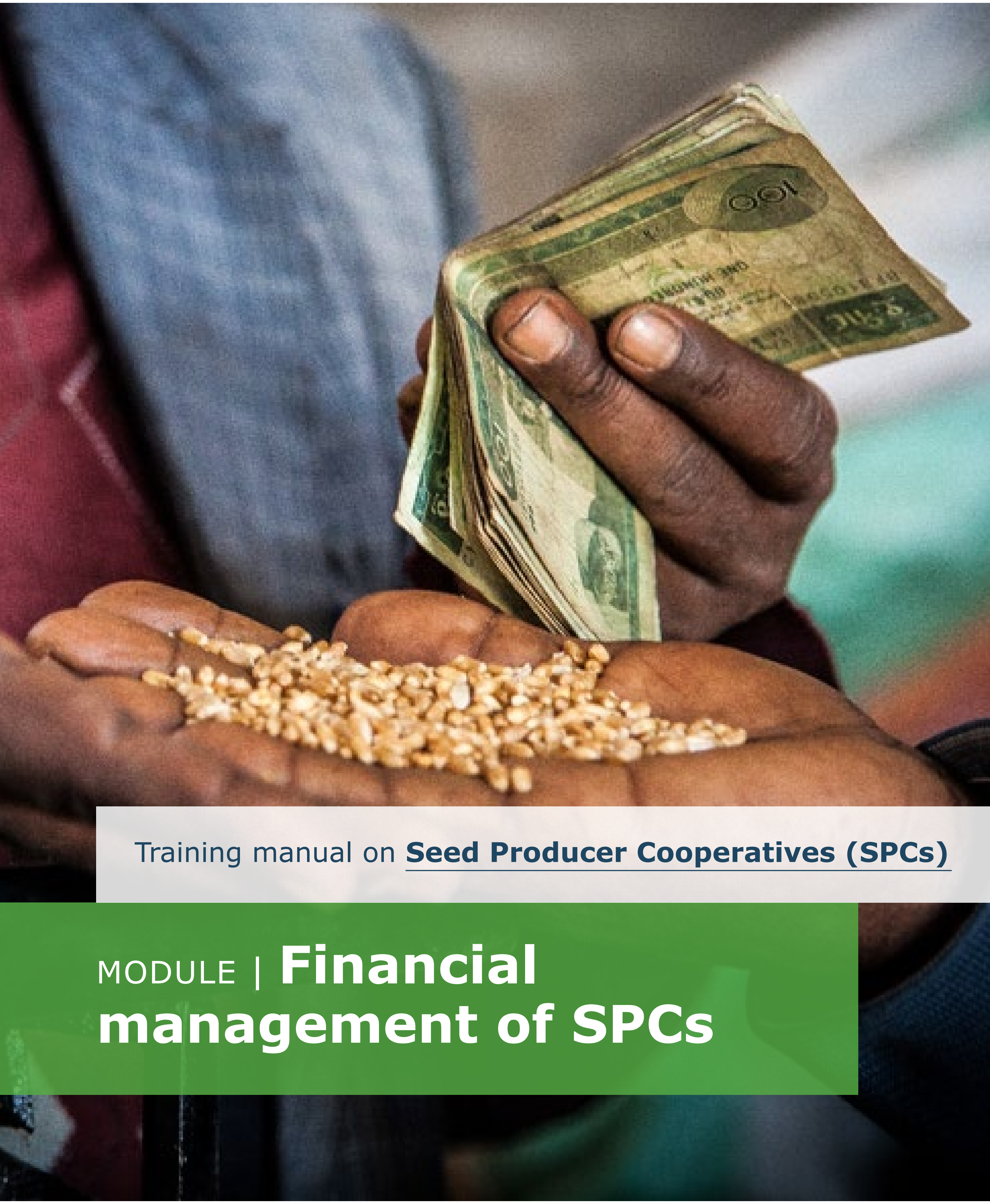
INTEGRATED SEED SECTOR DEVELOPMENT
PROJECT ETHIOPIA



Training manual on **Seed Producer Cooperatives (SPCs)**

MODULE | Financial management of SPCs

WAGENINGEN
UNIVERSITY & RESEARCH

Colophon

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Please cite as | WCDI (©2020) *Local seed business management, Module: Financial management of SPCs*; December 2020. Commissioned by the programme on Integrated Seed Sector Development in Ethiopia (ISSD Ethiopia). Wageningen Centre for Development Innovation, Wageningen University & Research.

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This report can be downloaded for free at https://doi.org/10.18174/536873 or at www.wur.eu/cdi (under publications).

This work was commissioned by Integrated Seed Sector Development in Ethiopia (ISSD Ethiopia), a programme of the Bilateral Ethiopia Netherlands Effort for Food, Income and Trade (BENEFIT) partnership funded by the Netherlands Ministry of Foreign Affairs through the Embassy of the Kingdom of the Netherlands in Addis Ababa, Ethiopia. ISSD Ethiopia is implemented by the consortium of Bahir Dar University, Haramaya University, Hawassa University, Mekelle University, Oromia Seed Enterprise, and Wageningen Centre for Development Innovation, which is a part of Wageningen University & Research, in collaboration with the Government of Ethiopia and many others across research, industry and civil society in Ethiopia.

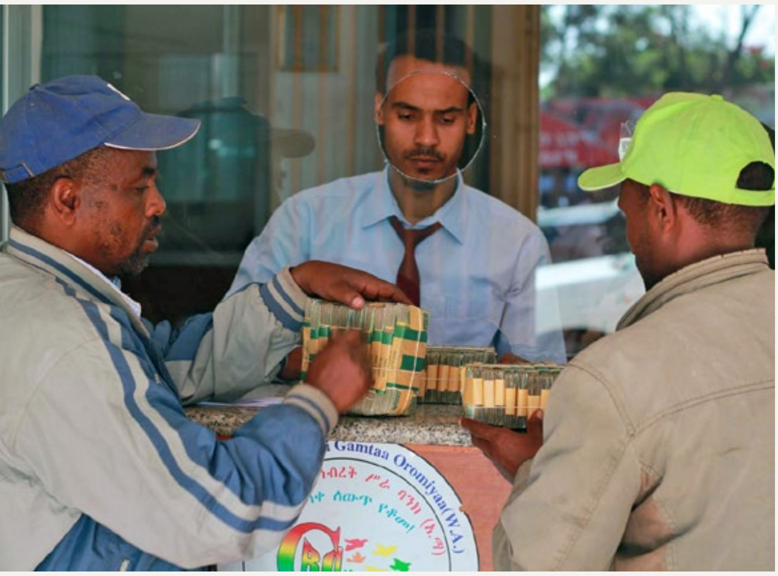
Contents

Financial management of SPCs

This training module aims to support the capacity building processes of professionals involved in the strengthening of SPCs in Ethiopia, by zooming in on elements related to accounting and financial management.

Trainers can make use of the information and facts from this manual as input to tailor design their own training sessions. The assignments and reflection questions that can be found in this manual can be used as inspiration to engage participants through interactive training sessions that build on their personal experience and insights.

For this module it is likely that participants will start with very different levels of knowledge. We have suggested exercises that will enable trainers to discover this. We have also suggested resources so that after the first couple of sessions trainers can (for instance) zoom in on the basics, or finer points, depending on what participants need to know, and direct them to further study. Do not forget that some participants will be able to help their peers – and the trainer! with their experience and expertise.



This module also brings together experience and learning from the Integrated Seed Sector Development Programme in Ethiopia that operates within the BENEFIT-Partnership programme in six regions. This module also integrates the experience from the Integrated Seed Sector Development Programme implemented in Uganda.
https://edepot.wur.nl/335946

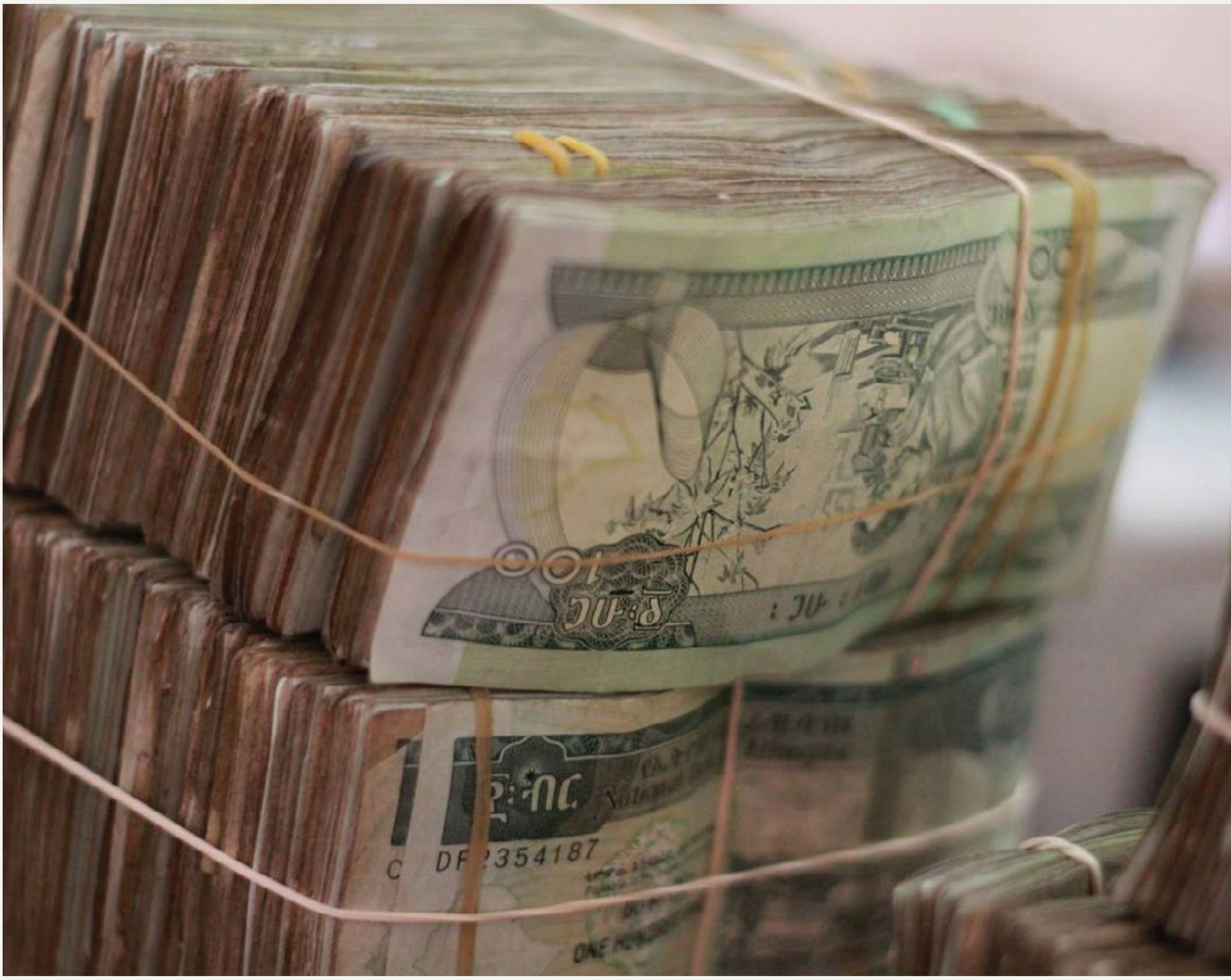
This module consists of six sections; it is suggested that each one could be tackled in a separate training session:

1 an overview of financial management
2 how to increase resources
3 record keeping
4 financial statements
5 financial controls, including auditing
6 do’s and don’ts.

General learning objectives

By the end of this module, participants will have learned about the following topics and how they apply to SPCs. They will be aware of the resources available to them for further study and training should they wish it.

- What is financial management, and what is it for?
- How can SPCs increase their resources?
- What is good record keeping?
- What are financial statements, and what are they used for?
- What is auditing and control, and how does it benefit SPCs?
- From others’ experience, what are some do’s and don’ts for SPC financial management?



SECTION 1 Financial management: what is it, and what is it for?

Specific learning objectives

By the end of this section participants will be able to:

- understand what financial management is
- understand the importance of financial management
- understand how an SPC can make informed decisions using financial information.

Reflection questions

In groups of 3 reflect on the following questions.

- How does your SPC manage finance?
- List some advantages of financial management to your SPC.
- Do you think financial management is important to your SPC? If not, why not?

1 Financial management of SPCs

SPCs need finance to establish, operate, expand and maintain their business. Finance is the life and blood of an SPC, and vital to its wellbeing. Its financial statements represent its performance. Just as athletes cannot improve their training methods and performance without detailed records of their performances, a business cannot be managed and decisions well made without these documents.

SPC and SPC members should be aware of, and pay close attention to, all financial matters related to the operation and functioning of their SPC. SPC members do not necessarily need professional skills themselves (SPCs should employ professional accountants and bookkeepers) but they should be financially literate and be aware of the importance of good financial management for the wellbeing of the SPC. It is vital that every SPC member and leader knows the following:

- who is responsible for financial management
- tools for financial management, and how they facilitate decision making
- the ways revenues and expenditures are recorded, and how these records serve the needs of the SPC.

Financial management in SPCs is all about planning income and expenditure, and making decisions that will enable the SPC to survive and be financially viable, making sure that its money is being spent in the most efficient way in order to fulfil its objectives.

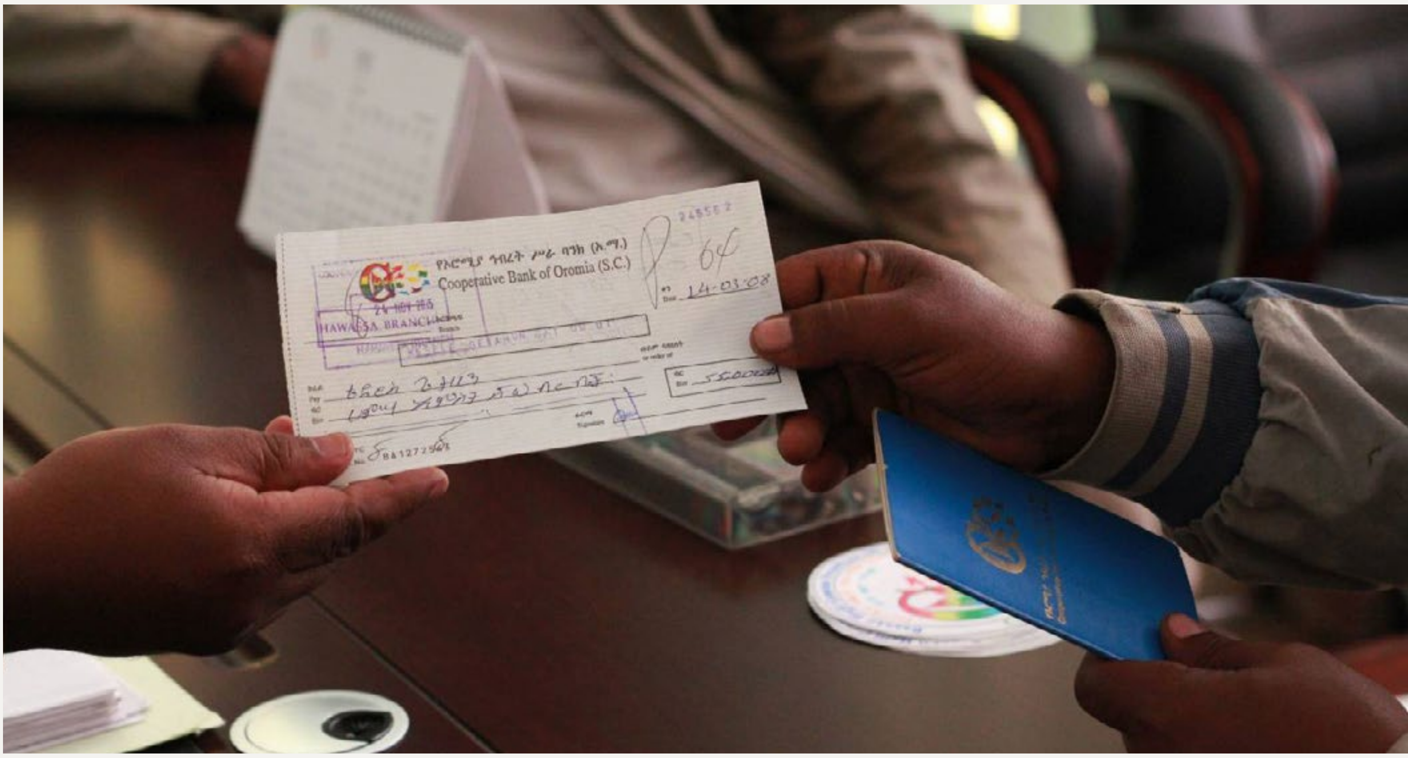
If at all possible, professionally trained accountants and bookkeepers should be employed, but finance policies and procedures must be drawn up in a participatory way (involving members and leaders), and everyone involved is accountable for the use of SPC money in their care.

1.1 Who is responsible for SPC financial management?

The third international principle of the International Cooperative Association states that members contribute equitably to, and democratically control, the capital of their cooperative. All decisions in a cooperative and its areas of operation have financial aspects. All the systems, rules, procedures, and practices of management therefore must be communicated and known to every member in the cooperative, and financial management is the responsibility of all.

Ethiopian government legislation on cooperatives (the latest iteration is proclamation 985/2016) has specific requirements on financial management, including the roles of members and committees, and how to deal with shares and savings. For instance, all cooperative members must receive audited (that is, independently verified) financial statements at the annual general meeting.

Trainers should ensure that participants have read and understand this legislation, and time should be given to discuss it.



SPCs experience from the field

A SPC's journey towards improved financial management

"Some people think that farmers are not capable of managing and administering financial management, but despite their perceptions, we manage our seed business transactions, financial management, and keep and maintain trustable records. This practice is admired by all visitors to the SPC." **Quote taken from Chairman of Biftu SPC**

Biftu SPC has professionally organized its financial documents, by keeping clear, transparent and up-to-date financial records. It developed an annual budget and kept and maintained accounting documents in its office. Doing so, it built the trust of the cooperative promotion office and other local stakeholders including the Cooperative Bank of Oromia. The bank was convinced by its financial statements and internal control system, and therefore released credit. The SPC has developed its professional capacity so that it can manage huge inward financial investment flows, and is able to protect its finances from any irregularities.

The SPC is member driven; its members are owners, users and controllers of the SPC assets. Initially the SPC had no formally organized accounting records in its office. Even the existing accounting receipts and journals were not utilized properly. No chronological order of receipts was maintained. Documents were organized in a haphazard manner. Business transactions were not recorded daily, closed monthly or even audited yearly. As a result no clear, transparent and up to date financial information was kept in the office of the SPC.

Together with the ISSD OSW unit, the SPC identified this gap in their financial management. ISSD organized successive advisory meetings in the office of the SPC. The SPCs management committee and the accountant were trained on financial management, and exchanged practical experiences with other SPCs. Through this process the SPC slowly started to improve their performance in relation to their financial management.

The SPC now organizes books of accounts and subsidiary ledgers, it records daily transactions with receipts and corresponding books, it closes accounts monthly and prepares accounts and performances for audit. A quarterly cash inventory is conducted which enables the SPC to avoid unexpected cash shortages and to monitor the liquid cash movement of the SPC. The SPC keeps and maintains financial documents, and prepares financial statements (especially the cash flow statement, profit and loss statement, and balance sheet) that helps the management committee to correct errors in a timely manner. At the end of each budget year the SPC is also able to present the financial reports, audit findings and performance reports to the general assembly. Overall, Biftu SPC is an excellent example of good modern financial management practices.

1.2 Definition of financial management

Financial management can be defined as managing the finances of an SPC in order to serve the members satisfactorily as stipulated in the bylaws. To achieve this, the following is needed:

- identifying and dealing with the financial viability of SPC enterprises and resources, by producing overall information about SPC finances and using these analyses for future planning
- increasing financial resources
- controlling the internal finances of the SPC.

SPCs experience from the field

The case of Hago Sada SPC

Hago Sada SPC was established in 2008 by 63 members (49 male and 14 female). The SPC counted on an initial capital of ETB 274,263.70, to produce quality seed in Arsi Zone, Oromia. Producing quality seed requires different seed value chain actors to have the necessary infrastructure and farm machinery. Among others, a combine harvester is a major tool that can significantly affect the quality of seed produced by SPCs.

In this regard, Hago Sada SPC had faced a serious problem during the production years 2015 - 2018. The SPC had rented a combine harvester that had adulterated the seed by mixing the quality seed with other different types of grain remains, while moving from one farm to another to provide a harvesting service. After a time the executive committee observed and realized the problem. They discussed different options and possibilities, and decided on a plan to obtain their own combine harvester.

The management committee discussed the issue with the SPC members. Members gave their consent to purchasing a combine harvester as a solution to the problem. Several members were extremely generous, contributing between ETB 5,000 to ETB 25,000 at a time during a cash collection ceremony. With this amount of money, the SPC approached the Cooperative Bank of Oromia for a loan for the rest of the investment cost, and were able to purchase the combine harvester. The SPC with its strong management committee commitment and active members' participation and devotion, now owns a combine harvester and is able to harvest quality seed for its members. Every member who has contributed cash receives an equivalent share in the combine harvester, thus ensuring a steady dividend in the future from additional income from renting out the harvester to provide services to others.

1.3 Financial viability of SPCs.

SPCs need to identify and analyse the viability of what they are doing. This is done in several different ways, using the financial records of the SPC.

One simple and useful way of assessing viability is to produce a budget, and we will start with this, to give a feel for how financial management works.

Any budget identifies and computes the costs and profits of different enterprises, so that SPC members and leaders can see which of its enterprises are most profitable and why. It enables them to work out the likely income/profitability of future enterprises, and interprets the results into simple messages to enable them to make decisions about the future.

Learning objectives

By the end of the session, participants will be able to:

- identify and compute the essential cost and income data for a SPC
- fill in the information on a budget sheet
- calculate the profitability for a given enterprise
- interpret the results into simple messages to influence the SPC's economic decisions.

Budgets can be made for all types of enterprises carried out by a SPC, but one of the most common is a seed crop budget. This is a tool used for recording the money you put in a SPC for purchase of foundation seed, packaging materials, labour, and the money you get from seed sales. When you keep a record of the money spent (expenses) and money made (income from sales proceeds), this will help you calculate the performance in terms of profit for a seed crop.

The importance of this is that it helps people to understand the financial implications of the main activities of the SPC; the money you put in to growing a particular type of seed (costs/expenses) and the money you get out (profits). This tool must be used by every seed grower to calculate profitability performance of a seed enterprise. Simply record every cost incurred e.g. purchase of foundation seed, fertilizer, labour, storage, etc. If you use your own inputs (for instance your own labour or seed) attach a cost using prevailing local market rates e.g. family labour in seed, reused foundation seed, etc. You add up all these costs to get total costs. Then record the money earned from seed, e.g. sales of seed.

Example

A SPC harvested sesame and beans in 2019. Later on, after carrying out seed crop budgeting, they realized that they were operating at a profit and wanted to make decisions on investment and sales. They used table 1 (see below), that provides an overview of crop specific revenues based on costs and profits.

Table 1: Crop specific revenues, costs and profits

	sesame seed	beans
Yield in units (NB. you can use quintals or kilos)		
unit sales price (birr)		
Total revenue		
cost of original seed		
transportation of original seed		
labour		
land hire		
seed bags		
transportation of harvest		
storage		
other costs (e.g. tax)		
Total costs		
profit (total revenue minus total costs)		

Using this table, they worked out how much it had cost them to invest in each type of crop, and showed the results as the cost of producing one unit of sesame seed (total cost of producing the sesame seed, divided by the number of units sold), compared to the cost of producing one unit of beans. Based on the insights from this simple calculation, they realised that it had cost more to produce sesame than to produce beans.

However, they also worked out the profits that they made on each seed, using table 2 (see below) that provides an overview of the basic costs of production and income from sales.

Table 2: Crop-specific profit per unit sold

	sesame	beans
cost of production per unit		
sale price per unit		
profit per unit		

This overview showed them that although sesame cost more to produce, it was more profitable. This helped them to discuss their plans for the future; whether, for instance, costs of production could be reduced in order to increase profitability, or whether to plant more sesame than beans.

A seed crop budget, in a nutshell, is a simple tool to measure seed business performance through capturing and use of quantitative data of SPC and individual SPC members' production and marketing records – land area used, yield, costs, sales prices, volumes sold, etc. Total costs are compared to total revenues to understand whether operations are profitable or not. That is; total revenue (sales price/unit x volume sold) minus total costs=profit.

Information on costs and returns is used to make decisions on production of a particular seed enterprise. It helps to influence decisions and allocate resources which are limited to the most appropriate use to maximise returns.

Practical learning exercise: profitability analysis

- Introduce the objectives of the session.
- Ask participants to list all the costs actually incurred in a seed businesses (refer to individual members' records if possible).
- Ask the participants to divide themselves into groups of 4-5 each. Each group is given guidance questions to discuss and record costs of foundation seed, transport, land preparation, planting, weeding, roguing, pest and disease management harvest, transport, storage, packaging, treatment etc.
- What revenues were gained from sales (sales per unit x volume sold)?
- Use the crop seed budget tool template and calculate the profitability i.e. total revenues-total costs.
- Summarise the profitability results and discuss with participants. Ask what they think of the profitability? What could be done differently to improve profit level?

Reflection questions

In groups of 3 reflect on the following questions.

- Taking the example of Sago Hada SPC above, can the participants construct a budgeting table that would enable them to work out the likely future costs, revenues, and profits of this enterprise?
  (Hint – looking at increased costs and increased revenues over a year and a period of years; one column for SPC use, another column for renting out.)
- How might you show the yearly cost of money raised to buy the combine harvester; money paid out to SPC members; the bank loan; cleaning the harvester if it is rented out to others; replacing the harvester after a few years?
- How might your SPC use this budgeting tool to look at future enterprises?
- Revisit the learning objectives at the beginning of this section. Have they been fulfilled?

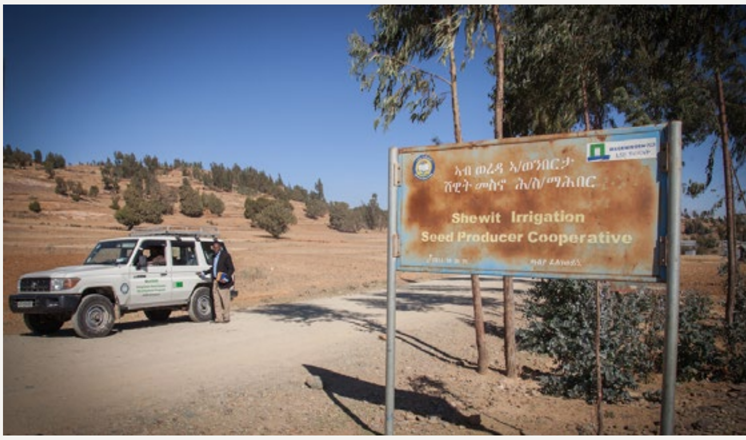
SECTION 2 How to increase resources

Specific learning objectives

By the end of the session, participants will be able to:

- understand different ways of increasing financial resources
- discuss how this might apply to specific SPCs
- understand the importance of mobilizing all resources for SPC finance, including intangibles such as trust and the commitment of members.

Setting goals and objectives to increase resources is a very important part of financial management, as it enables SPCs not only to be sustainable, but to develop further, improving the livelihoods of its members and the surrounding community. SPCs have the option to increase internal resources or increase external resources.



2.1 Increasing internal resources

Reflection questions

In groups of three reflect on the following questions.

- What do you understand by *internal resources*?
- What are your SPC's internal resources?
- Do you think members can or should be a major resource? Why?

Seed producer cooperatives have several types of resources to manage, all of which are essential to its finances. This includes its people and the material things the SPC owns as well as its money (capital). Of these, people are the most important resource in a cooperative. The success of all phases of the business depends on competent personnel working together smoothly and efficiently, and are vital for its financial wellbeing (for instance, when starting up, cooperatives often depend heavily on the unpaid work of its members, sometimes called *sweat equity).*

Essential SPC internal resources consist of the following.

- Committed SPC members.
- The optimum quantity of foundation seed and other productive inputs like fertilizer and crop protection inputs.
- Tools and equipment for land opening, post-harvest handling and field operations.
- Storage and packing materials to keep products safe and maintain their quality.
- Land that is suitable for seed production, proper isolation and good fertility/crop rotation cycles.
- Adequate working capital in the form of cash to meet operational costs.

Other internal resources can also consist of assets such as buildings, computers, telephones and vehicles.

Using internal resources in SPCs (resource mobilization) involves all activities in planning for and securing new and additional resources. It also includes making better use of, and maximizing, existing resources. Resource mobilization enables SPCs to improve, and to scale up the seed products and related services that it provides to its customers, in a sustainable manner.

Resource mobilization starts with creating an appropriate resource mobilization strategy plan, and then aims at its effective implementation, to establish and grow the business in a sustainable way.

SPC members and SPC committees have to make decisions about where to invest their energies to mobilize resources. The way in which a SPC acquires the resources it needs and the sources of those resources determines what their business is and what it can become. They should not forget that some of the most useful resources are in kind rather than in cash.

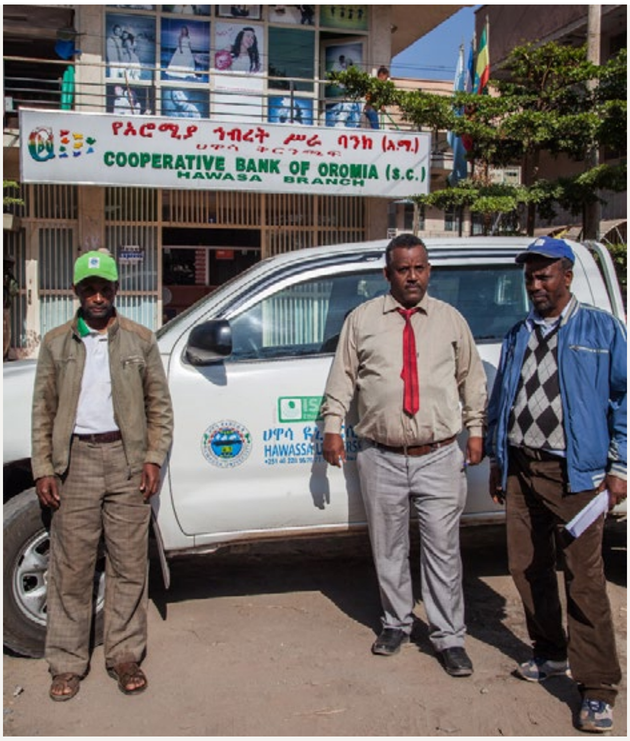
When seeking funding, they should consider mechanisms to generate internal funds themselves in the first instance, as opposed to seeking funds from external sources, which usually carry high risks and makes them vulnerable.

As a first step the SPC must discuss what is needed, their existing resource mobilization schemes and map out possible different schemes. Then the SPC must look at the challenges and opportunities associated with each. It can be done using templates like the one below:

Table 3: Example of a resource mobilization strategy plan

Resource needed	Source of funds	Why the source/purpose?	Any challenges associated	Solutions/mitigation
To get 200 bags of barley foundation seed	• SPA savings fund	• Fund already in place • All members contribute	• Funds not enough • There are other needs	• Extra fundraising • Ask neighbouring SPA if they can exchange the barley foundation seed that they grow for any of our certified seed
To get bean seeds for 0,5 hectare	• Not needed	• Farmer saved seed	• N/A	• N/A

They must decide when to focus on non-financial resources and when to seek internal funding resources. External funding in the form of loans and grants should only be considered when the SPC is growing well, to cope with burgeoning resource needs.



2.2 Increasing external resources

Reflection questions

In groups of three, reflect on the following questions.

- What do you understand by *external resource*s?
- What are the external resources of your SPC?
- Which external resource do you think is best for your SPC? Why?

There are different external resources for an SPC. These may be funds borrowed either from government or financial institutions, or grants secured from different NGOs/development partners working in the seed sector area with the aim of supporting and complementing seed sector development.

Do not forget that, as with internal resources, external resources available to SPCs also include people and things, which may not have to be paid for, but which are extremely useful to the financial wellbeing of an SPC and need to be thought about carefully. This includes relationships with people from other organizations and in the local community. For instance, a good relationship with the local bank or with the local rural savings and credit cooperative, with trust on both sides, can be a wonderful resource and well worth cultivating, as can be seen from the example of Biftu SPC below. Other SPCs, farmers, or local experts may have good ideas and help; for instance, equipment and goods can be exchanged. Similarly, a nearby lake or river may be freely available for irrigation, but care needs to be taken - including financial care- to ensure that its use is sustainable.

SPCs experience from the field

A case of an external source of finance

BIftu SPC suffered from a shortage of working capital for six years, but through linkage created with the Cooperative Bank of Oromia, had the chance to conduct discussions with its bank officials. The bank officials agreed on the purpose of the loan with the SPC, and sent a team of experts to assess the status of the SPC on the spot. The team of experts assessed its seed business activities, organizational structure and capacity to manage cash as well as its major assets. The team of experts also reviewed its financial documents and critically analyzed its credit proposals. Back at the bank office, the team reported that the SPC was in a promising position to extend the credit. The bank accordingly extended ETB 800,000 to the SPC in 2014. Biftu SPC properly administered the credit obtained from the bank and paid the loan principal with interest before the due date of the loan. Subsequently, the bank has provided an ETB 1.5 million loan every year for the SPC to purchase seed produced by its members. The table below shows the loan amounts and recovery rates of the SPC over the last seven years.

Table 4: Credit accessed by Biftu SPC from the Cooperative Bank of Oromia

Loan period	Provided Loan		Outstanding	Recovery rate	Source of loan
	Loan purpose	Amount Birr			
2014	Tractor and accessories	354,430	-	100%	CBO
2014-2017	Seed purchase	5.3 mill	-	100%	CBO
2018	Seed purchase	1.5 mill		100%	CBO
2019	Seed purchase	1.5mill	1.5		CBO
Total		**8.65 mill**			

"Don't hesitate to borrow credit as a farmer organization, because all the big buildings you see in this town are the output of bank credit. What you need to do is take daily control over seed transactions, do a cash inventory at the end of each day, and check your balances; then cash has no legs to run away from your safe".
The Lume Woreda Cooperative Bank Oromia Branch Manager, at the credit signing ceremony with the SPC.

As the chairman of the SPC in the beginning of this story said, it is clear that if farmers are capacitated they can properly and professionally manage their finance in seed business operations.

Reflection questions

In groups of three reflect on the following questions.

- How many intangible assets, and resources in kind, can you think of, that might make a difference to the financial wellbeing of your SPC? Could any of these be put into financial records?
- What important steps should be taken in a SPC before mobilizing internal and external resources for the purchase of equipment?

2.3 Increasing capital

Capital is the finance available in a business. One of the major problems facing most SPCs is a shortage of working capital, as seed business is capital intensive by its nature.

Specific learning objectives

By the end of this session participants should be aware of and able to discuss:

- the different types of capital sources
- the different ways of raising capital
- which ways will effectively work for them.

Reflection question

- What experience have you had of different capital sources and ways of raising capital?

Internal sources of capital/self-investment

Internal sources of capital are mostly from an SPC's own savings, termed 'own investment'. Examples include SPC investment in shares, membership contribution/ fees, savings, retained profits generated from sales, sale of assets and utilizing working capital more effectively.

N.B. There are several requirements in the 2016 Cooperative Proclamation about the management of capital, and trainers should ensure that participants know and understand these. For instance, the SPC should allocate 30 % of their net profit to a reserve fund, deposited in the saving account of the SPC. This cash is for future use, which should be treated as an internal source of finance for accounting purposes, and future financial plans should include what this should be used for.

External sources of capital

External sources of capital are from other sources and not from an SPC's own investment, for instance loans from banks, loans from rural savings and credit cooperatives, and grants from supporting partner organizations.

Advantages/disadvantages of internal/ external capital

All businesses require capital to kickstart their activities. Raising capital is not the easiest step in starting an SPC or starting a new SPC project, but it is sometimes necessary. One major reason why SPCs fail is because they lack necessary funds.

Note: It is important to consider a variety of funding sources and not to become overly dependent on one.

Advantages of internal sources of capital

- No associated borrowing costs.
- No direct debt rise in the SPC.
- SPC control not diluted and decisions not vetted by lenders.
- Shares –no change in control even if SPC members buy more shares.

Advantages of external sources of capital

- Bank managers, grant providers etc can provide business help and contacts.
- If loans have a fixed interest rate, and interest rates increase in the future, it can be a smart investment.

Disadvantages of external sources of capital

- Loans/interest on loans have to be paid even if the SPC has made a loss.
- Loans, if not paid off, can lead to seizure of SPC assets.
- External funders can impose conditions on the SPC.

Detailed descriptions of various methods of raising capital are listed below. Analyse each option and determine which method/ methods is/are better suited for your particular SPC.

Saving up your own money. When individuals start an SPC they may not have all the money needed for start-up costs; however some money can be saved up for this purpose. Methods of saving SPC money for expansion of seed production include buying member's shares, group savings, retained profits and sale of assets, putting part of net profits into a deposit account, collecting sales commission and members' resources (in kind that is sold, or in cash).

Get a small business loan. When raising capital for seed production business expenses many individual SPC members and SPCs use this route. However before getting a loan you should be aware that there are many factors associated with business loans such as interest rates, late charges and collateral. Local community banks are often a great place to obtain a business loan.

Borrow from friends and family. Raising capital for seed production business expenses by asking friends and family for money isn't fun, but hopefully you can win them over with a great SPC business idea. To avoid complications in future make sure to have a written agreement stating terms and details of the loan. You wouldn't want to fight with loved ones over money. Be sure to present your proposition in a professional manner. Show them your business plan, explain to them why they should invest in you, and answer all their questions. If someone is giving you money as a gift, be sure you obtain a letter from them stating the amount of money and that it was a gift. This is a precaution to avoid future complications and misunderstandings.

Find a business partner and use their funds. Another way of raising capital for seed production business expenses is to develop a business partnership with a group which is already established in seed production business and is willing invest in your SPC. Make sure to present them with a persuasive explanation for why they should join forces with you.

Raise money through production and sales.

Grants: grants can be given to an SPC to finance its seed production activities. However there are usually specific criteria set that it must meet before it is given a grant.

Reflection questions

In groups of three reflect on the following questions.

- How might you increase financial resources in your SPC?
- How important is trust in the SPC, both among its members and within its community? How might this impact finances and financial management?
- How much of your own resources would you put into SPC seed production?
- How much should come from the members' contribution?
- If you are going to look for a loan, how much money will you be looking for and what collateral security will you be able to offer for the loan?
- What are the different kinds of self-investment?
- What experiences do members have with regard to raising funds?
- How do you raise capital as an SPC?
- What are the advantages of self-investment and disadvantages of self- investment?
- What are the advantages and disadvantages of other ways of raising capital?
- What other factors, not discussed so far, might affect the financial management of an SPC? Might they help or hinder? Do trainees have experiences of this?

SECTION 3 What is record keeping, and why is it needed in SPCs?

Specific learning objectives

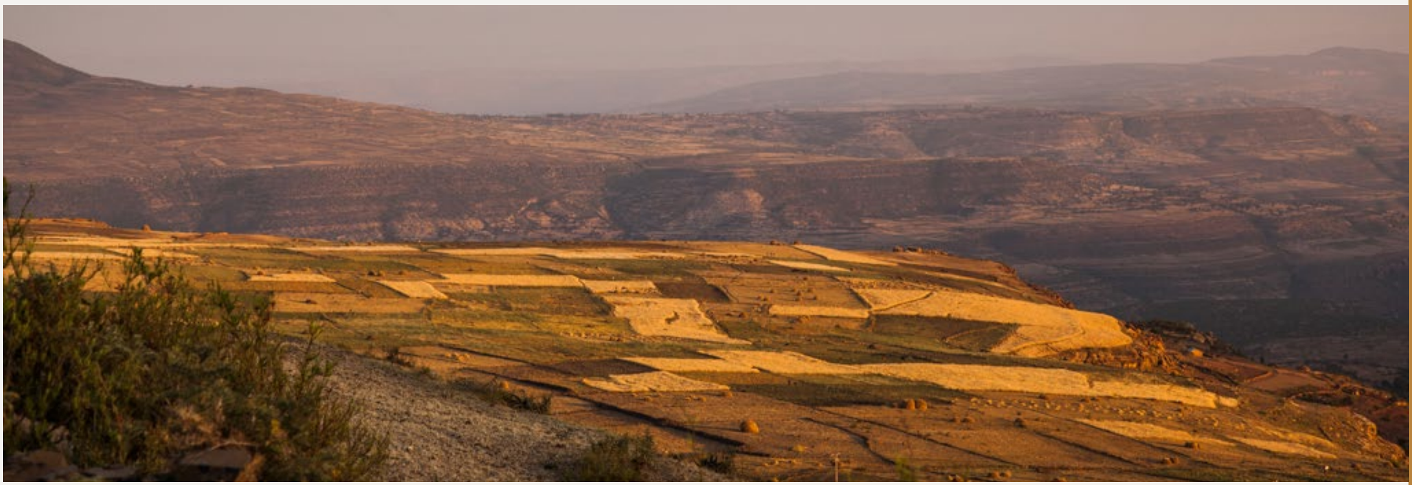
By the end of the session, participants will have:

- a clear understanding of what record keeping is and why good and transparent record keeping is fundamentally important for the effective functioning of an SPC.

Note to trainer

The assignment suggested below will enable participants to discuss (and confirm to you) their experience in record keeping. After completing the assignment, discuss with them the following.

- If they would like a general introduction/review of to how to keep SPC records, we suggest you use Annex 1. Chapter 4, David and Oliver is also a good introduction. http://ciat-library.ciat.cgiar.org/Articulos_Ciat/handbook_2.pdf
- If they are very experienced in all aspects of record keeping, they may like to carry straight on to sections 3 and 4 (financial statements and auditing).
- If there are specific areas that they would like to zoom in on, we suggest that you use these ILO resources on cooperative capacity building. https://www.ilo.org/global/topics/cooperatives/areas-of-work/WCMS_628372/lang--en/index.htm



3.1 Record keeping and management

Record keeping in SPCs is the practice of documenting and updating different information that is relevant/crucial for its success.

Good record keeping and management does the following: it

- saves a lot of time and effort
- assists in preparing financial statements quickly and accurately
- provides information to enable control of cash in the SPC
- provides information on which to base business decisions
- enables prompt assessment of the financial situation of the SPC at any time
- keeps a good track of the cost of staff and their performance
- measures SPC performance against projections originally set up
- enables management to quickly highlight areas where problems might arise, and remedies that can be put in place
- enables the SPC to work out how much tax to pay
- fulfils the legal obligations of Ethiopian tax and cooperative law
- assists in providing information required by funding/loan organisations
- helps to detect theft
- provides valuable information and detail for future plans
- increases the chance of the SPC operating sustainably and successfully.

3.2 Types of records to be kept in an SPC

- basic information about the SPC
- training received
- production records (quantity of seed planted, labour costs, fertilizer costs, pesticides/herbicides used etc.) yields per variety, storage, transport etc
- member seed supply documents
- sale/customer information
- income of the SPC
- expenditure of the SPC
- member shares
- personnel information and documentation
- seed producer and sale information.

3.3 Practical training assignment

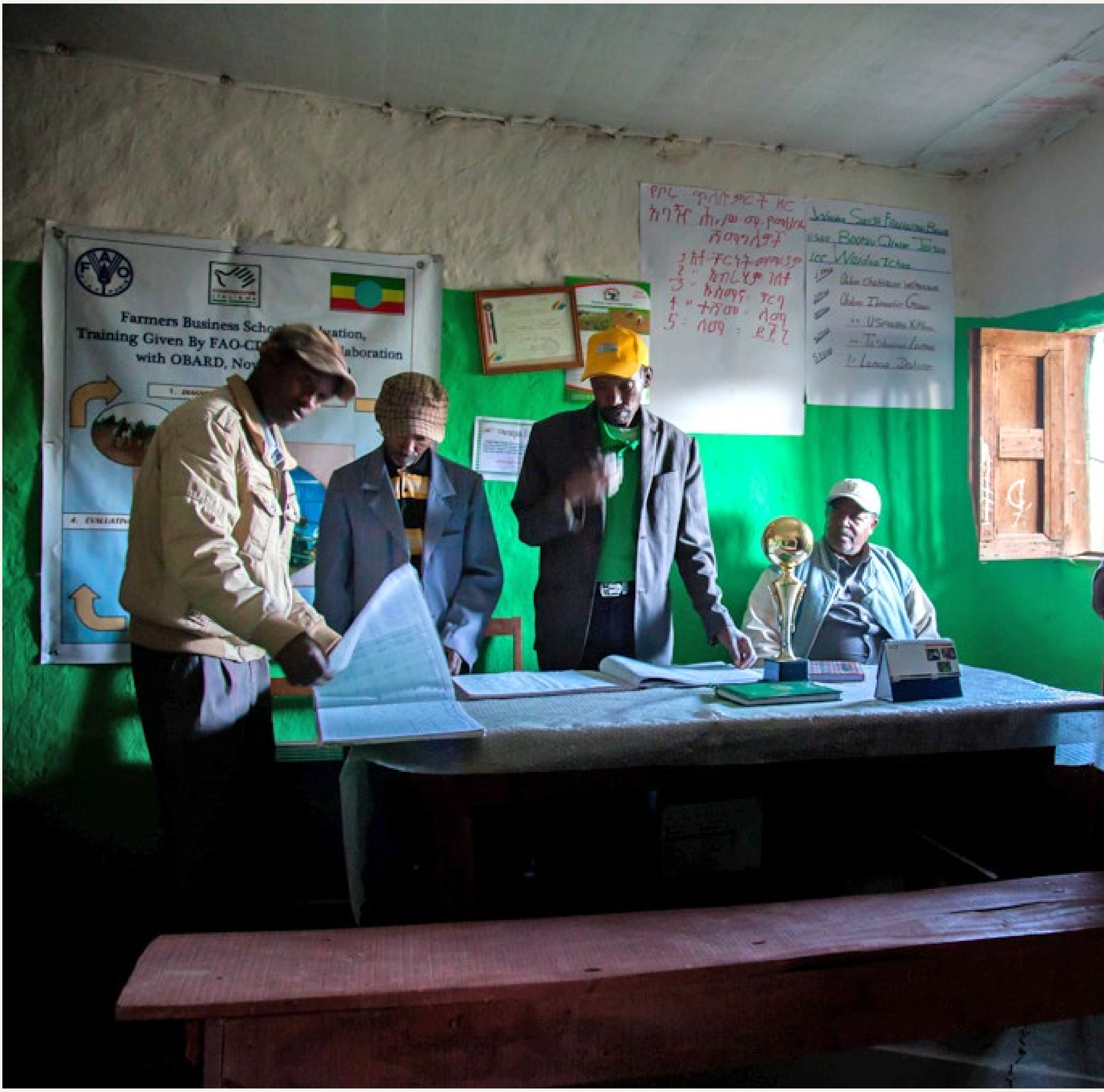
Ask the participants to share their experiences regarding record keeping in their SPCs. Note the most interesting (positive and negative) on a flip chart and depending on the answers given, discuss all or some of the following questions.

- What is record keeping?
- What is the importance of record keeping? (Here the discussion should be interactive, where members write on a flip chart and go through their answers with the other participants, seeking clarification where necessary)
- Small group exercise: list and discuss the records you have been keeping in your SPC. What challenges have you encountered in the process of record keeping?
- Plenary presentation of the results. Allow questions, clarifications and feedback.
- Present the content (types of records), show the records ledger, and explain the contents as per type of records.

Reflection questions

In groups of three, reflect on the following questions.

- Why are good records so vital to the success of SPCs?
- Are there any areas of record keeping that you would like to revisit, understand or reflect on in more detail?



SECTION 4 Financial management: the use of financial statements

This section is purely introductory, as it is revisited in much more detail in the module on business plans.

Specific learning objectives

By the end of the session, participants will be able to:

- understand and be able to discuss the use of different types of statement, especially cash flow statements, profit and loss statements, and balance sheets.

Reflection questions

In groups of three reflect on the following questions.

- What financial statements are you familiar with?
- What are they for?
- Are financial statements in SPCs different from other businesses?

Financial statements are important because they enable the evaluation of past activities, and are the basis for deciding on future projects. The seed crop budget discussed in section 1 is an example of how a financial statement can be generated and used for a very specific purpose.

However, the most important financial statements – for all businesses, not just SPCs or cooperatives – are a cash flow statement, profit and loss statement, and a balance sheet. At the end of the budget year and after auditing accounts has been recorded, these three financial statements always need to be prepared by the SPC accountant.

Together they give a good idea of how well the business is doing overall; they give an overview of its operations and performance, and provide information on revenue, expenses, profitability, and debt.

4.1 Cash flow statement

A cash flow statement is important because it shows the SPC how much cash has been generated and used during a given time period.

The cash flow statement is divided into three sections: cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities.

Cash flows from operating activities

Operating activities are those which produce either revenue or are the direct cost of producing a product or service. Operating activities which generate cash inflows include customer collections from sales of the SPC primary products like seed and services, receipts of interest and dividends, and other operating cash receipts, such as grants. Operating activities which create cash outflows include payments to suppliers, payments to employees, interest payments, and other operating cash payments.

Cash flows from investing activities

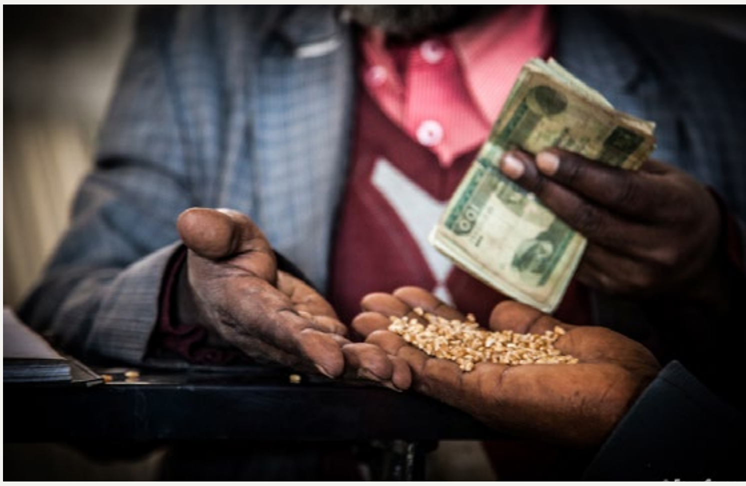
Investing activities include buying and selling non-current assets, which will be used to generate revenues over a long period of time; or buying and selling securities not classified as cash equivalents. Cash inflows generated by investing activities include sales of non-current assets such as property, plant, and equipment. Investing activities can also include the purchase or sale of securities.

Lending money and receiving loan payments would also be considered investing activities.

Cash flows from financing activities

Financing activities include borrowing and repaying money, issuing stock (equity) and paying dividends. For example, if you borrow funds to purchase equipment or pay off a loan, the cash flow statement will enable you to determine how much cash was either generated or used as a result of those transactions.

Do not forget that the cash flow statement does not show what financial gains have been made by an SPC. For this, a profit and loss statement is needed.



4.2 Profit and loss statement

Reflection questions

In groups of three, reflect on the following questions.

- What is profit and loss?
- How do we compute profit or loss?
- Who is the use of a profit and loss statement?

A profit and loss statement measures the SPC's sales and expenses during a specified period of time. It totals all sources of revenue and subtracts all expenses related to the revenue. Categories include net sales, cost of goods sold, selling and administrative expenses (or operating expenses) and net profits. A profit and loss statement is a key financial statement, because it uses data from financial records and some simple calculations to show the overall profit (financial gain) or loss of the SPC during a relatively short period of time such as a year and /or month.

Why do SPCs need to prepare a profit and loss statement?

- It answers the question, "is the SPC making any money?" It is a valuable tool to monitor operations. A regularly prepared P&L statement, either quarterly or yearly, will give the management committee timely and important information regarding revenues and expenses and tell them whether adjustments might be necessary to recoup losses or decrease expenses. The P&L statement also allows outsiders to evaluate the SPC's ability to manage and use its resources.
- it is required by the Ethiopian Internal Revenue Service (IRS). It is the record of a business operation that is used to assess taxes on profits earned. It is the only financial statement required by the IRS.

4.3 Balance sheet

A balance sheet is a statement of the financial position of a business which states assets, liabilities and equity (overall worth) at a particular point in time. In a nutshell, it is a list of what an SPC owns and owes. Balance sheets are usually prepared at the close of an accounting period such as the year end.

Why prepare a balance sheet?

A balance sheet provides a snapshot of a business' health at a point in time. Using the balance sheet information, a few simple mathematical formulas, called balance sheet ratios, can be used to assess this "financial health" of a SPC. They do not require a lot of mathematical skill, but give very good insights into how the SPC is doing and how it can do better.

A good, clear overview is available on https://gusto.com/blog/business-finance/balance-sheet-ratios

A balance sheet comprises:

- assets (current and fixed)
- liabilities (short and long term)
- equity, or net worth (the balance of assets and liabilities).

Reflection questions

In groups of three reflect on the following questions.

- Are there particular things that you might want or need to know about how your own SPC, another SPC, or another organization is doing financially?
- Would financial statements tell you all you need to know?

SECTION 5 Financial management: controls, including auditing

Note to the trainer

This section is intended as an introduction. If trainees require it, detailed, thorough and clear training material on all aspects of cooperative audit and control is given in the ILO training manual by Gavin Scott, available at https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---coop/documents/instructionalmaterial/wcms_628560.pdf

Specific learning objectives

- By the end of this session, participants will be aware of financial controls, including internal and external auditing, how they work, and why they are important.

5.1 Controlling SPC finances

Reflection questions

In groups of three, reflect on the following questions.

- How do you understand the term *internal control* in SPCs?
- Who is responsible for internal control?
- List the major functions of the internal control committee in relation to financial management.
- How functional is the internal control committee in your SPC?
- What is internal auditing? How does it work, and how does it differ from the work of the internal control committee?
- What is external auditing? How does it work, and how does it differ from internal auditing?

Internal control is the process designed to ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. Safeguarding assets against theft and unauthorized use, acquisition, disposal or any type of corruption is also part of internal control.

Internal control comprises the plan of the SPC and all of the coordination methods adopted within a seed business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to the SPC's by-law and regulations.

Internal control is the process effected by the SPC's internal control committee, management committee, and other personnel assigned to provide reasonable assurance regarding the achievement of objectives of the SPC in the following aspects.

- Operating controls, relating to the effective and efficient use of the SPC's resources.
- Accounting and financial reporting controls, relating to the update of records and preparation of reliable financial statements.
- Compliance controls, relating to the compliance of performed activities with the by-laws and regulations of the SPC.

Internal control methods

There are different internal control methods currently available for use by SPCs. These methods are simple and performed by the internal control committee and management committee of the SPC. The following four prerequisite steps of control process should be in place.

- Establishing standards and methods for measuring performance.
- Measuring performance.
- Determining whether performance matches the standard.
- Taking corrective action.

a. Management control

Management control requires establishing standards and methods for measuring performance, relating to the compliance of performed activities with the bylaws and regulations of the SPC.

The standards are:

- having SPC level financial rules, regulation and guiding manuals
- having a strong internal control system
- having clear and transparent job descriptions
- respecting the bylaws, regulations, members decisions, agreements and contracts
- managing the implementation of transactions based on the budget plan and activity plan
- ensuring compliance of transactions with finance rules and accounting procedures
- conducting continuous and regular monitoring and evaluation, and giving timely and transparent feedback to members.

b. Accounting control

Accounting control mainly focuses on cash control (cash in and out) and relates to the compliance of transactions with the bylaws and regulations of the SPC; the compliance of accounting and financial reports with the accounting procedures; and reliable financial statements. Accounting control requires establishing standards and methods for measuring performance. The standards are:

- setting accounting procedures and steps
- using printed receipts with successive serial numbers
- using sequentially numbered forms so as to identify missing forms
- preparing accounting record books and minute journals
- recording business transactions on a daily basis
- closing accounts monthly
- taking a cash inventory every quarter
- ensuring compliance of transactions with accounting procedures
- hiring a bookkeeper/accounting clerk
- preparing financial statements/reports and submitting them to the management committee and members in the general assembly.

c. Cash control

The management of cash serves as an internal control measure. Cash management is defined as the efficient collection, disbursement, and investment of cash, while maintaining the SPC's liquidity. In other words, it is the way in which the SPC manages its financial operations, such as investing cash in different short-term projects, collection of revenues, payment of expenses, and liabilities, while ensuring it has sufficient cash available for future use.

The objective of cash management is to have adequate control over cash, so as to avoid the risk of insolvency and to use excessive cash in some profitable way. The cash is the most significant and highly liquid asset the SPC holds. It is significant as it is used to pay the SPC's obligations and helps in the expansion of business operations.

The SPC needs to put in place control mechanisms and should manage cash inflows and outflows with a proper and updated recorded accounting system.

Methods of cash control include:

- separating the duties of different personnel who deal with cash
- limiting access to cash
- checking the inflows and outflows of cash daily
- putting in place cash management procedures
- documenting transactions properly and sequentially.

d. Internal auditing

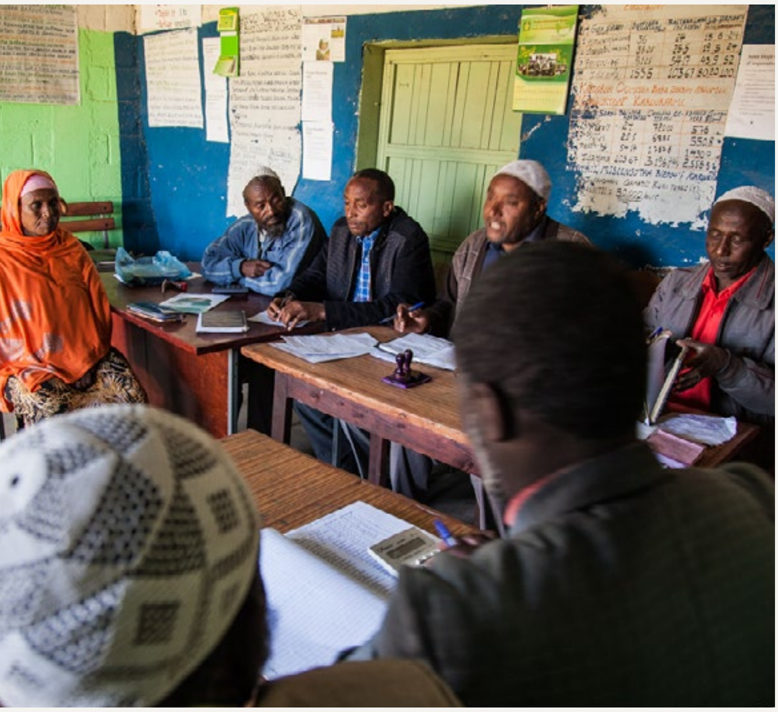
This consists of systematic and independent reviewing of the operations and controls of the SPC, done according to a predesigned plan, which is independent of SPC financial personnel and management. It is done for three main reasons:

- to ensure that internal policies and procedures, including financial controls, are being followed
- to ensure that financial and operating information is accurate
- to identify previously unrecognized risks.

Internal auditors can be an SPC member, but they should have a professional accounting or financial background. They must be trusted by all, as they check the work of others, and compare this with the procedures that should be followed. They have direct access to all the information they need; work completely independently; and report directly to the management committee.

There are many different types of internal auditing that can be done, depending on what the SPC needs.

- Ask trainees to name as many internal audit functions as they can, and to discuss them.



- These include pre-audit, post-audit, interim and year-end audit, systems audit, operations audit, administration audit, management audit, and value for money audit. Specific investigations can also be carried out, usually to deal with financial mismanagement or other problems.

External control

External control is carried out by an external auditor. Internal auditors are employed by SPCs, external auditors are not. They are employed by a legally approved auditing company, which SPCs must use every year to verify their finances. A **statutory audit** is the legally required process by which the SPC accounts are verified. It results in the auditor stating whether the SPC's financial statements for the year are a true and fair view of its affairs. The statutory requirements for auditing cooperatives in Ethiopia are set out in Proclamation 985/2016.

The SPC may ask the external auditor to carry out extra audits or investigations if they feel this would be useful. An external auditor can use the work of the internal auditor for the statutory audit, if they are satisfied that the work is competent and unbiased, but a minimum level of extra testing is always required, no matter how good the internal auditing.

Reflection questions

In groups of three, reflect on the following question.

- Revisit the discussion questions from the beginning of the section. How have your answers changed?

SECTION 6 Financial management: do's and don'ts

Specific learning objectives

By the end of the session, participants will be able to:

- know that the dos and don'ts discussed here are only examples, not an exhaustive list
- provide practical tips through discussion of ISSD Ethiopia's previous experiences in establishing and supporting SPCs in Ethiopia.

6.1 Dos

- put in place proper financial management structures and accounting procedures
- organize proper accounting books and journals
- print receipts and payment vouchers in the name of the SPC, with consecutive serial numbers
- prepare annual budget plans, ratified by the general assembly
- open bank accounts in the name of the SPC
- hire professional accountants and managers for the SPC
- respect and follow the financial policy of the SPC
- record transactions chronologically; close accounting books, and take a cash inventory, monthly, quarterly and yearly
- procure a cash safe to protect the SPC's cash
- conduct payments according to the budget plan, authorized by the chairperson of the SPC
- prepare financial reports monthly, quarterly and yearly and communicate them to the management committee
- audit accounts and performance of the SPC at least once a year
- present audit report and findings to the general assembly so that necessary financial decisions can be made. The general assembly can also therefore ensure that the future operations of the SPC can correspond to its financial situation
- organize financial documents in accordance with the SPC budget.

6.2 Don'ts

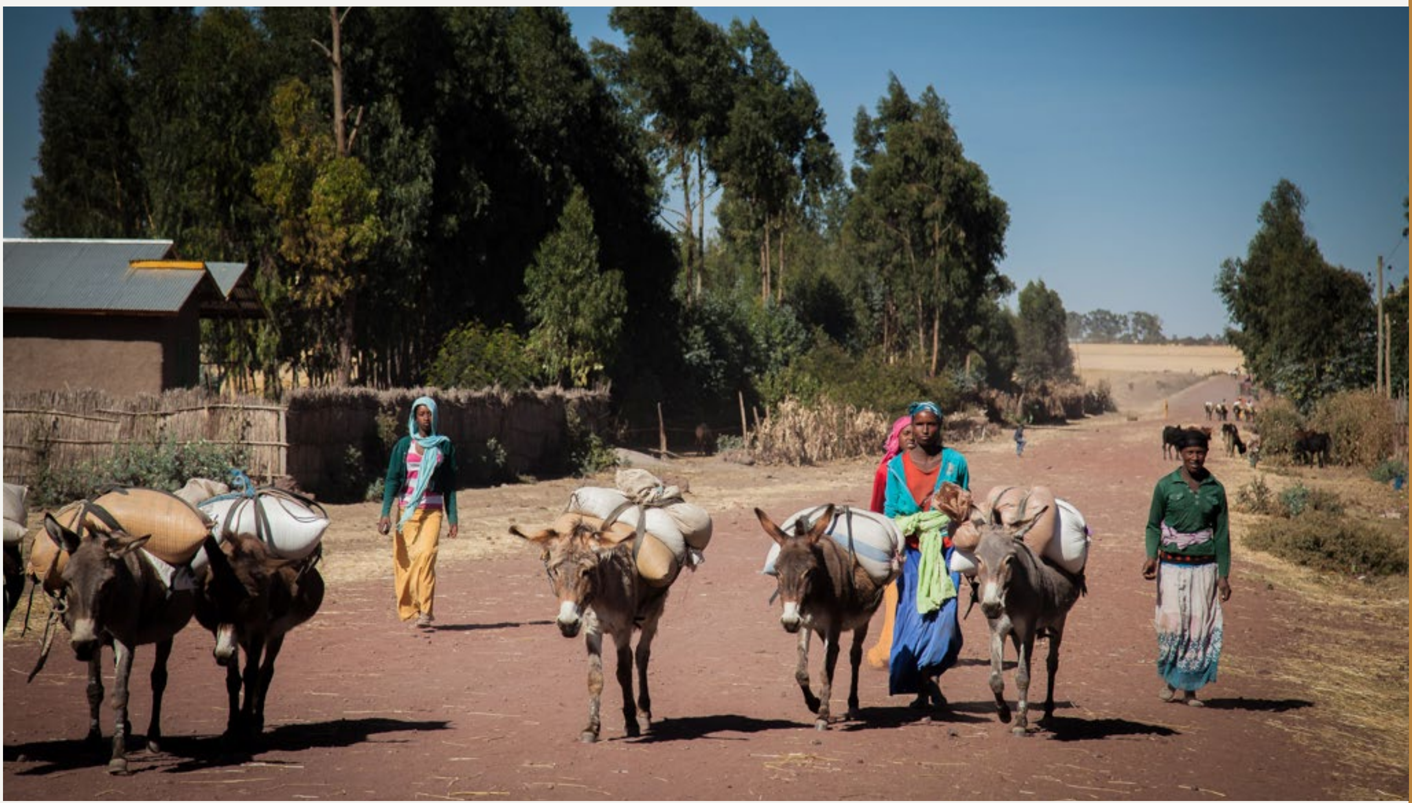
- the cashier should never have more cash than the limit agreed on by the SPC by-law
- pay large cash amounts without the authorization of the chairperson
- allow SPC financial documents to be in the personal houses of members
- utilize SPC finance for anything other than planned activities
- move SPC cash (cash in or cash out) without an authorized document
- make big investments without the decision of the general assembly

- overlook the closing of SPC accounts and books monthly, quarterly, and yearly
- fail to present financial reports on a yearly base to members. This erodes members' trust and reduces the transparency of financial management
- pass decision without relevant evidence and supporting documents
- overturn the financial decisions passed by the general assembly
- allow for any single member (for instance, the chairman, cashier, or secretary) to have a separate signatory right with the bank.

Reflection questions

In groups of three reflect on the following questions.

- What four key success factors mentioned here relate to your personal experience? Explain and reflect.
- Identify at least four potential risk factors that SPCs may face in the seed sector and elsewhere.
- How can SPCs adequately address these potential success and risk factors?
- Discuss why cash control might be problematic in particular situations, and how this might be addressed.



ANNEX 1 Record keeping in SPCs

Note to trainer

The elements outlined here might be useful for training people who are already versed in business accounting/bookkeeping, to revisit/ check everyone's knowledge, and to go through a few examples to get participants discussing how things are done in their SPCs.

For people with little or no training, this doesn't go into enough explanation; rather, we advise that you use the ILO or David/Oliver resources discussed in section 2.

Specific learning objectives

- To know the importance of record keeping.
- To be able to distinguish between temporary records and permanent/income projection.
- To have had some experience in preparing and reading different kinds of business records.

Reflection questions

In groups of three, reflect on the following questions.

- Do you have personal experience of keeping financial records for businesses?
- What type of records do you keep in your SPC/ business?
- Why do you keep records in your SPC?
- Why it is important for SPCs to keep a business record?

The importance of keeping good records

Keeping records is important because you need accurate information about your seed business to make good business decisions. Business success depends on good record keeping.

All SPC records should be carefully kept, and books and ledgers should be archived, so that they can be inspected and checked if necessary. Auditors usually recommend that financial records are kept for at least seven years. We recommend, however, that the statutory yearly audited accounts are kept permanently, as Cooperative Proclamation 985/2016 states that audited accounts must always be available for inspection.

A ledger is a special kind of exercise book for keeping business records. If you cannot buy a ledger, you can make one yourself using a ruler and a pen or pencil to make separate columns for all the information you will be recording. You can keep all records for one season or one year in the same ledger, but use a separate page for each.

Preparing records

N.B. The steps below are examples only, so that trainees can have experience of how records are made. It is not exhaustive, and does not deal with other financial recording duties such as dealing with bank transactions.

Step 1 Create a transaction record based on the following transactions:

1. Cash received from chickpea seed sale -- 12,000.00
2. Cash received from members share payment --2,000.00
3. Cash received from tractor rent ---8,200.00
4. Cash received from seed sale commission--2,400.00
5. Cash received from members registration fee--1,000.00

Step 1.1 Enter the revenue transaction on the cash receipt

Example of a cash receipt voucher

Cash receipt voucher

Zone -- No. --------------------

Woreda --

SPC name --- Date --------------------

Received from --

Purpose of payment ---

Amount in words --

Amount in figure

Account code	Account title	Debit		Credit	

Prepared by ------------------------------- Received -------------------------------

Checked by --

Distributions of copies: Original – Payer, 2nd copy – Account, 3rd copy

Step 1.2 Journalize the income received

Make use of a separate cash receipt journal to document the income received in chronological order.

This cash receipt journal is used to record all income that the SPC is receiving from day one of the month up to the last day. Upon finalization of the month the total monthly income is calculated.

Example of cash receipt journal

Date	Description	Income receipts no.	Total income	From registration fee	From share	From seed sale	From loan	From commission

Step 2 Recording expense transactions

Step 2.1. Create expense transaction

Each expense is documented through an expense transaction. Use the examples below to fill in the example of the cash payment voucher.

1 Cash paid for seed purchase--- 24,000.00
2 Cash paid for tractor fuel --- 2,200.00
3 Cash paid for per-diem--1,200.00
4 Cash paid for seed transporting ---820.00
5 Stationary purchase---364.00

Step 2.2 Enter the expense transaction on the cash payment voucher

Example of a cash payment voucher

Cash payment voucher

Zone -- No. --------------------

Woreda --

SPC name -- Date -------------------

Paid for --

Purpose of payment ---

Amount in words --

Amount in figure

Mode of payment check -- cash ---------------------

Account code	Account title	Debit		Credit	

Accountant --------------------- Authorized --------------------- paid for -----------------

Signature --

Distribution of copies: Original – accountant, 2nd copy – pad

Step 2.3 Enter the expense transaction into the cash payment journal

Cash payment journal

Date	Description	Payment voucher no.	Total payment	Seed purchase	Per diem	Stationery	Construction	Transport

This cash payment journal is used to record transactions of the SPC from day one of the month chronologically and totalized on the last day of the month.

Step 3 Record store transactions

Reflection questions

In groups of three, reflect on the following question.

- Why is it important to make sure to record every movement and transaction of goods from your store?

Step 3.1 Practise documenting and recording store good received transactions using the examples below

1 wheat seed received from member A -------------------------------------12 qts purchase price
2 malt barley (Ibon) received from member B --- 10qts
3 faba bean (Gabalcho) received from member C--- 4 qts
4 field pea (Tegench) received from member D -- 2 qts
5 malt barley (Traveler) received from member E--- 8 qts

Good received note (GRN)

No. --

Date --

SPC name --

Date	Description	Unit	Qty	Price	
				Unit	Total

Giver ------------------------------ Received ------------------------------

Signature --

Distribution of copies: Original – Giver, 2^{nd} copy – Account, 3^{rd} copy – pad

Step 3.2 Journalize goods received on the goods receiving journal

Goods received journal

Date	Items name/ description	No. GRN	R/N of store issue voucher	Unit	Qty	Price	
						Unit	Total
	Total						

Step 3.3 Enter goods taken out from store on the goods issue voucher

Goods issue voucher

No. ____________________

Date ____________________

SPC name ____________________

Date	Description	Unit	Qty	Price	
				Unit	Total

Authorized ____________ Accountant ____________ Receiver ____________

Signature ____________________

Distribution of copies: Original – Giver, 2nd copy – accounts, 3rd copy – pad

Step 3.4 Enter goods taken out from store on the goods issue voucher

Goods issue journal

No.

Date

SPC name

Date	Description	R/N of store issue voucher	Unit	Qty	Price	
					Unit	Total
	Total					

Step 3.5 Bin card

Each crop variety has its own bin card. It shows a running total of the amounts coming in and out of the store. It does not need to show prices (as this is shown on the corresponding receipts). The bin card must be attached to the topmost bag of each of different crop of the same variety in the store.

Name of the crop

Code

Unity of measurement

Date	No. receipts	Amount received Qts	Amount issued	Balance

Step 3.6 Stock card

Name of the crop/item --

Code --

Date	Received					Issue				Balance	
	No. GRN	Unit	Qty.	Price		Unit	Qty.	Price			
				Unit	Total			Unit	Total		

Reflection question

- How can this stock card be used by the accountant of the SPC to control movement of stock?

Step 4. Post transactions on accounting ledgers

Step 4.1 record items that make up your fixed and variable/working costs

These records can be organized under the following headings, as indicated below: purchase ledger, labour ledger, land ledger, transport ledger and a ledger for all other costs.

(A) Purchase ledger

The purchase ledger shows a list of all the items the SPC has bought; when the SPC bought them, how many and how much was paid for them. Keep receipts for all purchases made. This record gives the SPC an idea of how much it may need to spend in the future and can help to predict seed business profitability.

Purchase Ledger Template

Date of purchase	Items purchased	Unit	Quantity purchased	Unit price	Total price	Reference

(B) Labour ledger

A labour ledger shows a list of all hired labour, the number of days each person worked and how much he or she was paid. This record allows SPC to plan future labour costs, provides it with figures for SPC monthly projections, and helps it to decide on the amount of labour SPC may need.

Labour Ledger Template

Name of labourer	Description of activities done	Unit	Quantity	Unit price	Total price

(C) Transport ledger

A transport ledger is used to record the cost of transporting seed from field to store and from store to the market. This record helps you to predict at what time and how much money is needed for future transport costs.

Transport Ledger Template

Date	Items transported	Unit	Quantity transported	Unit price	Total price	Reference

(D) Ledger for other costs

This ledger could be used for equipment rental, land rent payments or serve as a record for loan repayments. Another use might be for being able to tell rapidly how much you spent on materials and labour for building office and a seed store.

Generic ledger for other Costs

Date	Items rented	Unit	Quantity rented	Unit price	Total price	Reference

Step 4.2 Record your inventory

This is the amount of seed of each crop and variety you have in stock, and their unit price e.g. per kilo or bag. This kind of record is called inventory control. Inventory control (also called stock control) records keep track of the quantity of seed that is available for sale. This record tells you accurately at all times how much seed of different varieties you have for sale. This information is important for making you aware of how much money you can make or lose, depending on whether the seed is sold or not.

Inventory control template

Date	Crop Name	Variety	Unit	Quantity at hand	Unit price	Total price	Reference

Step 4.3 Record sales

Record all sales made in the sales ledger by indicating the name of the buyer, the date the sale was made, the quantity purchased by variety, the unit price by variety and the total price paid. This kind of record helps you to know what kind of people buy your seed, in what quantity, which varieties are most popular, and where your customers are located.

Sales ledger template

Date	Crop Name	Variety	Unit	Quantity Sold	Unit Price	Total Price	Name & Address of Buyer

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