comes with a risk. There is a risk of losing money, getting stolen, mismanaged, destroyed, or damaged. Monitor your investments closely to make sure they are not losing money and time.

Diversification is often cited as one of the key strategies to successful investing. It involves spreading your money across a number of investments instead of putting all of it in one stock or investment vehicle. The idea is to mitigate the risk of losing all or a significant portion of your money in a single investment.

The old adage best illustrates this: “Don’t put all your eggs in one basket.” If you put all your eggs in one basket and you drop that basket, all the eggs will be broken. But if you place some eggs in Basket A, some in Basket B, and a few in Basket C, you will still have eggs in Basket B and C should you drop Basket A and break all the eggs.

The baskets represent different investment vehicles, each with its own risks and reacting differently to any given economic and market condition.

Hence, by putting our money— the eggs— into different investments, we're spreading these risks across multiple investments. Thus, with diversification, you reduce risk by spreading it across different types of investments. There are various ways you can diversify your investments — across different companies, sectors, and even countries — and we'll cover them here. But before we do, it's important to understand the risks that diversification can reduce.

6.4. Summary

- Investment is putting money into a productive activity. The purpose is to multiply what you have today in the future. Investment means foregoing today's consumption for an activity that will bring you more income in the future.
- Before you venture into any business, you must make a feasibility study or determine whether it's profitable. Some factors in deciding where to invest are your investment goals, cost, income potential, knowledge and skills on how this investment works, and risks.
- Diversifying investments helps to mitigate the risk by spreading across several investments instead of putting all of it in one stock or investment vehicle.

6.5. Retrospective Questions on Investment

Discuss in groups that will be organized by the training facilitator as indicated below:

Question #1 — Group 1

Question #2 — Group 2

Question #3 — Group 3

Question #4 — Group 4

Question #5 — Group 5

Dear participants

1. Are you happy with what you have learned in this module about the basics of investment?
2. Do you think the conceptual, theoretical, and practical explanations/ engagements presented about Investment are helpful in filling your knowledge gaps? Explain how.
3. Do you now have a somewhat better understanding of Investment? Explain how helpful it is to manage your business.
4. Identify and discuss the benefits of having Investment plans. Explain how it is instrumental to your business and family.
5. How much of the information discussed in this module will you be able to apply to manage your business practically?

7

Module Seven

Sources of Finance

Welcome to the **seventh module:** "Source of Finance". In this module, you will find a comprehensive overview of various financing sources available to entrepreneurs. Throughout this module, we will explore different funding options that MSMEs consider to finance their start-up. Each option comes with its benefits, considerations, and potential challenges. By understanding these options, investors can make informed decisions about the best sources of finance for their venture.

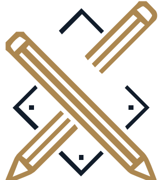
Objectives

After completing this module, participants will be able to:

- Analyze various sources of finance
- Assess the advantages and disadvantages of different financing options
- Understand the process and requirements involved in accessing different sources of finance
- Implement effective loan utilization and monitoring strategies to ensure loan proceeds are used efficiently and by the agreed-upon terms.

Training methods

- Brainstorming
- Lecturing
- Presentation
- Exercises
- Case studies
- Discussion
- Roleplaying
- Simulation
- E-learning



Training aids

- Flip chart
- Posters
- Overheads
- Whiteboard
- Educational videos
- Markers
- Notebook
- Pen/pencil

Duration

3 ½ hours

Module Content

- Why finance?
- Sources of finance
- Sharia-compliant financing
- Why debt financing?
- Responsible loan and loan management
  - Loan assessment and planning
  - Loan utilization and monitoring
  - Communication with lenders
- Nature and advantage of lease financing
  - Sources of finance to become a public company

7.1. Why Finance?

Small business owners or individuals who plan to start a new business usually face several challenges in raising finance, particularly in developing countries like Ethiopia. The sources of finance available to them often depend on the legal and regulatory environment, institutional context, and the development stage of the micro-enterprise. Understanding the sources of finance and their nature will enable you to identify the appropriate source of finance for your business and make informed decisions.

Brainstorm

Dear participants: "Hana and Kuma are discussing the potential source of finance for the coffee Hub."

1. What are the potential sources of finance?
2. What will be the advantages and disadvantages of each source of finance?

7.2. Source of finance

Regarding financing their ambitious venture, The Coffee Hub, Hana, and Kuma have several options to explore. They should recognize the need for substantial capital to establish their business and create a value proposition that caters to their target customers' demands. Hana and Kuma can consider various sources of finance to bring their vision to life. By carefully evaluating their options and developing a comprehensive business plan, they can attract potential investors and secure the necessary funds to turn the Coffee Hub into a thriving destination for discerning coffee lovers.

The following can be the source of finance:

1. **Personal Savings:** If they have sufficient funds, Hana and Kuma can use their savings as a straightforward option to fund their start-up.
2. **Friends and Family:** Hana and Kuma can approach their friends and family members to invest in their business, offering a share of ownership or a return on investment.
3. **Small Business Loans:** It is advisable to prepare a comprehensive business plan, financial projections, and a clear repayment strategy to increase their chances of securing a loan.
4. **Lease Financing:** The owner of an asset or specialized leasing company grants another person/business the right to use the asset in exchange for a periodic payment

5. **Angel Investors:** Hana and Kuma can seek investment from angel investors interested in supporting promising start-ups.
6. **Crowdfunding:** Hana and Kuma can launch a crowdfunding campaign to raise funds from many people interested in supporting their coffee venture.
7. **Strategic Partnerships:** It is advisable to form strategic partnerships with coffee suppliers, equipment manufacturers, or other food and beverage industry businesses. These partnerships can provide financial support, shared resources, and access to a broader customer base.
8. **Grants and Contests:** In the case of The Coffee Hub, they can consider grants and contests specifically designed for entrepreneurs and start-ups in the food and beverage industry.

7.3. Sharia-Compliant Financing

Sharia-compliant financing, also known as Islamic financing, follows the principles of Islamic law (Sharia). In Ethiopia, options are available for Sharia-compliant financing for micro and small enterprises. Here are some possibilities to consider:

a. **Islamic Banking Services in Conventional Banks:** Some conventional banks in Ethiopia may have Islamic banking services or divisions that offer Sharia-compliant financial products. Inquire with major banks to see if they have such options available. For example, the Commercial Bank of Ethiopia has an Islamic banking service.
b. **Dedicated branches:** Besides dedicated windows, traditional banks have a dedicated branch that offers Sheria-compliant financing.
c. **Dedicated Islamic Banks:** In addition to Sharia-compliant windows, Ethiopia has dedicated Islamic banks that operate exclusively based on Islamic finance principles. These banks were established to provide Sharia-compliant financial services to customers who prefer Islamic banking products and services. They operate with the approval and oversight of the regulatory authorities.

7.3.1. Summary of the key difference between sharia-compliant finance and conventional finance

Sharia-compliant finance adheres to the principles of Islamic law, which prohibits interest (riba), speculation (gharar), and investment in certain industries like alcohol, gambling, and pork. Instead, Sharia-compliant instruments use profit-and-loss sharing, leasing, and equity-based financing. Conventional finance, on the other hand, is based on interest-bearing loans, derivatives, and investments in a broader range of industries. Sharia-compliant finance emphasizes ethical, socially responsible investing, while conventional finance is primarily focused on maximizing financial returns. The legal and regulatory frameworks for Sharia-compliant finance differ from those of conventional finance.

Outline of the key differences between Sharia-compliant finance and conventional finance:

Sharia-Compliant Finance:

- **Basis:** Grounded in Islamic principles and Sharia law.
- **Interest (Riba):** Strictly prohibits the charging or receipt of interest (Riba) as it is considered usury.
- **Risk-sharing:** Emphasizes risk-sharing between the financier and the borrower/entrepreneur.
- **Asset-Backed:** Financing must be tied to real economic assets or activities, not purely speculative.
- **Prohibited Activities:** Avoids financing activities deemed prohibited under Sharia, such as alcohol, gambling, and other “haram” industries.
- **Profit-Loss Sharing:** Uses profit-loss sharing models like Mudarabah and Musharakah rather than fixed-return loans.
- **Transparency:** Requires high levels of transparency and disclosure.

Conventional Finance:

- **Basis:** Based on secular, capitalist principles.
- **Interest (Riba):** Interest-based lending and borrowing is the foundation of conventional finance.
- **Risk Transfer:** Focuses on transferring risk from the lender to the borrower.
- **Asset-Backed:** Financing does not necessarily require an underlying asset.
- **Permitted Activities:** Allows financing for a wide range of industries, including those prohibited in Sharia-compliant finance.
- **Fixed Returns:** Uses debt-based instruments like loans, bonds, and mortgages that provide fixed returns.
- **Transparency:** Disclosure requirements may be less stringent compared to Sharia-compliant finance.

Note

Sharia-compliant financing sources can also be available through microfinance institutions and other financial modalities in Ethiopia. Conducting thorough research with due diligence and seeking professional advice when considering Sharia-compliant financing options is advisable. Consult with Islamic finance experts, legal advisors, or financial institutions experienced in Sharia-compliant practices to better understand each financing option’s terms, requirements, and implications. Generally, the common sources of finance for business are from owners, loans (debt), and lease financing. The following section explains the nature and advantages of debit and lease financing.

7.4. Why debt financing?

Brainstorm

Dear participants: do you think debt financing is advantageous?

Debt financing refers to raising capital by borrowing money from a lender to be repaid at a future date. In Ethiopia, it is possible to secure a loan using movable properties as collateral. These loans, known as asset-based loans or chattel mortgages, allow businesses to leverage their movable assets to obtain financing.

Debt financing can have the following advantages:

1. **Access to Capital:** Debt financing provides MSMEs immediate access to the necessary capital to establish.
2. **Business Expansion:** With debt financing, businesses can pursue expansion opportunities more readily. Credit availability allows for faster growth and scalability for opening additional locations, introducing new product offerings, or investing in marketing and promotions.
3. **Flexibility in Use of Funds:** The Coffee Hub can allocate the borrowed funds as needed. Hana and Kuma can use the credit to purchase equipment, hire skilled staff, renovate the premises, invest in technology, or undertake other initiatives that enhance their value proposition and customer experience.
4. **Retain Ownership and Profits:** Unlike equity financing, debt financing does not dilute ownership. Hana and Kuma can control their business fully and retain all profits. This allows them to reap the rewards of their hard work and maintain their vision for The Coffee Hub.
5. **Building Credit History:** Timely repayment of debt obligations helps The Coffee Hub establish a positive credit history. This can benefit future financing needs, as a strong credit profile increases the likelihood of obtaining favorable terms and conditions for potential loans or credit facilities.
6. **Potential Cost Savings:** Depending on prevailing interest rates and the founders' creditworthiness, debt financing may offer lower costs than other financing options. Suppose Hana and Kuma can secure a loan with favorable interest rates. In that case, it can result in cost savings and improved profitability for The Coffee Hub.
7. **Investor Independence:** Debt financing allows the business to operate independently without interference from external investors. The founders can make business decisions without input from shareholders or equity partners, maintaining their autonomy and strategic direction.

While debt financing offers numerous advantages, it is crucial for businesses to carefully evaluate their repayment capabilities, interest rates, and associated risks. They should ensure that the business generates sufficient cash flow to meet debt obligations and avoid potential default. Additionally, it is essential to balance debt and equity financing to prevent excessive leverage and maintain financial stability.

Seeking professional advice from financial experts or consultants can aid in making informed decisions that align with specific business needs and goals.

7.5. Responsible Loan and Loan Management

For MSMEs to get a loan and manage it responsibly, they should consider the following steps:

7.5.1. Loan Assessment and Planning

a. **Loan Need Analysis:** The need for a loan must be aligned with our business plan and our business's capital structure (the percentage of debt and equity financing). We need to conduct a thorough assessment of our business' financial requirements. Therefore, determine the specific amount needed to cover start-up costs, equipment purchases, leasehold improvements, initial inventory, marketing expenses, and working capital.
b. **Realistic Financial Projections:** Develop detailed financial projections based on market research, target customer analysis, pricing strategies, and operational costs. Ensure the projections are realistic and supported by market trends and industry benchmarks.
c. **Loan Affordability:** Evaluate the loan affordability by analyzing the business's projected cash flow. Consider how loan repayments fit into the overall budget and cash flow management plan. The business must generate sufficient revenue to cover expenses and repay loans.

7.5.2. Loan Application and Negotiation

a. **Loan Research:** Research different lenders to identify those specializing in small business loans with favorable terms for start-ups in your business area. Compare interest rates, repayment terms, and additional fees or charges.
b. **Loan Documentation:** Prepare a comprehensive loan application package that includes a business plan, financial projections, personal financial statements, business credit history (if available), and any other documents the lender requires. Ensure that the documentation is accurate, complete, and well-presented.
c. **Loan Terms and Conditions:** Carefully review the lenders' terms and conditions. Negotiate for favorable interest rates, repayment periods, and flexible repayment options that align with the cash flow.
d. **Loan Collateral and Guarantees:** Understand the lender's collateral and personal guarantees requirements. Evaluate the risks and benefits of offering collateral or guarantees and consider alternative options if available.

7.5.3. Loan Utilization and Monitoring

a. **Effective Loan Utilization:** Use the loan funds prudently and solely for the intended purposes. Avoid unnecessary expenditures or diverting funds to non-business-related activities.
b. **Cash Flow Management:** Implement a robust cash flow management system to track incoming revenue and outgoing expenses. Regularly monitor cash flow to ensure the availability of funds for loan repayments.
c. **Timely Loan Repayments:** Prioritize loan repayments and ensure they are made on time. Set up reminders or automated payments to avoid late fees or penalties. If possible, consider repaying the loan ahead of schedule to reduce interest costs.
d. **Financial Monitoring and Reporting:** Implement efficient financial reporting systems to track and analyze The Coffee Hub's financial performance. Regularly review financial statements, cash flow statements, and other key performance indicators to identify areas for improvement

and make informed business decisions.

e. **Contingency Planning:** Prepare contingency plans to mitigate potential risks or unexpected challenges that may impact the loan repayment ability. Consider factors such as economic downturns, changes in market conditions, or unforeseen expenses.

7.5.4. Communication with Lenders

a. **Transparent Communication:** Maintain open and honest communication with the lender. Inform them promptly of any significant changes in business circumstances or financial challenges that may impact loan repayment.

b. **Proactive Approach:** If facing temporary financial difficulties, proactively discuss with the lenders to explore potential solutions. They may be open to renegotiating loan terms or providing temporary relief, such as revised repayment schedules.

c. **Building a Positive Relationship:** Establish a positive relationship with the lender by demonstrating responsible loan management practices. If additional financing needs arise, the business can benefit in the long run.

Hence, managers must maintain the business's financial stability and long-term success by incorporating responsible loan practices and effective loan management strategies. It is advisable to consult with financial advisors or experts to gain personalized guidance for their specific circumstances and local regulations.

7.6. The nature and advantage of lease financing

Lease financing is a popular method for acquiring assets without actually purchasing them outright. In a lease agreement, the lessor (the owner of the asset) allows the lessee (the user of the asset) to use the asset in exchange for regular lease payments over a specified period. Lease financing offers several advantages to lessees and lessors, making it a viable option for businesses needing assets.

Parties Involved:

Lessor: The asset owner who grants the right to use it.

Lessee: The user of the asset who pays regular lease payments.

Asset: The subject of the lease agreement

Advantages of lease financing

1. **Conservation of Capital:** Leasing allows businesses to conserve their capital and retain liquidity, as they don't have to make a large upfront investment to purchase the asset.
2. **Cash Flow Management:** Lease payments are spread over the lease term, enabling better cash flow management by matching the asset's cost with its revenue-generating capacity.
3. **Tax Benefits:** In many jurisdictions, lease payments are considered operating expenses and may be tax-deductible, reducing the lessee's taxable income.
4. **The lessor assumes some risks.**

7.7. Potential Sources of Business Expansion

To become a public company or expand in size or scope, it will require significant capital to support its growth and expansion plans. Here are some potential sources of finance for expansion:

1. **Initial Public Offering (IPO):** Conducting an IPO involves offering company shares to the public for the first time. This allows the business to raise substantial capital by selling shares to investors. Going public through an IPO involves complying with regulatory requirements.
2. **Venture Capital and Private Equity:** The business seeks investment from venture capital firms or private equity investors. These investors provide capital in exchange for an ownership stake in the company. Venture capital firms typically invest in start-ups and early-stage companies, while private equity investors focus on more established businesses.
3. **Bank Loans and Lines of Credit:** The business approaches banks or financial institutions to secure loans or lines of credit. These funds can be used for various purposes, such as expanding operations, purchasing equipment, or opening new locations. The terms and conditions of the loans will depend on the company's financial position, creditworthiness, and collateral.
4. **Strategic Partnerships and Joint Ventures:** The business can explore strategic partnerships or joint ventures with established companies in the industry. This can provide access to capital, expertise, and resources while leveraging the partner's existing customer base and distribution networks.
5. **Retained Earnings and Internal Financing:** As the business grows and generates profits, it can reinvest the earnings into the business as a source of internal financing. This approach allows the company to fund its expansion plans without relying solely on external sources of capital.

Before approaching potential investors or financial institutions, the business must develop a comprehensive business plan, financial projections, and a compelling value proposition. The above are common financing sources (not exhaustive lists). Moreover, seeking advice from financial advisors, investment bankers, or legal professionals experienced in public offerings can help navigate the complex process of becoming a public company.

7.8. Summary

Selecting the right source of finance is crucial for a business transitioning into a public company. A thorough understanding of various financing options, including debt financing and Sharia-compliant financing, helps determine the most suitable choice. Responsible loan management is significant in this process, encompassing loan assessment, planning, utilization, monitoring, and communication with lenders.

By implementing effective loan management practices, businesses can ensure the efficient and effective use of loan funds while maintaining financial stability and fostering a positive relationship with lenders. For expansion purposes, MSMEs can consider Initial Public Offering (IPO), venture capital and private equity, bank loans and lines of credit, strategic partnerships and joint ventures, retained earnings and internal financing, and lease financing.

7.9. Retrospective Questions on Sources of Finance

Discuss in groups that will be organized by the training facilitator as indicated below:

Question #1 — Group 1

Question #2 — Group 2

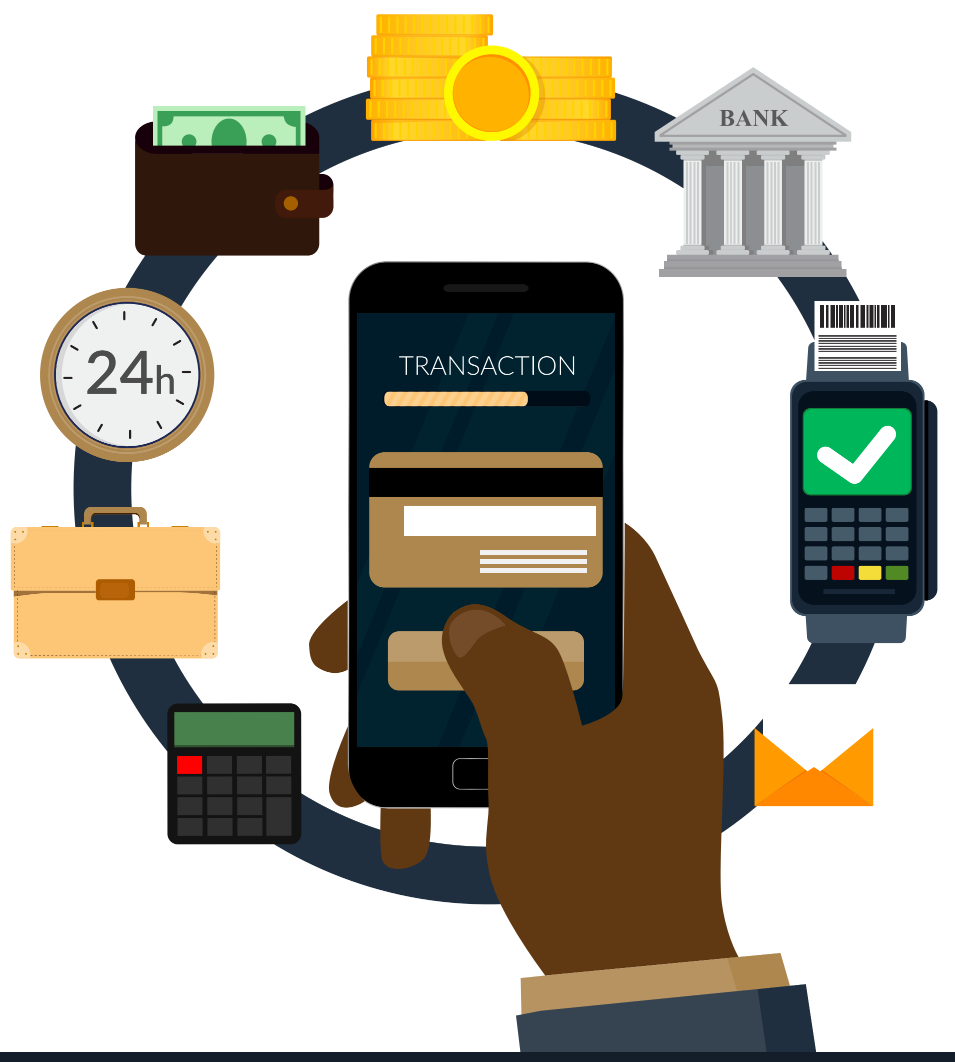
Question #3 — Group 3

Question #4 — Group 4

Question #5 — Group 5

Dear participants:

1. Are you happy with what you have learned in this module about the sources of finance?
2. Do you think the conceptual, theoretical, and practical explanations/ engagements presented about sources of finance help fill your knowledge gaps? Explain how.
3. Do you now have a somewhat better understanding of sources of finance? Explain how helpful it is to manage your business.
4. Identify and discuss the benefits of identifying and using sources of finance to finance your business. Explain how it is instrumental to your business and family.
5. How much of the information discussed in this module will you be able to apply to manage your business and investment practically?



8

Module Eight

Financial Services

Welcome to Financial Education's **Module Eight.** In this module, you will learn the nature of financial services and formal and informal financial service providers. Specifically, the module addresses the definition of financial services, formal and informal financial service providers, and the advantages and disadvantages of formal and informal financial services.

Objectives

After completing this module, participants will be able to:

- To understand the nature of financial service
- To identify formal financial service providers;
- To identify informal financial service providers; and
- To understand the advantages and disadvantages of formal and informal financial services.

Training methods

- Brainstorming
- Lecturing
- Presentation
- Exercises
- Case studies
- Discussion
- Roleplaying
- E-learning

Duration

4 Hours

Training aids

- Flip chart
- Posters
- Overheads
- Whiteboard
- Educational videos
- Markers
- Notebook
- Pen/pencil

Module content

- Formal financial service providers
- Formal financial services
- Advantages and disadvantages of formal financial services
- Informal Financial service providers
- Advantages and disadvantages of informal financial services

Brainstorm

Dear Participants:

1. What is formal financial service, and who are the providers?
2. What is informal financial service?
3. What are Ethiopia's commonly used informal financial services?

8.1. The Meaning of Financial Service

What is 'Financial Service'?

Financial services refer to a broad range of services designed to manage and facilitate the financial activities of individuals, businesses, and organizations. Banks, credit unions, insurance companies, investment firms, and other financial institutions typically offer these services.

8.2. Formal Financial Service Providers

Formal financial services refer to services provided by institutions that are legally recognized and regulated by the national financial system regulatory body. These institutions finance businesses and individuals and are generally perceived as more credible funding sources.

Formal Financial Service Providers

Commercial Banks are the most common formal sources of finance for businesses. They offer various financial products, including loans, overdrafts, and credit cards. They are regulated by central banks and other regulatory bodies, which helps to ensure their reliability and stability.

Development banks finance businesses and projects that promote economic development. They operate under a government mandate, typically providing affordable financing to under-served markets, such as small and medium-sized enterprises.

Microfinance institutions provide small loans to micro-enterprises that cannot access bank financing. These institutions provide loans for business purposes, including start-up costs, working capital, and investment in fixed assets.

Cooperative credit institutions are member-owned financial institutions that fund members at reasonable interest rates. These institutions are often found in rural areas with limited access to formal finance.

Insurance Companies provide financial protection against specific risks. They also offer investment products, such as unit trust funds and pension plans, that allow individuals to save and invest for the future.

Lease companies specialize in offering leasing services to individuals and businesses, allowing them to acquire and use assets through lease agreements. These companies facilitate the financing and management of leases, providing a financial service that enables clients to access the assets they need without requiring an upfront purchase.

Venture Capital Funds: These investment firms provide financing to start-up and early-stage businesses with high growth potential. They typically take equity stakes in the businesses they finance and provide support and guidance to help these businesses achieve growth and profitability.

Payment Processors: Payment processors enable electronic payments and money transfers. They provide credit card processing, online payment gateways, mobile payment solutions, and money transfer platforms.

Fintech Companies: Fintech (financial technology) companies leverage technology and innovation to provide financial services. These companies offer a wide range of services, including online banking, digital payments, robo-advisory services, peer-to-peer lending, and crowdfunding platforms.

8.3. Formal Financial Services

To support the operations and growth of their business, "The Coffee Hub" in this case, Hana and Kuma would require several formal financial services.

Financial services refer to the services the financial industry provides to individuals, businesses, and governments. These services aim to manage and facilitate various financial transactions, investments, and risk management. Some common types of financial services include:

1. **Banking Services:** These include deposit accounts, loans, credit cards, and other banking products offered by commercial banks, savings banks, and credit unions.
2. **Investment Services:** These services involve helping individuals and organizations invest their money in financial instruments such as stocks, bonds, mutual funds, and other assets. Investment advisors, brokerage firms, and asset management companies offer services in this area.
3. **Insurance Services:** Insurance companies provide various types of insurance coverage, such as life insurance, health insurance, property insurance, and automobile insurance. These services protect individuals and businesses from financial losses due to unexpected events.
4. **Wealth Management:** Wealth management services cater to high-net-worth individuals and families by providing personalized financial planning, investment management, and estate planning services.
5. **Retirement Planning:** Financial institutions and advisors offer retirement planning services to help individuals prepare for their financial needs during retirement. These services may include retirement savings plans, pension plans, and annuities.
6. **Financial Advisory Services:** Financial advisors and consultants provide guidance and advice on financial matters, including investment strategies, tax planning, estate planning, and overall financial planning.
7. **Credit and Lending Services:** Financial institutions offer credit and lending services, including personal loans, mortgages, business loans, and lines of credit. These services help individuals and businesses access funds for various purposes.
8. **Payment Services:** Payment service providers facilitate electronic payments and money transfers, including services such as credit card processing, online payment platforms, and mobile payment solutions.
9. **Foreign Exchange Services:** Financial institutions and currency exchange providers facilitate the conversion of one currency into another, enabling individuals and businesses to engage in international trade and travel.
10. **Risk Management Services:** Risk management services involve identifying, assessing, and managing financial risks individuals and organizations face. These services may include insurance risk assessment, hedging strategies, and risk mitigation advice.
11. **Leasing:** involves using a specific asset, such as equipment, machinery, vehicles, or real estate, in exchange for regular payments over a specified period. It is a form of financing where the lessor (the leasing company) purchases the asset and then allows the lessee (the individual or business) to use it for a predetermined period.

It's important to note that financial services' availability and specific offerings can vary depending on the country and regulatory environment. Additionally, advancements in technology have led to the emergence of various fintech companies that provide innovative financial services leveraging digital platforms and technologies.

8.4 Account Opening Procedure

1. Savings Account Opening Procedure:

- Visit the Financial Institutions branch and request to open a savings account.
- Provide required personal identification documents (e.g., national ID, passport).
- Fill out the account opening form with personal details, contact information, and initial deposit amount.
- Submit the completed form along with the necessary documentation.
- The bank will verify the information and approve the account opening.
- Receive the account details, including the account number and a debit card (if applicable).
- Set up online banking access and other digital services (if desired).

2. Credit Account (Loan) Opening Procedure:

- Determine the type of credit facility needed (e.g., personal loan, business loan, etc).
- Gather the required documents, such as identification, income proof, collateral documentation (if applicable).
- Submit a loan application form, either in person or online, providing details about the loan purpose, amount, and repayment plan.
- The Financial institution will assess the application, including the applicant's creditworthiness and repayment capacity.
- If approved, the FIs will provide the loan agreement and other necessary documents for signing.
- Complete the loan disbursement process, which may involve providing collateral or security, if required.
- Agree on the repayment schedule and start making regular loan installments.

3. Digital Financial Services Account Opening Procedure:

- Download the FI's mobile banking app or visit the bank's website.
- Select the option to open a digital financial services account (e.g., mobile money, digital wallet).
- Provide the required personal information, such as name, national ID, contact details.
- Set up a secure login, including a username and password, and potentially biometric authentication.
- Link the digital account to a primary savings or current account (if applicable).
- Activate the desired digital financial services, such as money transfers, bill payments, and mobile airtime top-ups.
- Familiarize yourself with the app's features and functions, and start using the digital financial services.

8.5. Advantages of Formal Financial Service

Financial services offer numerous advantages to individuals, businesses, and governments. Here are some key advantages:

1. **Professionally managed**
2. **Access to Capital**: Financial services provide access to capital and funding, enabling individuals and businesses to pursue opportunities, invest in projects, and meet financial needs. They offer various types of loans, credit lines, and financing options tailored to different requirements, helping individuals and businesses bridge the gap between their financial resources and goals.
3. **Risk Management:** Financial services assist in managing and mitigating financial risks. Insurance services, for example, protect against unexpected events and provide financial compensation for losses. Financial advisors and risk management professionals also offer expertise in identifying and managing risks associated with investments, business operations, and personal finances.
4. **Wealth Creation and Management:** Financial services contribute to wealth creation and management. Investment services, such as asset management and financial planning, help individuals and organizations grow their wealth by guiding investment strategies, portfolio diversification, and long-term financial planning. These services aim to maximize returns and achieve financial goals.
5. **Payment Convenience:** Financial services provide convenient payment options, making transactions easier and more efficient. Electronic payment services, online banking, and mobile payment applications enable individuals and businesses to make payments, transfer funds, and conduct financial transactions quickly and securely.
6. **Financial Inclusion:** Financial services promote financial inclusion by ensuring access to financial products and services for all segments of society. They help individuals open bank accounts, obtain loans, and access financial tools that empower them to participate in the formal economy, save money, and build a financial foundation.
7. **Economic Growth and Development:** Financial services are vital in driving economic growth and development. They facilitate capital investment, support entrepreneurship and innovation, and provide the necessary financial infrastructure for businesses to expand and create jobs. Additionally, financial institutions contribute to economic stability by managing monetary policies, regulating financial markets, and providing stability during economic uncertainty.
8. **Financial Education and Guidance:** Financial services often include educational resources and guidance to help individuals and businesses make informed financial decisions. Financial literacy programs, workshops, and resources offered by financial institutions and advisors empower individuals to understand concepts such as budgeting, saving, investing, and managing debt, leading to improved financial well-being.
9. **International Trade and Commerce:** Financial services enable international trade and commerce by providing foreign exchange services, trade financing, and international payment mechanisms. These services facilitate cross-border transactions, currency exchange, and risk management for businesses engaged in global trade.

Overall, financial services offer advantages that promote economic growth, financial stability, risk management, wealth creation, and financial inclusion. They provide individuals and businesses with the tools, resources, and expertise to manage their finances effectively and achieve their financial goals.

8.6. Disadvantages of Formal Financial Services

- Usually require collaterals
- Have a lengthy application process with lots of paperwork
- Fixed repayment schedules may be difficult for some businesses

To summarize, formal financial service providers and formal sources of finance provide reliable and regulated financing to businesses and individuals. These institutions are important to the economy as they provide affordable financing to businesses, promote economic growth, and distribute risk across the financial system. However, accessing formal sources of finance can sometimes be challenging, especially for small and medium-sized enterprises that do not have established credit histories or collateral to offer. Hence, informal sources of finance are also important in doing business.

8.7. Informal Financial Service Providers and Services

Informal financial service refers to the capital sourced from friends, family, relatives, or private moneylenders without close supervision/regulation of the financial regulatory body. The common informal source of finance for doing business includes the following:

1. **Personal savings:** Many micro and small business owners rely on their savings to fund their businesses. This source of finance is often easier to access and does not require a lot of paperwork or credit checks.
2. **Friends and family:** MSMEs may also receive financial support from family members and friends. This support can be particularly helpful when starting a new business, as it can be challenging for new businesses to secure funding from other sources.
3. **Equb** is a form of informal finance where a group of people pools together money regularly, typically weekly or monthly.
    - The money is then given to one group member in rotation until everyone has received their share.
    - It can finance various expenses, such as starting a small business, purchasing household items, buying land, or covering medical expenses.
    - Members typically trust each other and have a shared goal.
    - In many cases, there is no formal contract or written agreement but rather a verbal agreement and a spirit of trust and cooperation that binds the members together.
    - The process involves regular meetings among members, where the money is collected, and the recipient of the funds is chosen.
    - Members agree on rules regarding the duration of the monetary amount and the order of receiving the money.

    For example,

    In an 8-member Equb, each member might contribute ETB 1000 per month, for a total of ETB 8,000. The Equb would last eight months, and each member would receive ETB 8,000.
4. **Idir** is a social institution in Ethiopia used for mutual aid and grants cooperative insurance within a specific community.

8.8. Advantages of Informal Financial Service

- Less formality to access (social capital may be enough)
- Quick to access with minimal paperwork
- Often, no collateral is required
- Flexible repayment terms, possibly based on personal relationships

8.9. Disadvantages of Informal Financial Service

- Higher interest rates are often charged
- Smaller amount of funds to borrow
- It can damage personal relationships if repayment problems arise
- No professional management of the financing option
- Higher risk due to lack of formally regulated loan agreements
- The threat of severing social ties

Informal financial service is one way of accessing finance for those who may not have access to formal banking or financial services. It can also be a form of a social network, providing social bonding and support between members who share common interests and goals. It has been used successfully in many countries, and studies have shown that it can help generate income, promote community development, and provide financial security to individuals and families. However, formal financial services are recommended to businesses because of the above-listed advantages.

Brainstorm

Dear participants

- Which source of finance do you think is sustainable and preferable to finance your business ideas?

8.10. Summary

- Financial services refer to the products and services offered by institutions like banks, credit unions, insurance companies, and investment firms to help individuals and businesses manage their financial activities. There are two main types: formal and informal.
- Regulated institutions like commercial banks, microfinance institutions, cooperative banks, insurance companies, venture capital providers, leasing companies, and fintech companies as formal financial services. They offer products such as loans, investments, insurance, and payment services. It contributes a lot to business and the country at large.
- Informal financial services refer to options provided through personal relationships, such as funds from friends/family, and community-based groups like equb and idir. They are flexible, require little paperwork, and build social capital. However, interest rates are often higher, amounts that can be borrowed are smaller, and there is a risk of damaging personal relationships or social ties.
- For new or small businesses, the appropriate source of finance depends on needs, risk, eligibility, and ownership preferences. Formal and informal options may be combined. Informal finance can be sustainable, as it leverages community relationships and generates social and financial benefits. However, formal finance may provide lower costs and higher amounts of capital as a business develops a track record and needs to scale.
- Financial services, both formal and informal, play an essential role in facilitating economic activity. Access to affordable financial services can help empower individuals and support entrepreneurship

by providing the means to build assets, make productive investments, and better manage financial risks. An inclusive financial system that leverages formal and informal options may be optimal for serving the needs of diverse populations.

- Finally, understanding the range of financial services, their characteristics, and their advantages and disadvantages can help you make informed choices about how to fund and support your financial and business goals. For those with limited access, community-based informal services provide a social safety net and pathways to build credit and connect with formal financial institutions.

8.11. Retrospective Questions on Financial Services

Discuss in groups that will be organized by the training facilitator as indicated below:

Question #1 — Group 1

Question #2 — Group 2

Question #3 — Group 3

Question #4 — Group 4

Question #5 — Group 5

Dear particpants:

1. Are you happy with what you have learned about financial services in this module?
2. Do you think the conceptual, theoretical, and practical explanations/ engagements presented about financial services are helpful to fill your knowledge gaps? Explain how.
3. Do you now have a somewhat better understanding of financial services? Can you explain how helpful they are in managing your business?
4. Identify and discuss the benefits of identifying and using financial services to manage your business. Explain how it is instrumental to your business and family.
5. How much of the information discussed in this module will you be able to apply to manage your business practically?

9

Module Nine

Digital Financial Services

DIGITAL FINANCIAL + Readiness

Sector-level analysis

Enabling environment

1 Access to and reach of mobile infrastructure

2 Adoption and reach of digital finance infrastrictire

3 Role of government and regulations

4 Sector analysis and challenge identification

5 Assessment of financial service needs and gap analysis

6 Digital finance plus solution feasibility

Welcome to **Module Nine.** This module presents the conceptual and practical underpinnings of digital finance.

- It discusses the purpose of digital finance.
- It introduces the changing landscape of financial systems and services.
- It discusses possible factors that drive and hinder the changes in digital finance.
- It defines Financial Technology by discussing the influence of technology on all elements of financial services.
- It discusses the relevance of digital finance for the youth, MSMEs, and for the 'under-banked' or otherwise financially excluded individuals.

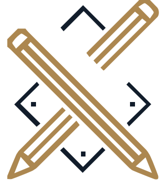
Training Objectives

By the end of this module, you will be able to:

- Understand the concept of digital finance;
- Explain why it is beneficial to use digital finance;
- Identify the importance of using digital finance;
- Identify the different types of digital finance;
- Use digital finance to manage your business transactions effectively;
- Access and use their digital products and services appropriately; and
- Comprehend the advantages and disadvantages of digital finance.

Duration

7 Hours



Training aids

- Flip chart
- Posters
- Overheads
- Whiteboard
- Educational videos
- Markers
- Notebook
- Pen/pencil

Training methods

- Brainstorming
- Lecturing
- Presentation
- Exercises
- Gamification
- Case studies
- Discussion
- Roleplaying
- Simulation
- E-learning

Module Content

- Definitions
- Digital finance
- Channel
- Financial Technologies (fintech)
- Types of Digital Financial Services (DFS)
- Benefits of digital financial services
- Challenges of digital finance
- Overcoming the challenges of digital financial services

Brainstorm

Instruction: For five minutes, discuss the following questions in and share your thoughts with the wider group.

1. How do you explain digital finance?
2. Have you ever used digital financial services? If yes, share your practical experiences.
3. How do you explain the current trends in digital finance?

9.1. Definitions

Dear participants, in the 21st century, financial services are increasingly becoming digital. Hana and Kuma need to understand that access to technology is the foundation of digital financial services. They also need to recognize that the issue is multifaceted and requires different channels that help them make informed financial decisions and act in one's best financial interests. This section defines key terms like digital finance, channels, and financial technologies.

9.2. Digital Finance

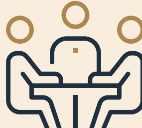
- Digital finance uses electronic money instead of cash.
- It refers to the use of digital means to offer financial services.
- Digital finance transforms financial services through new technologies (e.g., mobile, card, POS, and e-commerce).
- It is a concept that expresses the effects of new technologies in the field of finance, which provide ease of use, speed, and low cost in accessing financial services.

9.3. Digital Financial Services (DFS)

- DFS is widely regarded as an effective means to provide opportunities to promote financial inclusion through lowering the costs of providing these services.
- DFS refers to the extensive technologies available to deliver financial services from a broad range of providers to a wide range of recipients using digital remote means.
- DFS refers to a range of financial services (including credit, savings, loans, insurance, and payments) accessible via digital remote means: e-money, mobile money, card payments, and electronic funds transfers. DFS works in contrast to cash payments or traditional financial services accessed physically, such as visiting a bank branch.

9.4. Channel

- Channel means the system of intermediaries between the consumer (e.g., Hana and Kuma) and the financial service provider (e.g., Commercial Bank of Ethiopia).
- It is a gateway for executing a financial service (e.g., credit, deposit, transfer, etc.).
- It is the customer's access point to a financial service provider with whom the customer interacts to access financial services.
- It can be an office, media, tool, or application; it can be manipulated by human interaction or through a systematic front-end interface.

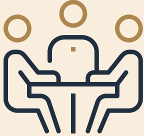


Dear participants: For this training module, we define the channel as Hana and Kuma's access point to a financial service provider with whom they interact to access the financial services or their bank account.

There are two types of channels. These are:

a. **Self-service channel:** It refers to a channel available to Hana and Kuma without any other human interaction; i.e., Hana and Kuma don't need an agent or a bank staff involved. Some examples are Internet banking, mobile banking, and self-service terminals provided by financial institutions.

a. **Over-the-counter channel:** This channel requires Hana and Kuma to interact with either a staff member or thirdparty (agent, merchant) to transact. e.g., agency banking, and extension services.



Dear participants: The most commonly used channels are introduced below, along with additional information on how and who can use these channels. As shown below, channels can be self-service or over-the-counter, whereby the customer (e.g., Hana and Kuma) interacts with staff or third-party representatives such as agents or merchants.

Commonly used channels in digital finance:

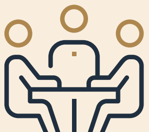
Channel Name	Type of Channel	Access Point	Functions offered by the Channel
ATM	Self-service	ATM	Cash out, balance inquiry, payments, cash deposit
Internet banking	Self-service	Computer, phone, tablet, kiosk	inquiries, transfers, payments
Agent banking	OTC	Third-party agent, merchant, phone, POS, mobile	Cash in, cash out, payments, sell value add service, content sales, bill payment

Extension services, (field staff, mini branch, branch on wheels)	OTC	Bank staff: loan officer, POS, mobile	Account opening, cash in, cash out, loan applications,
Mobile banking	Self-service	Phone	inquiries, transfers, Payments
E-wallet (m-wallets, prepaid cards, store cards)	Self-service + OTC	Phone, computer, merchant, kiosk, ATM, agent, card	Cash in, cash out, payments, transfers
Call center	OTC	Phone, customer service	inquiries, transfers, payments

9.5. Financial Technologies (Fintech)

The term Financial Technology (Fintech) describes new technology that seeks to improve and automate the delivery and use of financial services. It enables Hana and Kuma to manage their financial operations and business processes better. Fintech is composed of specialized software and algorithms that are used on computers and smartphones.

9.6. Types of Digital Financial Services (DFS)



Dear participants: DFS includes a variety of products, applications, processes, and business models.

Some common digital financial services that Hana and Kuma can use under different circumstances are listed in the table below:

Figure 10. Some of the common digital financial services

DFS	Meaning
1. Mobile banking	• It is using a mobile phone to access conventional banking services. • This covers both transactional and non-transactional services, such as viewing financial information and executing financial transactions. It is sometimes called 'm-banking'. • It is a self-service DFT for inquiries, transfers, and payment functions.
2. Mobile money/ mobile financial service (MFS)	• It is provided by issuing virtual accounts against a single pooled bank account as e-wallets that are accessed using a mobile phone. Most mobile money providers are Mobile Money Operators (MNOs) or Payment Service Providers (PSPs). • Mobile phones can expand financial inclusion to smallholder communities in rural areas.
3. Point of Sale (POS)	• Electronic device used to process card payments at the point where a customer makes a payment to the merchant in exchange for goods and services. • The POS device is a hardware (fixed or mobile) device that runs software to facilitate the transaction. • Originally customized devices or PCs, but increasingly include mobile phones, smartphones, and tablets.

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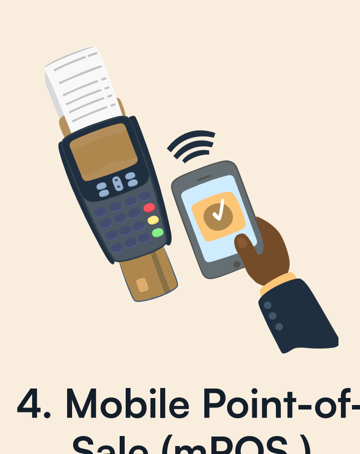
<td>
4. Mobile Point-of-Sale (mPOS)</td>
<td>• It is a smartphone, tablet, or dedicated wireless device that wirelessly performs the functions of a cash register or electronic point-of-sale terminal (POS terminal).
• It is useful for businesses that take transactions on the go.</td>
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5. Automatic Tailor Machine (ATM)</td>
<td>• An electronic telecommunications device that enables the customers of a financial institution to perform financial transactions without the need for a human cashier, clerk, or bank teller.
• ATMs identify customers via a magnetic or chip-based card, with authentication occurring after the customer inputs a PIN.
• Most ATMs are connected to interbank networks to enable customers to access machines that do not directly belong to their bank, although some closed-loop systems also exist.
• ATMs are connected to a host or ATM
• controller using a modem, leased line, or ADSL.</td>
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6. Interactive Teller Machine (ITM)</td>
<td>• ITM uses a combination of touch screens and video technology to offer a virtual version of the in-person banking experience.
• ITMs can replace traditional banks entirely or be placed alongside a larger physical location with live staff inside to handle more complicated requests.</td>
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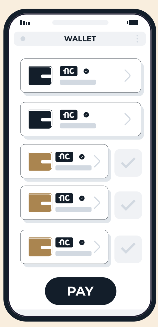


7. Electronic money (e-money)

- It is stored value held in accounts such as e-wallets or on cards.
- Typically, the total value of e-money issued is matched by funds held on one or more bank accounts and usually held in trust so that even if the provider of the e-wallet service was to fail, users could recover the full value stored in their accounts.

9.7. Steps to Withdraw Money from ATM

Hana, Kuma, Meseret, and Yohannes acquired ATM cards from the nearby commercial bank to which they are customers. As first-time cardholders and users, they have asked an ATM acquiring staff to explain to them the steps to withdraw cash from ATM. Accordingly, the TM acquiring staff has advised them to follow the following steps to withdraw cash using an ATM:

Step 1: Insert the ATM card

Step 2: Select a language

Step 3: Enter your 4-digit ATM pin

Step 4: Select the type of service:

- Withdrawal
- Withdrawal for multi-listed account
- Mini statement
- Balance inquiry
- Transfer
- Transfer to another card
- Fast cash
- PIN change
- PIN unblock

Step 5: Select the type of account Step 6: Enter the withdrawal amount

Step 7: Collect the cash

Step 8: Take a printed receipt, if needed

Step 9: Take the card

9.8. Benefits of Using POS for MSMEs

In addition to using ATMs, Hana and Kuma are also planning to take payments from the busy customers of The Coffee Hub using POS. They approached an expert at the nearby bank and asked for more explanation on the benefits and usage of a POS device to take payments from The Coffee Hub customers. The expert has shared the following benefits of POS to Hana and Kuma:

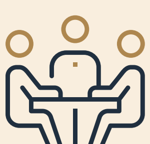
1. Reduced cash handling cost as payments are transferred electronically.
2. It enables The Coffee Hub to attract cardholders, increasing the customer base.
3. It increases The Coffee Hub's sales volume.
4. It reduces risks related to forged notes and bounced checks.
5. It enables the control of daily transactions through POS reports and bank statements.
6. Using the modern payment method by itself will add a good image to The Coffee Hub business.

9.9. Benefits of Digital Financial Services

Brainstorm

Instruction: Discuss in groups for five minutes on the following point and share it with the wider group

Identify the benefits of digital financial services for the success of The Coffee Hub.



Dear participants: The importance of digital finance is growing parallel with the digitalization of societies and economies. Individuals increasingly use digital technology and expect higher levels of personalization and easier access to services. Digitalization is potentially enabling public authorities to reach wider audiences and increase the impact of their financial literacy programs and policies.

- Digital finance can bring many benefits to businesses like The Coffee Hub.
- Digital finance is used to describe the impacts of new technologies on financial services and business performance.

The common benefits of digital finance are summed up in the figure below:

Figure 11. Benefits of digital financial services

It strengthens business productivity and improves your to markets	It generates transactional data used to estimate income & evaluate risks.
It opens up new markets and livelihood opportunities	It enables you to enjoy the flexibility of banking on electronic devices from anywhere.
It supports your money management skills	It lowers business transaction costs
It provides a safe place to store money electronically.	It allows you to access a wide range of financial services such as credit and insurance plans.
It reduces social distancing and reduces the potential risks of the spread of pandemics.	It allows better decision-making.
It brings about the transparency of information.	It offers a gateway to financial inclusion.
It increases security.	It improves customer experience.

9.10. Challenges of Digital Finance

Brainstorm

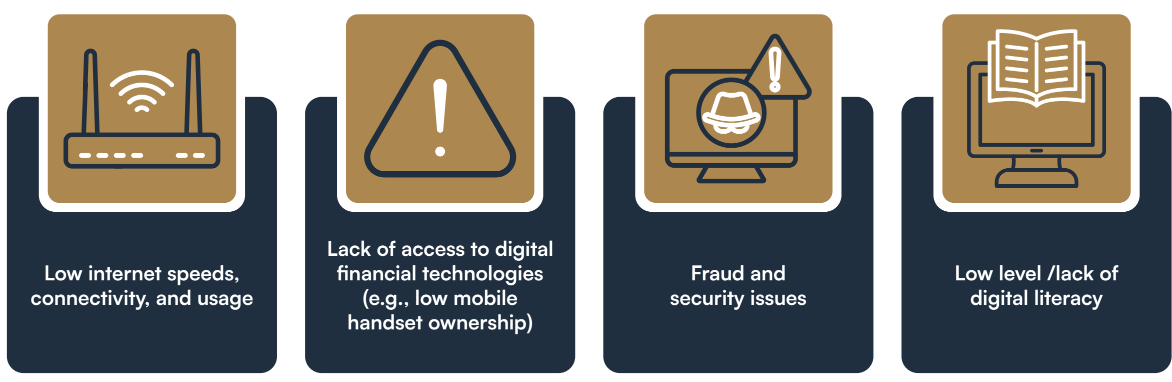
Instruction: Discuss in groups for five minutes on the following topic and share it with the wider group.

Identify the challenges of digital financial services on the performance of business like The Coffee Hub.

Dear participants:

- The rapid expansion of digital finance poses a range of new risks as well as new manifestations of existing risks to the youth and MSMEs. The biggest challenge that persists and needs to be addressed in building Ethiopia's Digital Financial Services (DFS) ecosystem is its comparatively low penetration levels compared to other least-developed countries in the East and Southern Africa Regions (UNCDF, 2022)[1]. This is mainly due to the low performance of the mobile money environment, which is the primary driver of accessing and using digital financial services in the region.
- Digital finance poses traditional risks, such as fraud or over-indebtedness, and heightens new risks to business.

The main challenges of digital financial services are summarized in the figure below:



1 UNCDF, 2022. Building Ethiopia's Digital Financial Services Ecosystem: Barriers and Opportunities

Some other challenges:

1. Risk of using digital financial services

- Security and privacy risks for digital services like mobile banking can stop individuals and businesses from using DFS.

2. Less information about the advantages of DFS

- Lack of proper information about the advantages of DFS hinders individuals and businesses from using DFS.

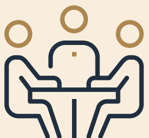
3. Legal and regulatory issues

- The lack of legal and regulatory framework or guidelines for digital services increases risks and discourages consumers from using digital financial services effectively.

4. Problem of dormancy

- The issue of not using mobile and other digital services by the registered active mobile/digital service users could reduce the effective and successful implementation of DFS.

9.11. Overcoming the Challenges of Digital Financial Services



Dear participants, you can apply the following mechanisms to overcome the challenges of digital financial services:

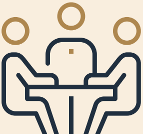
Dear participants:

Discuss in group, the meachanisms to overcome the challenges of digital financial services that you face and report the result to the other participants.

Figure 12. Mechanisms of how to overcome the challenges of digital financial services

1. Use of customer Identification and Verification (CIV) Schemes
2. Building trust in digital financial services
3. Using high-speed broadband third generation (3G) and fourth generation (4G) technologies
4. Promoting digital financial literacy for the youth and MSME operators
5. Increase ease of access to high speed mobile coverage for the youth and MSME operators
6. Use of reliable technologies to address users' privacy concerns
7. Encourage digital financial service users to use the technologies for managing their financial transactions

9.12. Summary



Dear participants: In this module, you have learned about digital finance's concept and practical application. It discusses the purpose of digital finance. It introduces the changing landscape of financial systems and services. It discusses the possible factors that drive and hinder the changes in digital finance. It defines Financial Technology by discussing the influence of technology on all elements of financial services. The module discusses the relevance of digital finance for the youth, MSMEs, and for the 'under-banked', or, otherwise, financially excluded individuals.

The key issues discussed in the Digital Finance Module are summarized as follows:

- Digital finance refers to the use of electronic money instead of cash. It refers to the use of digital means to offer financial services. Digital finance is all about transforming financial services through new technologies (e.g., mobile, card, POS, and e-commerce). It is a concept that expresses the effects of new technologies in the field of finance in the provision of ease of use, speed, and low cost in accessing financial services.
- Channel means the system of intermediaries between the consumer and the financial service provider. It is a gateway for the execution of a financial service. It is the customer's access point to a financial service provider with whom they interact to access financial services. It can be an office, media, tool, or an application; it can be manipulated by human interaction or through a systematic front-end interface.
- Financial technology is used to describe new technology that seeks to improve and automate the delivery and use of financial services. It enables you to manage your financial operations and business processes better. Fintech is composed of specialized software and algorithms that are used on computers and smartphones.
- DFS are widely regarded as an effective means to provide opportunities to promote financial inclusion by lowering the costs of providing these services. DFS refers to the extensive technologies available to deliver financial services from a broad range of providers to a wide range of recipients using digital remote means. DFS refers to a range of financial services (including credit, savings, loan, insurance, and payments services) accessible via digital remote means (including e-money, mobile money, card payments, and electronic funds transfers). DFS contrasts with cash payments or traditional financial services accessed physically, such as visiting a bank branch.
- Mobile banking refers to using a mobile phone to access conventional banking services. It covers both transactional and non-transactional services, such as viewing financial information and executing financial transactions. Sometimes, it is called 'm-banking'.
- Point of Sale (POS) is an electronic device used to process card payments at the point where a customer makes a payment to the merchant in exchange for goods and services.
- Automatic Teller Machine (ATM) is an electronic telecommunications device that enables the customers of a financial institution to perform financial transactions without the need for a human cashier, clerk, or bank teller.
- Electronic Money (e-money) (EM) is a stored value held in accounts such as e-wallets or on cards.
- Digital financial service has some benefits. It strengthens business productivity, improves your access to markets, opens up new market and livelihood opportunities, and supports your money management skills.
- Finally, the main challenges of digital financial services include low internet speeds, connectivity and usage, lack of access to digital financial technologies, fraud and security issues, and low levels of digital literacy.

9.13. Retrospective questions on digital finance

Retrospective Questions

Question #1 — Group 1

Question #2 — Group 2

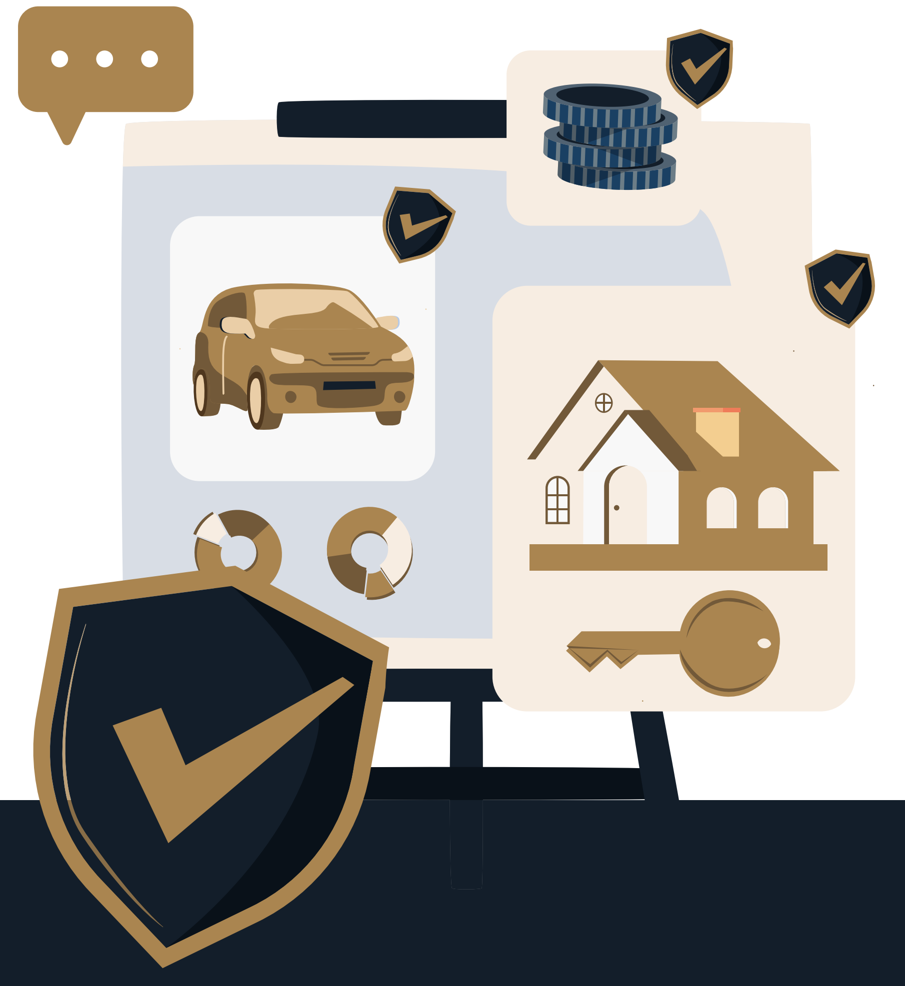
Question #3 — Group 3

Question #4 — Group 4

Question #5 — Group 5

Dear participants,

1. Are you happy with what you have learned in this module about digital finance?
2. Do you think the conceptual and theoretical explanations presented above are helpful to fill your knowledge gaps? Explain how.
3. Do you now have a somewhat better understanding of digital finance? Explain how helpful it is to manage your business.
4. Identify and discuss the benefits of digital financial services and explain how it is instrumental to your business and family.
5. How much of the information discussed in this module will you be able to apply to manage your business?



10

Module Ten

Risk Management and Insurance

Welcome to **Module Ten.** In this module, you will understand the concept of risk and the various types of risk that affect individuals and businesses. You will also learn about how insurance and retirement planning schemes can be used as risk management tools.

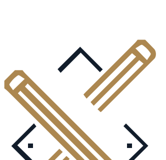
Objectives

By the end of this module, the participants will be able to:

- Understand risk and different types of business risks;
- Identify the steps in risk management processes;
- Recognize the different tools for risk management;
- Describe how various types of insurance can be used to manage risks; and
- Understand planning for old age/ retirement.

Training methods

- Brainstorming
- Presentation
- Exercises
- Case studies
- Discussion
- Roleplaying



Training aids

- Flip charts
- Posters
- Overhead
- Whiteboard
- Markers
- Notebook
- Pen/pencil

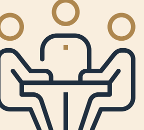
Module content

- Understanding 'risk'
- Types of risk
- Insurance: how does it work?
- Retirement plan

Duration

4 hours

10.1. What Is Risk and What Do You Know About Risk Management?



Dear participants, Risk awareness is a crucial element in financial education. Many individuals have a low level of awareness of the risks they face and lack the requisite knowledge of risk management tools. Let's start with self-assessment to see where you are in understanding risk and the importance of risk management.

Read each statement below and select the number that corresponds with your level of confidence, level 1 (least) to 4 (most). There are no wrong answers.

1.	I can identify the common risks associated with a small business.	1	2	3	4
2.	I can identify the external and internal factors that affect risk for a small business.	1	2	3	4
3.	I can identify situations that may create risk for a small business.	1	2	3	4
4.	I can identify the common warning signs of risk for a small business.	1	2	3	4
5.	I can implement, monitor, and evaluate a risk management plan for a small business.	1	2	3	4

10.2. Understanding 'Risk'

Risk is the possibility of loss or injury. Not all risks come from negative sources. Risks may come from positive sources or opportunities, such as expansion and growth, which carry a certain level of risk.

10.3. Types of risk

Your business is subject to internal risks (weaknesses) and external risks (threats). Generally, you can control most, if not all, internal risks once you identify them. However, external risks may be entirely out of your control.

While you have almost total control over internal risks and can put measures and systems in place to reduce or eliminate their impact, a host of external risks can impact your business, often without warning. This, of course, can include a major disaster or even a global pandemic, as we've learned all too well in recent years.

<table>
<tr><th>Internal risks</th><th>External Risks</th></tr>
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Human Risks

The human component of your business is a natural source of risk. Here are just a few of the risks humans can pose:

- **Illness or death:** A business owner or a leadership team member may fall ill and not be able to work for months. Their death would pose an even greater risk to the organization.risks to your business.
- **Theft and fraud:** Most businesses want an honest workforce, but employee theft and employee fraud are significant risks to your business.
- **Low employee morale:** Unhappy employees can cost you money through negligence or willful acts. For example, an employee who forgets to place an order for inventory can risk your sales because backorders lead to cancellations.

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Market and Competition Risks

The market itself can expose a small business to risk. This can include a new competitor opening across the street, the wholesale cost of goods skyrocketing, pricing pressures, supply chain disruptions, and vendor changes.

Key employees may leave you for your competitor, taking valuable and once-loyal customers with them. Worse, they can take some of your trade secrets with them if you haven't properly protected them.

Rent increases can suddenly rise in a highly competitive market. The cost of utilities can also increase risk. Both may require you to increase prices, which can adversely affect sales.

Consumer patterns may shift unexpectedly. Customers can be fickle, chasing the latest trends or fashions even in the best of times. Shifts in popular culture can add risk to your operations and ability to operate profitably.

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Equipment and Information Technology Risks

Downtime of computer systems, machinery, or vehicles can cost you a substantial amount of money. Creating a replacement schedule for these assets can help you avoid downtime or costly repairs or support. The same can be said for machinery parts that need to be replaced periodically due to wear and tear.

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Business Environment Risks

What happens around your business can significantly affect your business. This can include federal, state, county, and city laws and ordinances or zoning changes. New health and safety protocols can be introduced, or the city can increase its inspection cycles.

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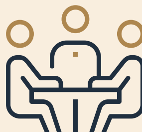
Physical Risks Fire, flood, power outages, storms, and other crises can profoundly affect your operations. As you consider risk, you want to inspect your facilities and offices for potential risks. Adding fire suppression systems, fire extinguishers, flood mitigation systems and generators can help you reduce the chance these disruptions occur and minimize the damage they can do to your business. You'll also want to survey your business operations to reduce the possibility of work-related injuries. Workplace injuries can cause a loss of productivity and open your business to lawsuits.	
Financial Risks Cash flow is the lifeblood of your business. Unexpected expenses or reduced revenue can put your business at risk, as can the loss of a credit line. A risk management plan should be developed to address these risks to your bottom line. Even new financing can create added risk in the form of additional debt, appraisal, and closing costs, and tying up business assets as loan collateral.	



Dear particiapnts, Dear participants, which one of the above risks are relevant to The Coffee Hub?

Brainstorm

What are some examples of things you do to protect yourself, your family, or your home from risks?

10.4. Risk Management Process

Risk management is a process that identifies loss exposures faced by an organization and selects the most appropriate techniques for treating such exposures. The risk management process involves four steps:

Step 1:

Identify potential losses (identify)

Step 2:

Evaluate potential losses (assess)

Step 3:

Select the appropriate techniques for treating loss exposure (treat)

Step 4:

Implement and administer the program (monitor and report).

10.4.1. Risk Identification

The first step in the risk management process is to identify all major and minor loss exposures. This step involves a painstaking analysis of all potential losses. Unless the sources of possible losses are recognized, it is impossible to consciously choose appropriate, efficient methods for dealing with those losses should they occur. Some potential sources of risk could be related to the following exposures:

- Property loss
- Business income loss
- Human resources
- Liability risks

10.4.2. Risk Measurement (Risk Evaluation)

The second step in the risk management process is to evaluate and measure the impact of losses on the firm. This step involves the estimation of the potential frequency and severity of loss. Loss frequency refers to the probable number of losses that may occur during a given period of time. Loss severity refers to the probable size of the losses that may occur.

10.4.3. Selection of an Appropriate Technique

After identifying and evaluating risk exposures, systematic consideration can be given to alternative methods for managing each exposure. The four basic methods available to handling risks are:

- Risk avoidance, Loss control,
- Risk retention, and Risk transfer.

Avoidance means never acquiring a certain loss exposure or abandoning an existing loss exposure. Risk avoidance is a conscious decision to expose oneself or one's firm to a particular risk of loss. In this way, risk avoidance can be said to decrease one's chance of loss to zero. For example, a pharmaceutical firm that markets a drug with dangerous side effects can withdraw the drug from the market.

Risk avoidance's major advantage is that the loss chance is reduced to zero if the loss exposure is never acquired. In addition, if an existing loss exposure is abandoned, the chance of loss is reduced or eliminated because the activity or product that could produce a loss has been abandoned.

Avoidance, however, has two major disadvantages: first, the firm may be unable to avoid all losses. For example, a company may be unable to avoid a key executive's premature death. Second, it may not be feasible or practical to avoid the exposure. A paint factory can avoid losses arising from the production of paint. Without paint production, however, the firm will not be in business.

When particular losses/risks cannot be avoided, actions may be taken to reduce the associated losses. This method of dealing with risk is known as "loss control." It differs from risk avoidance because the firm or individual still engages in operations that give rise to particular risks.

Rather than abandoning specific activities, loss control involves making conscious decisions regarding the manner in which those activities will be conducted. Common goals are either to reduce the probability or cost of losses.

Retention means that the firm retains part or all of the losses that can result from a given loss. Retention can be active (planned) or passive (unplanned). Active risk retention means the firm is aware of the loss exposure and plans to retain part or all of it, such as automobile crash losses to a fleet of company cars. Passive risk retention, however, is the failure to identify a loss exposure, or failure to act or forgetting to act. For example, a risk manager may fail to identify all company assets that could be damaged in an earthquake.

Risk transfer is the final risk management tool, which involves payments by one party (the transferor) to another (the transferee or risk bearer). The transferee agrees to assume a risk that the transferor desires to escape. Sometimes, the degree of risk is reduced through the transfer process because the transferee may be better positioned to use the law of large numbers to predict losses. In other cases, the degree of risk remains the same and is merely shifted from the transferor to the transferee for a price.

Four forms of risk transfer are hold-harmless agreements, incorporation, hedging, and insurance.

Hold-Harmless Agreements: Provisions inserted into many different kinds of contracts can transfer responsibility for some types of losses to a party different than the one that would otherwise bear it. Such provisions are called hold-harmless agreements or sometimes indemnity agreements.

Incorporation: Through this act of incorporation, a firm transfers to its creditors the risk that it might not have sufficient assets to pay for losses and other debts. Personal assets of the owners cannot be attached to help pay for business losses, as can be the case with sole proprietorships and partnerships.

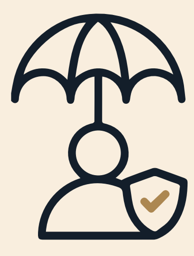
Hedging: This involves the transfer of speculative risk. It is a business transaction in which the risk of price fluctuations is transferred to a third party known as a speculator.

10.5. Insurance: How Does It Work?

Insurance is one of the most important parts of your risk management plan. Individuals can transfer their personal risk to a third party—the insurance company— by purchasing insurance.

Insurance is an arrangement in which an insurance company compensates a person or a company for a specified loss caused by e.g., weather (bad season), accident, fire, and death. In such an arrangement, an insured party pays an agreed amount of money (premium) in advance to be compensated in case the event happens.

10.6. Types of Insurance

 **Life insurance**	The main purpose of life insurance is to insure against loss of income due to death. It can also be used for retirement planning and investing. It is the one kind of insurance you pay for, but only others benefit from it. Except in rare cases, the purpose of life insurance is to provide security for others at the time of your death.
Health insurance	Also called medical insurance, it helps protect you and your family from expensive or unexpected healthcare-related expenses. It is designed to estimate your overall risk of health-related expenses and supplement your cost of care, including doctor's appointments, hospitalization, prescriptions, and other similar costs.
Disability insurance	Another type of medical coverage is disability income insurance, which pays part of your income if you become ill or injured and need an extended period to recover or can no longer work.
Property and liability insurance	Property may be exposed to various dangers: fire, theft, and damage by persons (whether accidental or carelessness). It consists of those forms of insurance designed to protect against losses resulting from damage to or loss of property and losses resulting from legal liability.

Important Message

- Insurance is generally considered a valuable risk management tool because it allows a third party— the insurance company— to assume part of your risk and your costs.
- However, it can become expensive if you buy coverage you do not need or pay more than you should for the premium.

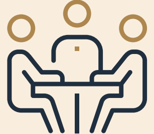
10.7. Steps in Acquiring an Insurance Policy

Dear particiapnts, what are the main steps to consider for Hana and Kuma to purchase an insurance policy ?

Generally, Hana and Kuma can go through the following steps:

1. **Determine insurance needs:** Assess the specific requirements to identify the type of insurance coverage they need, such as health, property, or business insurance. Understand the available coverage options, limits, and specific requirements associated with their desired insurance type.
2. **Research insurance providers:** Conduct research and compare different insurance providers to find one that offers the coverage they need at a competitive price. Consider factors like their reputation, customer reviews, financial stability, and the range of insurance products they offer.
3. **Contact insurance companies:** Contact the insurance providers they have shortlisted. This can be done via phone, email, or their website. Engage in conversations and gather information about the available policies.
4. **Obtain insurance quotes:** Provide the necessary information to the insurance provider to receive insurance quotes. This typically involves sharing personal details, property information (if applicable), and other relevant information specific to their insurance requirements. Based on this information, the provider will offer a quote that outlines the coverage and premium amount.
5. **Review policy details:** Examine the policy's details thoroughly, including coverage, exclusions, deductibles, terms, and conditions. Before proceeding, ensure that the policy aligns with their needs and that they understand its terms comprehensively.
6. **Complete application forms:** If they decide to move forward with a specific insurance provider, they must complete them. These forms usually require personal information, details about the insured property or assets, and any additional information specific to the type of insurance they are applying for.
7. **Submit required documents:** Collect and submit any supporting documents requested by the insurance provider. These may include identification documents, proof of ownership, or any other documents necessary for processing their application.
8. **Payment and policy issuance:** Make the premium payment as the insurance provider specifies. Review the policy documents thoroughly and retain a copy for your records.

10.8. Retirement Plan



Dear participants,
What does it mean to plan for old age/retirement?

Planning for Old Age/Retirement

Retirement planning is the process of determining retirement income goals and the actions and decisions necessary to achieve those goals. Retirement is the stage when a person stops working. Retirement planning includes identifying sources of income, estimating expenses, implementing a savings program, and managing assets.

10.9. Summary

- Risk is the possibility of loss or injury. Not all risks come from negative sources. Risks may come from positive sources or opportunities, such as expansion and growth, which can have a certain level of risk.
- Risks can be classified as internal risks (weaknesses) and external risks (threats). Generally, you can control most, if not all, internal risks once you identify them. However, external risks may be entirely out of your control.
- Risk management is a process that identifies an organization's loss exposures and selects the most appropriate techniques for treating them. The module presents four important risk management steps and four risk management tools.

10.10. Retrospective Questions on Risk Management and Insurance

Discuss in groups that will be organized by the training facilitator as indicated below:

Question #1 — Group 1

Question #2 — Group 2

Question #3 — Group 3

Question #4 — Group 4

Question #5 — Group 5

Dear participants:

1. Are you happy with what you have learned about risk management and insurance in this module?
2. Do you think the conceptual, theoretical, and practical explanations/ engagements presented about risk management and insurance help fill your knowledge gaps? Explain how.
3. Do you now have a somewhat better understanding on risk management and insurance? Explain how helpful it is to manage your business.
4. Discuss the benefits of identifying and managing financial and non-financial risks in making your business successful? Explain how it is instrumental to realize your goals and plans.
5. How much of the information discussed in this module will you be able to practically apply to manage risk and uncertainty?

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Annex

Annex 1: Glossary

Term	Definition
Assets	Assets are resources that a company or individual owns or controls. These can include physical assets, such as buildings, equipment, and inventory, as well as financial assets, such as stocks, bonds, and cash.
Bookkeeping	The recording of financial transactions and creating reports summarizing a business's operations.
Budget	Estimates of expenditures required to run the business during a period.
Business Model Canvas (BMC)	A strategic management and lean startup template for developing new or documenting existing business models.
Business Plan	A detailed document that outlines a company's goals and how it plans to achieve them.
Capital	The budget for new machinery, equipment, and facilities.
Claim	A written request submitted to your insurance carrier to cover a loss.
Competition	Businesses that offer similar products or services to the customer.
Collateral	Collateral in the financial world is a valuable asset that a borrower pledges as security for a loan.
Cost	Amount of money needed to produce a good or service.
Credit	Credit is the ability to borrow money or obtain goods or services with the promise to pay for them later. It is granted by a lender, such as a bank or credit card company, based on the borrower's creditworthiness.
Debt	Debit is the opposite of credit. It refers to the process of reducing an asset or increasing a liability.
Debt Financing	The act of raising money for a business by borrowing, typically from banks or other lending institutions.
Digital Financial Services (DFS)	Financial products and services accessed and delivered through digital channels such as mobile phones, internet, and ATMs.
Diversification	The process of allocating capital in a way that reduces the exposure to any one particular asset or risk.
Equity	Equity is the residual interest in the assets of a company or individual after all liabilities have been paid. It represents the ownership stake in the business or property.

Expenses	Expenses are the costs incurred in the course of doing business. These can include salaries, rent, utilities, and other operating costs.
Financial Services	Products and services provided by the finance industry, including banking, investing, insurance, and accounting.
Fintech	Financial technology, which refers to the use of technology to deliver financial services and products.
Goal	Statement of what the business wants to achieve.
Grace period	This is the additional time a lender provides for a borrower to make payment on a debt without penalty or cancellation of the contract.
Income	Amount of money received over a month or year, for example, in exchange for goods or services.
Inflation	Inflation is a gradual loss of purchasing power, reflected in a broad rise in prices for goods and services over time.
Insurance	A contract that provides financial protection and compensation in the event of a loss.
Interest rate	Interest is the cost of borrowing money. It is usually expressed as a percentage of the amount borrowed and is charged by a lender to a borrower.
Investment	The act of allocating money with the expectation of generating an income or profit.
Lease Financing	A type of financing where a company pays to use an asset owned by another party.
Liabilities	Liabilities are the debts or obligations that a company or individual owes to others. These can include loans, accounts payable, and taxes owed.
Passbook savings account	A regular savings account (also known as demand deposit account) in a financial institution allows the account holder to make deposits or withdrawals at any time.
Personal Financial Management (PFM)	The process of planning and managing personal financial activities such as income, expenses, savings, and investments.
Price	Amount of money at which a product or service is sold.
Principal	The principal is the amount of money borrowed or invested. It is the base amount on which interest is calculated.
Premium	The fee paid for insurance protection.
Profit	Profit is the amount of money that remains after all expenses have been deducted from revenue. It is the reward for taking on the risks of doing business.
Revenue	Revenue is the income that a company earns from the sale of goods or services. It is the total amount of money that a business earns before expenses are deducted.

Risk Management	The process of identifying, assessing, and controlling risks to an organization's capital and earnings.
Savings	Money put aside for future use, rather than spent on current expenses.
Sources of Finance	Different ways a business can obtain funds, such as debt financing, equity financing, or leasing.

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