

**THE COMMONWEALTH YOUTH CREDIT
INITIATIVE TOOLKIT**

Module 1
Overview

Overview of the CYCI Model

Key features of CYCI

The key features that distinguish the approach adopted by the CYCI are as follows:

- **NGO delivery:** the loan fund is managed, loans are distributed and training is provided by an NGO with experience in micro-credit and/or enterprise development;
- group lending and use of group savings as collective collateral against loans and peer group pressure to ensure prompt repayment;
- democratic participation by beneficiaries;
- entrepreneurial development and business and management training as a prerequisite for participation;
- the provision of support services, marketing assistance and information; and
- coherent, accountable and transparent mechanisms to ensure effective monitoring and facilitate evaluation and impact studies.

Depending on local circumstances, it may not be possible or even desirable to include all of these key features in a CYCI programme. Flexibility is advisable in selecting which features to emphasise, when implementing the programme in different local contexts.

Institutional Arrangements

The CYCI is set up and run by an implementing agency, normally an NGO with experience in micro-credit delivery. The NGO may work in partnership with the national or local government, or may operate on its own without a formal relationship with the government or other organisation. In this case,

the lead agency and the implementing agency are one and the same.

If the CYCI is being initiated by a national government in partnership with an implementing NGO, the main institutional units of the initiative are the lead agency and Point of Contact, the Management Advisory Board and the implementing agency. In some circumstances the CYP Regional Centres may also play a role as one of the institutional arrangements for the programme.

Lead Agency and Point of Contact

The lead agency has the primary responsibility for initiating the programme. It may be:

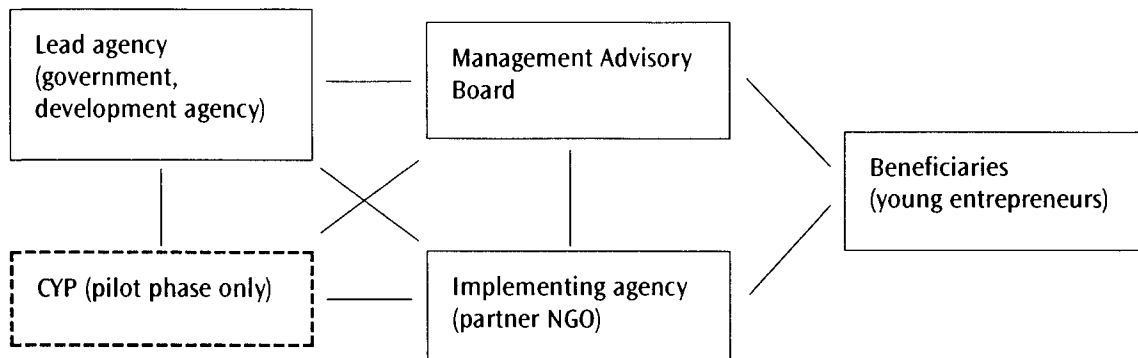
- a ministry or department of government
- an international development agency
- a development bank or other organisation.

The Point of Contact is an individual or individuals within the lead agency whose role is to liaise between the lead agency and the other stakeholders, particularly the Management Advisory Board and the implementing agency.

Management Advisory Board

The role of the Management Advisory Board (MAB) is to supervise, monitor and evaluate the CYCI. The MAB may include representatives from the lead agency, the business community, banks, youth institutions and young people themselves. *A representative of the appropriate CYP Regional Centre may also sit on the MAB.* The members of the MAB are expected to take a keen interest in the development of the programme. They are normally volunteers, although some of their costs may be covered by programme funds.

Figure 1: Institutional Arrangements of CYCI



Implementing agency

The CYCI is operated by an implementing agency which is responsible for administering the credit facility, training the borrowers, and carrying out monitoring, evaluation and reporting, and is normally an NGO working in partnership with the lead agency, in the locality where potential beneficiaries are situated. Fund management is in the hands of the implementing agency.

Target Beneficiaries

The beneficiaries targeted by CYCI are normally young women and men aged 15–29, the definition of ‘youth’ employed by the Commonwealth Youth Programme. However, the CYCI principles and methodology can be adapted to provide a particular focus on women, the disabled, refugees and homeless people, the poorest of the poor, those in rural or urban areas, or other specific target groups.

Generally, beneficiaries are drawn from poor communities who have no access to formal credit or financial services such as those provided by commercial banks. They are usually people who have no track record of financial borrowing or any collateral to offer, and who have good ideas and workable plans for micro-enterprises but who may lack entrepreneurial skills or experience.

The CYCI is designed to assist:

- 1.** those who are entering into self-employment for the first time; and
- 2.** emergent entrepreneurs who are trying to expand self-employment activities into those that provide additional employment for one or more other persons.

The loans provided under the CYCI are therefore of two kinds: start-up funding and scale-up funding.

- 1.** Start-up funds are targeted for income-generating activities that provide self-employment.
- 2.** Scale-up funds are for activities that provide employment for others.

All activities supported by the CYCI should be non-exploitative and environmentally sustainable, and must take place within the laws of the land. Activities which could adversely affect human rights, contribute to the degradation of the environment or involve trade in illegal drugs are not permitted.

Training

All beneficiaries receive training in entrepreneurship development and enterprise skills including:

- group formation

- savings
- bookkeeping
- administration, and
- marketing

as a prerequisite to receiving loans.

As part of the training, participants receive help in developing their business ideas, including the development of a basic business plan which demonstrates that their proposed business is viable and sustainable. This should be a very simple document which can be in the local language. Borrowers are required to complete this business plan in order to be eligible to receive a loan.

Training for participants and project staff also serves to catalyse the formation of beneficiaries into loan and savings groups.

Group Formation

- Beneficiaries work together in groups and determine the nature of the business idea that they wish to pursue individually or collectively.
- Beneficiaries are encouraged to develop their own group constitution and rules.
- Formation of groups creates peer pressure, promotes compliance with project rules and provides peer support at times of difficulty.
- Group members are expected to open a joint savings account with a savings bank of their choice to encourage savings and to provide security in the event of default.
- Borrowers are made accountable to the programme by signing an agreement that they will follow the rules and regulations, and will repay their loans in full to their groups.

The numbers of people in each group may vary according to local circumstances. In most cases, groups of five to ten people may be preferable. The exact number may be determined by the beneficiaries themselves.

Delivery of Loans

Loans to first-time borrowers are usually small, e.g. US \$50–\$500. Once repayment of the initial loan is complete, the beneficiary may be eligible for a larger loan. The rationale for keeping loans within a restricted size is that:

- the CYCI focuses on small-scale enterprises whose needs should not be very great;
- the programme seeks to deliver loans to a large number of beneficiaries; and
- experience has shown that recovery rates for loans to first-time borrowers are often higher when loans are kept small.

Interest is charged at the market rate or higher, in order to cover costs of training and other business support. Subsidised credit at lower-than-market interest rates is not recommended: it discourages savings, promotes a mentality of dependency rather than enterprise, and is not sustainable.

Repayments are made on a weekly basis within a schedule corresponding to the length of the project cycle (normally six months or a year). Repayments consist of interest and part of the capital. In case of default, repayments are taken both from the savings accumulated in the group fund and from individual savings. Loans are normally delivered on a staggered schedule. A certain number of group members receive loans and if these are repaid satisfactorily the remaining members can access loans. For example, in a five-person group, two or three members receive their loans and their progress is monitored for five weeks. If repayment is prompt and other rules and regulations are observed, two or three more loans are given. Further monitoring may take place before the last member of the group receives his/her loan.

CYCI beneficiaries should eventually be able to access the commercial banking network once they have accumulated sufficient assets/savings and collateral. The CYCI loan fund can then be

applied to new groups of emerging entrepreneurs.

Monitoring and Evaluation

The Management Advisory Board is the main institutional unit for the monitoring and evaluation of the CYCI. It works with the implementing agency in monitoring loan repayments and the progress of individual enterprises, and with the lead agency and funders to monitor the implementing agency's management of the loan fund and evaluate the overall impact of the programme.

Tools for monitoring and evaluation are provided in Module 3 of the CYCI Toolkit.

Sustainability

The creation and development of sustainable micro-enterprises is a specific objective of the

CYCI. Partner NGOs in the CYCI programme are selected according to their ability to attain sustainability of the loan fund, which is expected to reach a position of sustainability after three years.

The Role of the Commonwealth Youth Programme

The CYP may provide, on request from member governments, short-term technical assistance in implementing the CYCI and/or training project staff in the CYCI methodology. These activities would normally be funded through the Commonwealth Fund for Technical Co-operation (CFTC). The CYP may also provide assistance in the form of advocacy and lobbying, helping lead agencies to identify and approach potential sources of funding, and the monitoring and evaluation of the programme.