

Phase 1. Programme Design

The implementing agency of the CYCI designs the specific programme to be implemented, based on the CYCI model and on the particular local and national needs it is designed to meet.

Client Participation

The relationship between the borrower and the lender is critical to the success of a credit programme based on the CYCI model.

The implementing agency must secure the participation of potential clients when designing the programme in order to ensure that the proposed scheme is appropriate to their needs. They must know what their needs are, what capabilities they have or would like to build, what use they would make of their loan and how they would be able to repay it. The system of loan disbursement and repayment collection should be amenable to the physical, geographical and social circumstances of the borrowers.

A Credit Needs Analysis is essential when formulating the programme. Potential borrowers should be consulted at all levels and their opinions and wishes taken into account. NGOs that work at grassroots levels are well placed to undertake such an analysis. Good communication should be built with potential borrowers and account should be taken of the literacy and education levels of the borrowers.

Programme Design

Programme design includes the following elements:

- Proposal (including business plan)
- Baseline survey
- Identification of potential beneficiaries

- Needs assessment.

The lead agency setting up a CYCI invites proposals from potential partner NGOs to act as the implementing agency for a CYCI programme. See an example of a proposal outline at Figure 3.

The proposal includes a business plan explaining the nature of the proposed intervention. The lead agency assesses the proposals and selects the most appropriate to its needs.

Some NGOs will already have the basic information necessary to produce a worthwhile proposal on the basis of which they may be selected as the CYCI implementing agency. They may then use the data gathered in the baseline survey and needs assessment to refine and sharpen the business plan included in the proposal.

Other NGOs wishing to participate in the CYCI may prefer to go through all the elements of programme design (baseline survey, needs assessment, identification of target group) before producing a detailed proposal.

It is advisable for the implementing agency to complete a baseline survey and needs assessment.

Step 1. Proposal

The Proposal describes in detail the intended programme. It is submitted to the lead agency and provides the basis for the selection of a partner agency for the implementation of the CYCI.

Figure 4 shows the CYCI project cycle as it relates to individual beneficiaries and beneficiary groups. The Business Plan should address each stage of this cycle.

Figure 3: CYCI Proposal Outline

<p>1. Executive Summary</p> <p>2. Overview of Organisation</p> <ul style="list-style-type: none">• Mission statement• Legal status• Brief history• Staff numbers, qualifications and experience• Business premises• Services currently provided• Relevant previous experience (relating to micro-credit, enterprise development, youth affairs)• Political affiliation (if any)• Links with other organisations <p>3. Context of Proposal</p> <ul style="list-style-type: none">• Political environment• Macroeconomic situation• Youth employment/unemployment (disaggregated by gender)• Government policy on youth and enterprise development• Current economic and social conditions in proposed area of intervention• Current providers of credit	<p>4. Business Plan</p> <ul style="list-style-type: none">• Proposed intervention<ul style="list-style-type: none">– Overall objective– Specific goals– Target Group(s)– Promotion and Publicity– Timeframe– Work Plan– Anticipated outcomes• Operational capacity<ul style="list-style-type: none">– current staff capacity– what staff will be needed to implement the programme– proposal to increase staff if necessary• Training programme<ul style="list-style-type: none">– of staff to implement the programme– of beneficiaries• Budget and funding<ul style="list-style-type: none">– start-up costs– operating costs– training costs– capital costs (loan fund)– sources of income and funding– sustainability target <p>Monitoring, evaluation and reporting</p> <ul style="list-style-type: none">– logical framework– collection of field data
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Notes

The Executive Summary should not be more than 1–3 pages in length and should state the main points of the proposal.

Section 2 is to be completed by the implementing agency, based on its history and experience. NGOs should strive to demonstrate why they are particularly suited to implementing the CYCI. Section 3 should describe in broad terms the situation facing the country, the local area of the proposed programme, and the target groups. This section should provide an indication of the extent to which an enabling environment exists for the implementation of the programme.

Section 4, the Business Plan, describes in greater detail the content of the proposed programme, which should be constructed on the general lines of the CYCI model.

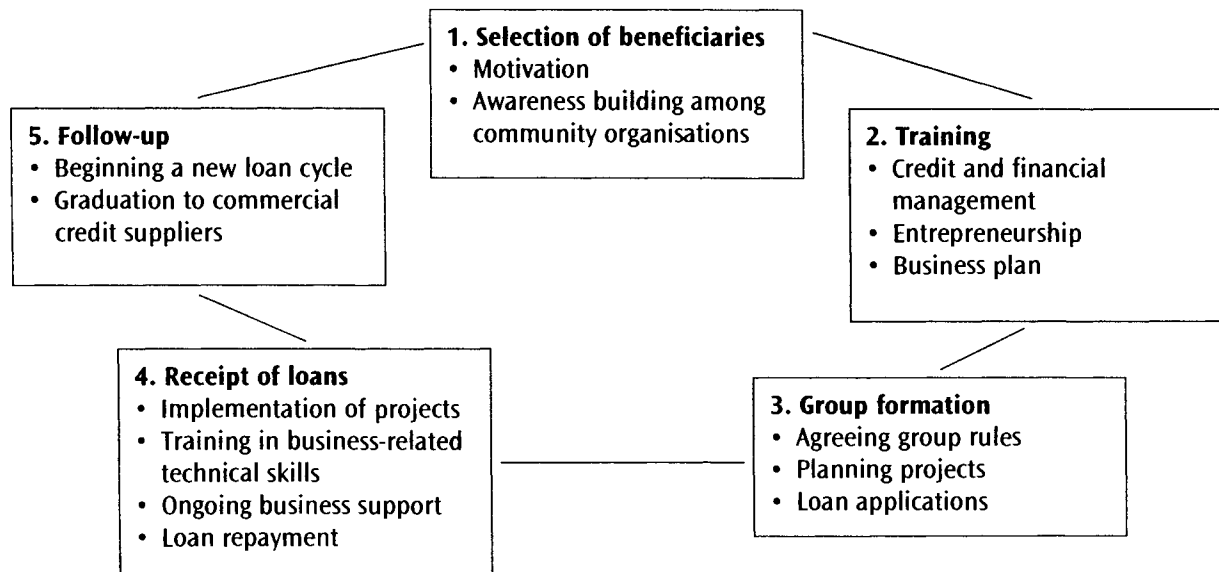
These are presented in greater detail in the remainder of this module. The business plan should show how the loan

fund is to be used, clearly indicating its growth plan and sustainability. The proposed credit scheme should be run on a commercial basis and be expected to reach a position of sustainability within a specified period. Section 4 should also show how the proposed programme both conforms to the CYCI model and adapts it to the specific circumstances in the local area and at the national level.

The Business Plan should detail the operational capacity of the organisation and training requirements. These are discussed in greater detail in the CYCI Toolkit Module 4: Training Resources.

The final parts of the business plan deal with costs, funding, financial management and monitoring, evaluation and reporting. These topics are dealt with in greater detail in the CYCI Toolkit Module 3: Management, Monitoring and Reporting.

Figure 4: The CYCI Beneficiary Project Cycle



Step 2. Baseline Survey

A baseline survey is essential in the preparation of a comprehensive credit scheme based on the CYCI model. A baseline survey:

- provides basic information on the physical, economic, social and cultural conditions under which the target group live and work;
- includes an examination of the current facilities for obtaining credit and business support available to the target group; and
- identifies potential new business opportunities in the area.

The baseline survey is conducted in a number of different areas in order to identify where the need is greatest and where a credit scheme is most likely to be successful. The outcome is a report of about 5–15 pages in length, summarising the information obtained. See below for a template for the baseline survey.

A: Template for Baseline Survey

Demographic profile of target group:

- Total population (female and male)

- Number and type of communities
- Number of households
- Average family size

Educational levels:

- Primary schools in the area
- Secondary schools in the area
- Colleges/tertiary level institutions
- Basic/functional literacy rate (women and men)
- Average number of years' schooling

Living conditions:

- Housing
- Water
- Electricity
- Sanitation
- Childcare facilities

Credit and savings activities and needs:

- suppliers of credit in the area

- interest rates charged
 - collateral demanded
 - other conditions (e.g. restrictions on eligibility of women, young people)
- Economic profile:
- average annual income per household
 - percentages of unemployed women and men
 - current economic activities in the area
 - Potential for upgrading existing economic activities
 - Potential for new economic activities
- Gender differentials:
- in social roles
 - in economic activities
 - in levels of employment, income, education, literacy, health
 - in local by-laws, regulations and customs
- Environmental factors:
- strengths, weaknesses, opportunities and threats in the natural environment
 - impact of current and potential economic
- activities on local and regional environment
- Infrastructure and facilities:
- hospitals/health clinics
 - banks
 - post offices
 - roads
 - transportation
- Local administrative and social institutions:
- local and municipal government authorities
 - policing and security
 - traditional leaders and meetings
 - community activities
- Local media and communications:
- newspapers
 - radio
 - television
 - cinema
 - word of mouth
 - village notice board, etc.
 - traditional meetings and ceremonies
 - storytelling.

Figure 5: Good Practice in Participatory Rural Appraisal

- Establish a relaxed, friendly rapport with the local people from the outset
 - Bring to the work an attitude of patience, humility, willingness to learn and respect for local people's knowledge and wisdom
 - Identify potential informants and ask them key questions
 - Get involved in what local people are doing – physically do the tasks that they do
 - Use visual techniques such as diagramming and modelling to share information
 - Combine various participatory methods in sequence
 - Use local indicators of wealth and well-being to establish priorities
 - Share information throughout the community and with other agencies, officials and organisations
- Source: Chambers 1992

The recommended methodology for conducting the baseline survey is based on the techniques of participatory rural appraisal (PRA). This emphasises listening to and learning from the target beneficiaries, rather than trying to impose a predetermined package of solutions from outside. The use of structured, written questionnaires is avoided, except in the final stages of the process when enough should be known of local conditions to devise a short, simple and appropriate questionnaire. (Otherwise, questionnaires run the risk of implying preconceived answers that do not match the reality on the ground.)

B: Techniques for Participatory Rural Appraisal (PRA)

Here are some PRA techniques that may be useful in carrying out baseline surveys. The most appropriate to local circumstances may be selected. They include:¹

- *open-ended interviews*: interviews with potential beneficiaries and other community members are most effective if they are open-ended. The interviewer may have a written or mental checklist of topics to cover, but is open to receiving information on other topics and following up unexpected leads.
- *transect walk*: this involves systematically walking through the designated area in which the programme will operate, in the company of a local inhabitant who may be a target beneficiary and with whom one can listen, observe, ask questions, communicate, note problems and solutions, identify local and new technologies, and make maps and diagrams of what is learned.
- *facilitating investigation, analysis and presentation by local people*: in many cases, local people who are the target beneficiaries can carry out their own

investigations of local conditions, analyse the results, and present their findings in a group meeting. These findings are often more relevant and accurate than those established by outside observers.

- *participatory modelling and diagramming*: local people can present filed notes, estimates, quantifications and rankings in the form of models made from locally available materials (e.g. seeds or stones) or diagrams such as graphs, matrices or pie charts.
- *social mapping*: identifying in detail the uses that households make of the geographical area, indicating population, social group, health and other household characteristics.
- *timelines and trend analysis*: developing a chronological record of the past, with approximate dates, and listening to local people's accounts of what changes have taken place, and why.
- *seasonal analysis*: analysing the economic activities in the community and how these change month by month and season by season over the course of a yearly cycle.
- *comparisons and ranking*: identifying differences in the level of wealth and well-being of different households and analysing the reasons for them.
- *use of secondary sources* such as maps, reports, aerial photographs, books, magazines and newspapers.

Step 3. Identifying Potential Beneficiaries

CYCI is designed primarily for young women and men aged 15 to 29 but can be adapted for any social group or stratum that the lead agency may wish to assist. It is particularly suited to those entering into entrepreneurial

¹The PRA techniques described here are drawn from Chambers, 1992.

activity for the first time. In targeting young people, special attention should be paid to national legislation and practice relating to the legal position of those under the age of majority.

Young women and men should have equal access to training and loans, without unfair discrimination of any kind. Criteria that should *not* be included when determining the target group include:

- religion
- political affiliation
- HIV status
- disability.

Experience shows that people and groups that join the programme simply for the purposes of obtaining a loan may not succeed in forming and maintaining sustainable enterprises. Note the level of motivation of those applying, and their ability to work in groups. For example, a group that already exists with a common factor uniting it, such as a sporting club or social group, has better cohesion and more chance of success than one that has no cohesive factor other than the credit programme itself. However, families are not appropriate groups.

Gender balance

The CYCI benefits young women and men in an equitable way. In some areas, there may be a disproportionately large number of unemployed young males; in many other areas, it is women who are traditionally disadvantaged in employment. Country-specific gender differences in the society in which the programme is to be implemented must therefore be taken into account. Action to redress such imbalances should not be perceived as discriminatory, since it aims for an outcome of gender equality and equity. Unless the programme is designed to meet a specific gender-related need, e.g. to reduce under-employment or unemployment among young women in a particular region or locality, the programme should aim towards an equal number of female and male beneficiaries.

A tool for rapid gender analysis of a CYCI programme is presented below.

C: Tool for Gender Analysis

This tool facilitates a rapid gender analysis of the CYCI. It functions at two levels: that of the implementing agency (programme level) and that of the beneficiaries (project level).

Fill in the boxes as appropriate.

1. Staff of implementing agency

Staff level	Number of women	Number of men	Total	Women as % of total
Senior management				
Programme and supervisory staff (including field officers)				
Support staff				

2. Personnel involved in programme design

	Number of women	Number of men	Total	Women as % of total
Implementing agency staff				
Field officers				
Potential beneficiaries				
Community leaders and other stakeholders				

3. Beneficiaries

	Number of women	Number of men	Total	Women as % of total
Attending information workshop				
Completed application forms				
Called to interview				
Selected for programme				

Step 4. Needs Assessment

A needs assessment is carried out to determine what particular needs the programme will meet. It is based on the information obtained during the baseline survey.

Ask the following questions:

- What are the most pressing needs of the community(ies) in the target area in terms of:
 - basic needs (food, water, shelter, fuel, sanitation)?
 - health and education?
 - transportation and infrastructure?
 - machinery/technology/tools and implements?
- What are the current capacities of the target group(s) in terms of:
 - basic literacy and numeracy?
 - marketable skills or labour?
 - entrepreneurial skills?
 - financial management skills?

- personal growth, character development, motivation, initiative, self-esteem?
- What are the current economic activities in the area?
- How could these activities be expanded or enhanced with the introduction of micro-credit on competitive terms?
- What business opportunities currently exist in the area?
- What new opportunities would be created by the availability of micro-credit facilities?
- What are the current means of obtaining credit among the target group?
- What improvements would the introduction of a micro-credit scheme bring?

Step 5. Designing the Loan and Savings Package

In designing the loan and savings package, consider the following:

- size of loans
- number of loans
- period of loan cycle
- calculating sustainable interest rates
- savings.

Micro-credit provides easy access to credit, so aim for flexibility, informality, and ease and convenience of processing in designing the loan.

Keep in mind the needs and capacities of borrowers. Loan amounts, interest rates and repayment schedules must be adjusted to the ability of the borrowers to repay them. This will depend on their level of income, the period of their business cycles, and other factors. Consult with and learn from prospective beneficiaries and involve them in the design process.

Size of loans

Loans need to be large enough to meet the needs of beneficiaries, but small enough to ensure easy repayment. If they are too large, beneficiaries may be tempted to overspend on non-essential items in the early phase, only to have difficulty repaying the loan later on. This is especially true of inexperienced entrepreneurs such as the majority of the young people who participate in the CYCL.

The size of the loan also depends on the uses to which it will be put. *Working capital loans* cover ongoing expenses incurred during the ordinary course of business, e.g. purchase of raw materials, animal feed etc. *Fixed asset loans* are for the purchase of machinery, equipment and property, which will be used by the business over a period of time. *Fixed asset loans* are larger than working capital loans.²

The size of the loan also depends on the length of the loan cycle. The shorter the loan cycle, the smaller will be the loan.

Many credit schemes offer larger loans for second- or third-time borrowers, if they have proved creditworthy and have not defaulted on repayments the first time. This is a good way of providing a further incentive for beneficiaries to make prompt repayments. However, it should not be compulsory to move to a larger loan size each time beneficiaries re-enter the cycle.

In general, match loan amounts to market conditions, and take into account the income levels of beneficiaries, average incomes and prior borrowing levels of existing businesses in the area. As a general guide, the most effective amount for loans ranges between US\$50 and US\$500.

How many beneficiaries?

The number of beneficiaries depends largely on the human and financial resources of the implementing agency – how many field

²The remainder of this chapter draws on Ledgerwood (1999), Sinha and Martin (1998), UNDP (1997) and Robinson (1994).

officers are available to visit the beneficiaries, and how much money is available in the loan fund. Estimates of how many beneficiaries can be served by one field officer should be based on the past experience of the NGO and its local knowledge of the target area. A starting point could be 200 beneficiaries per field officer.

How many loans?

How many loans should a micro-finance institution give out at any one time? It depends on the size and term of the loans and the amount of funding available in the loan fund. Since loans are staggered, not all beneficiaries will be borrowing at any one time. A reasonable estimate of the number of beneficiaries borrowing at any one time would be 85 per cent.

Period of loan cycle

For working capital loans (see above) it is recommended that, where possible, the loan cycle coincide with the business cycle of the enterprise in question. If, for example, a dressmaker buys raw materials every four months to take advantage of bulk purchasing, the loan should ideally be for a total period of four months.

Fixed asset loans do not have to coincide with the business cycle of the borrower. These loans are usually larger and for a longer period. However, the longer the period of the loan, the greater is the risk to the lender.

However, provided that borrowers are free to make flexible use of the loan in different ways at different times according to their needs, it should not be necessary to devise two separate loans for the purchase of fixed assets and for working capital.

Some micro-credit practitioners recommend that all the members of a particular group be on the same loan cycle, i.e. that all their loans have to be paid back within the same length of time, although they may start and finish on a staggered basis.

It is recommended that the minimum loan period be two months, and the maximum one year.

Calculating sustainable interest rates

Interest rates should be sustainable. They should be high enough to ensure that the loan fund keeps its value after inflation, costs, interest on any borrowed funds and the costs of training beneficiaries have been met.

Interest charged on the loan must cover the following costs:

- *operation of the programme*, including loan processing, field visits, repayment collection, etc.;
- *cost of capital*: if all or part of the loan fund consists of borrowed funds, interest payable on those funds should be reflected in the interest rate charged to beneficiaries;
- *loan losses*: while the CYCI is designed to keep loan repayment defaults to a minimum, it is probable that some amount of the loan fund will be lost each year through repayment defaults;
- *training* provided to beneficiaries in such areas as general and financial management, marketing, and personal development;
- *ongoing counselling and support* provided to beneficiaries throughout the course of the programme; and
- *inflation*: if there is a national rate of inflation of, say, 5 per cent p.a., this needs to be added to the percentage charged as interest in one year.

There are two ways of calculating interest.

- Under the *flat rate method*, interest is paid on the entire sum borrowed, regardless of the size of the outstanding unpaid balance.
- Under the *declining balance method*, interest is only paid on the outstanding unpaid balance (Ledgerwood, 1999).

The declining balance method is used by most formal institutions; however, it is very complex to calculate. For the sake of simplicity, the flat rate method is recommended.

However, in comparing interest rates offered by different financial institutions, it should be noted that borrowers end up paying considerably more interest under the flat rate method than under the declining balance method set at the same nominal interest rate. For example, a loan of \$1,000, at an interest rate of 20 per cent, to be paid back in 12 equal instalments over a period of one year would result in a total of \$200 paid in interest under the flat rate method, but only \$112 under the declining balance method. To put it another way, for a loan of \$1,000, to be paid back in 12 equal instalments over a period of one year, a 20 per cent interest rate under the flat rate method is equal to a rate of approximately 35 per cent under the declining balance method.

Repayment schedules

Once the size, interest rate and term of the loan have been decided, establish the repayment schedule. Generally, it is advisable for loan repayments to be regular, frequent and small, rather than larger and less frequent or irregular (UNDP, 1997).

Figure 6 shows a sample repayment schedule for a \$150 loan over a four-month period, with bi-weekly repayments. In this example the interest rate is 36 per cent per year (3 per cent per month).

Savings

There are two kinds of savings schemes that may be offered by micro-lending agencies.

1. *Voluntary savings* services are not tied to any loan, are offered to clients in the same way that such services are offered by commercial financial institutions, and are appropriate to agencies that wish to function in a similar way to banks, in a financial regulatory environment where

they are legally entitled to do so (i.e. where the financial sector has been liberalised). For those agencies wishing to operate in this way, there may be legal requirements such as licences, reserve requirements, insurance etc. Agencies also require the necessary infrastructure and human resources to provide such services.

2. *Compulsory savings* are those that are tied to a loan. Beneficiaries must set aside a proportion of their loan as savings, which also serve as collateral on the loan. The savings are accessible only when the loan has been repaid in full. The advantage here is that it provides the beneficiary with extra cash flow after the loan has been repaid (at a time when a new loan may not yet be accessible), and it provides the lending agency with capital which can be invested to generate interest revenues (which do not have to be passed on to the borrower), until such time as the agency has received the full repayment with interest on a loan. If the implementing agency invests the funds accumulated in the form of savings, it must do so cautiously, so as to be sure of being able to return the funds to the beneficiary promptly upon full repayment of the loan (Ledgerwood, 1999).

Compulsory savings can be collected at the initial stage, when the loan payment is made to the beneficiary's credit group (in other words, a proportion is held back, either by the implementing agency or by the credit group's treasurer, and deposited in an account of the implementing agency). Alternatively, beneficiaries can pay an extra amount, with and in addition to their regular loan and interest repayments. The advantage of the first system is that it simplifies paperwork and provides a greater degree of up-front collateral on the loan.

See Module 1 (1.13) for the 'prompt repayment incentive', a variation on compulsory savings.

Figure 6: Sample Repayment Schedule

Month	January		February		March		April	
Repayment no.	1	2	3	4	5	6	7	8
Original loan	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150
Re-payment amount	\$21	\$21	\$21	\$21	\$21	\$21	\$21	\$21
Portion repaying loan	\$18.75	\$18.75	\$18.75	\$18.75	\$18.75	\$18.75	\$18.75	\$18.75
Portion repaying interest	\$2.25	\$2.25	\$2.25	\$2.25	\$2.25	\$2.25	\$2.25	\$2.25
Loan balance Outstanding	\$131.25	\$112.50	\$93.75	\$75.00	\$56.25	\$37.50	\$18.75	0
Total interest paid	\$2.25	\$4.50	\$6.75	\$9.00	\$11.25	\$13.50	\$15.75	\$18.00

Source: UNDP 1997

Step 6. The Budget

The budget is a basic tool of financial planning. It is an estimate of an organisation's income and expenses over a period of time. A sample budget sheet for periods of one year over a three-year cycle is presented in Module 4 (*Handout D, 4.32*). This can be adapted, expanded and filled in according to an organisation's specific circumstances.

Interest revenues can be estimated according to the number of beneficiaries, the average size of the loan, and the number of times each beneficiary borrows per year. This last figure depends in turn on the repayment term. The UNDP proposes the following formula, based on the assumption that repayment terms are of six months, that loans are staggered so that not all beneficiaries receive their loans simultaneously, and that 85 per cent of all beneficiaries borrow in a given year.

Annual interest income = number of beneficiaries x 0.85 x 1.5 x average loan size x 0.5 x annual interest rate

For example, if there were a total of 400 beneficiaries, the interest rate was 36 per cent per year and the average loan size was \$100, the annual interest income would be:

$$400 \times 0.85 \times 1.5 \times 100 \times 0.5 \times 36/100 = \$9,180$$

For further information on estimating interests revenues for budgetary purposes, see UNDP (1997).

Loan loss reserve

Not all of the fund can be used for disbursing loans; a proportion must be set aside as a *loan loss reserve*, which can be used to cover defaulted debts than need to be written off. The loan loss reserve, normally between 10 and 50 per cent of the total loan fund (UNDP, 1997), is not in itself an expense, but is put into a separate account and entered in the financial statement as a liability. Where the loan package offered by the implementing agency includes a compulsory savings component, the loan loss reserve does not have to be as large as if no collateral at all is provided by beneficiaries.

When loans are written off, funds must be paid into the loan loss reserve account to keep the reserve at the determined level. When this happens, the amount paid in is entered in the financial statement as an expense (*a sample financial statement is presented in Appendix H of Module 3 of the CYCI Toolkit*).

D: Sample Budget Sheet

	Year 1	Year 2	Year 3
Revenues			
Interest from loans			
Interest from investments			
Other sources			
Total revenues			
Expenditures			
Staff salaries			
(list staff members and their salaries)			
consultancy fees			
sub-total salaries/consultancy fees			
Overheads			
office rental			
office furniture			
office equipment			
office supplies (stationery, postage stamps, etc.)			
Telephone			
utilities (electricity, water, heating)			
bank charges			
transportation/ travel costs (for field visits, etc.)			
advertising and promotion			
Insurance			
repairs and maintenance			
sub-total overheads			
Other expenses			
cost of capital			
loan losses			
sub-total other expenses			
Total expenditures			
Surplus/deficit			
Funds required:			
Operating funds (enter deficit or subtract surplus)			
Loan capital			
Total funds required			

Sources: UNDP, 1997; Commonwealth Secretariat, 1998