

# Phase 4. Loan Disbursal

This section describes the implementation of Phase 4 of the CYCI programme cycle (*see Figure 2 in Module 2*).

Different organisations have different procedures established for the disbursal of loans. These procedures depend on the human resources of the implementing agency, the availability of local banking facilities, and other local conditions. The step-by-step procedures suggested in this section provide a simple but effective system for loan disbursal and payment collection, which can be adapted to suit local circumstances.

These procedures are based on the United Nations Development Programme's MicroStart guide (UNDP, 1997) which presents a complete, workable system for managing the credit aspects of a micro-enterprise development programme such as the CYCI. This section presents a brief overview of the procedures; further details can be found in the MicroStart guide. Forms for keeping records of the various processes involved have been adapted from the MicroStart Toolkit and are included as appendices to this module.

## Step 1: Processing Loan Applications

In the first instance, loan applications are processed by the borrowers themselves in their credit groups. This 'first tier' of screening for loan applications is useful because it allows for an evaluation of a loan application by people from the same community as the applicant, who can evaluate the applicant's project and determine its prospects for commercial viability based on their own local knowledge. In the same way, the group can assess whether the loan is of the appropriate size – if it is too small the borrower cannot achieve his or her

stated goals, if it is too large the borrower may have difficulty in repaying it.

If the group as a whole is not willing to underwrite the loan, the applicant can go back and refine his or her project based on the feedback of the group. Thus, applications that are submitted to the implementing agency have the advantage of already having passed through a process of peer review and approval.

Applicants can submit their applications using a form based on the model provided at Appendix A. The application is then discussed by the credit group as a whole. When it is finally approved, with adjustments and refinements if necessary, it is countersigned by each member of the group and submitted to the field officer, who then presents it to the loan supervisor of the implementing agency.

The loan supervisor discusses loan applications with the field officer, reviews the application form and assesses the application accordingly. Provided that the application has been filled out correctly and approved by the group, no member of the group is in arrears with any CYCI loan repayments, and the loan supervisor is satisfied that the borrower understands the terms of the loan and is able to make use of it in an appropriate way, s/he approves the application on behalf of the implementing agency and passes the form to the bookkeeper, setting in motion the process of issuing the loan.

## Step 2: Issuing the Loan

The beneficiary should open a bank account and provide the account information to the implementing agency. If this is not possible, then the group may open a joint account into which loans can be paid. Where local banking

facilities are not available or borrowers are not eligible to open accounts, it may be necessary to issue loans in cash. In this case, loan repayments will also have to be made in the form of cash. It is necessary for the credit group to make provisions for the safekeeping of cash repayments, by putting them in a locked safe.

The bookkeeper issues a promissory note, a passbook and a cheque (or cash) for the loan. If the beneficiary is borrowing from the programme for the first time, the bookkeeper also prepares a beneficiary record (see below). These are then brought to a local meeting of the credit group by the field officer, who issues the loan and obtains the borrower's signature on the promissory note. The field officer returns the promissory note to the loan supervisor, who files it in a secure place. When the debt is fully repaid, the promissory note is signed and stamped by the loan supervisor and returned to the borrower.

A sample promissory note is provided at Appendix B.

The passbook is a sheet of paper or card on which loan details including repayments and the remaining outstanding balance are recorded. Each borrower is issued one passbook for each loan they receive. Passbooks are the main financial record kept by the group treasurer.

A sample beneficiary passbook is provided at Appendix C.

If the programme includes a compulsory savings component with a lump sum payable at the outset, that amount is deducted from the loan amount payable. A line needs to be added to the promissory note, passbook and beneficiary record to that effect.

### **Step 3: Repayment Collection**

Repayments are normally made to the group treasurer, who records all payments in the

passbook and either deposits them in the local bank or, if no local bank exists, places cheques/cash contributions in a secure place. These are then transferred to the field officer on his or her next visit. The group treasurer and the borrower both initial the passbook when repayments are made, indicating that they are in agreement that the passbook accurately records the repayment made.

The group treasurer also records the repayments in a transfer report, which lists all repayments made by borrowers (amounts and names) since the previous report was issued. The transfer report is issued each time the field officer makes a visit.

A sample transfer report is presented at Appendix D.

On returning to the implementing agency offices, the field officer hands over the repayments received and the transfer report, as well as any promissory notes signed by new borrowers, to the loan supervisor, who in collaboration with the bookkeeper deposits the funds and records the repayments (and begins any new loan issuance processes).

Loan repayments can be recorded by the implementing agency in a simple document called a beneficiary record. This records all the loans made to a particular beneficiary and his or her progress in making repayments.

A sample beneficiary record is presented at Appendix E. The summary of loans summarises all the loans paid to one particular beneficiary. The record of loan repayments lists all the repayments made by that beneficiary on each loan. This section can be expanded if more than one loan is listed under the summary of loans.<sup>1</sup>

### **Step 4: Dealing with Defaulters**

Since interest on loans is an important form of income for the implementing agency, late

---

<sup>1</sup>This section draws on UNDP (1997) and CGAP (1998).

payments and defaulted loans represent a serious threat to its sustainable functioning. A loan is said to be 'delinquent' when one payment is overdue by one day. A 'defaulted loan' is one which has been delinquent for some time and which can be written off. Writing the loan off is an accounting procedure; it does not imply that the implementing agency has given up trying to recover the loan.

In dealing with late repayments, it is important to act promptly: as soon as a loan repayment becomes overdue, steps should be taken to ensure speedy recovery. It is also important to send the right message to beneficiary groups; if the credit groups start to believe that the implementing agency is not really serious about receiving repayments on time, delinquent repayments and defaulted loans will increase.

When a loan becomes delinquent, in the first instance it is up to the other members of the group to apply peer pressure to the delinquent borrower. In many cases, late payments are caused by short-term cash flow problems and can be rectified within a few days of the due date. Group members should discuss the matter as soon as a payment becomes overdue, and on every field visit the field officer should meet with all delinquent borrowers to discuss any problems with repayments. No new loans should be disbursed to a group until any delinquent payments in the group have been rectified.

The point at which sanctions are to be applied for delinquent payments needs to be determined by the implementing agency and individual credit groups according to their own needs. For example, the group may collectively agree to forfeit group savings to cover a loan repayment that is more than one period late (e.g. if the repayments are every month, when the repayment is more than 30 days overdue). On the other hand, the implementing agency might for example insist, regardless of what the group decides, that payments that are more than two periods late (more than 60 days

late in the case of a monthly repayment schedule) must be covered immediately out of the group's savings. Decisions such as these will also depend on the reasons for the late payment, the prospects for an improvement in the business performance of the borrower, and the exact nature of the compulsory savings package offered by the implementing agency.

## **Step 5: Providing Ongoing Business Counselling and Support**

The CYCI emphasises the importance of providing beneficiaries with ongoing business counselling and support to ensure that their new or expanding enterprises prosper. The exact design of such programmes depends upon local conditions, and should be carried out by consulting the baseline survey of the target area and field officers' reports. The content of these programmes is in part similar to that of the initial CYCI training, since they partly consist of reinforcing the lessons learned in the basic training. *Further information on resources for developing such content can be found in Module 4 of the CYCI Toolkit, Training Resources.*

Ongoing business counselling and support is provided by the implementing agency through its network of field officers, who need to be experienced and/or trained in providing such advice, and also well aware of local conditions. It may also be possible to provide such support through a mentoring approach. This is where a senior member of the local community, especially one who has already succeeded in business or who commands respect among all segments of the community, is designated as a beneficiary's mentor, and provides support and counselling where needed.

A programme of ongoing business counselling and support would include the following elements:

- **motivation and personal growth** – providing beneficiaries with encouragement and motivation to enable them to overcome

setbacks and continue working enthusiastically; where appropriate, providing them with resources to further their personal growth and development;

- **business administration and management** – examining the record-keeping systems of the business and advising on how they can be improved;
- **general problem-solving** – discussing any difficulties the beneficiary is having with employees, business partners and associates, suppliers, clients, co-workers and competitors, and together developing ways to address these concerns;
- **delinquency advice** – if a beneficiary has

fallen behind with his or her loan repayments, discussing the causes and developing a workable plan to enable the beneficiary to make good the loan;

- **product development** – discussing ways in which the beneficiary can develop new products or services, and/or upgrade and improve those already being offered; making the beneficiary aware of new technological developments that may facilitate this; and
- **marketing advice** – discussing how marketing could be improved; making the beneficiary aware of new and emerging markets; advising on how market research can be carried out most effectively.