

THE COMMONWEALTH YOUTH CREDIT INITIATIVE TOOLKIT



COMMONWEALTH SECRETARIAT

The Commonwealth Youth Credit Initiative Toolkit



Commonwealth Secretariat

Commonwealth Youth Programme
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Preface

In 1992, Commonwealth Youth Ministers asked the CYP to assist national efforts to tackle the problem of youth unemployment. The CYP had already assisted member governments in the promotion of micro-enterprise development through entrepreneurial training programmes, and began to explore ways of empowering young people through the provision of low-cost credit to micro-enterprises.

In 1994, the CYP held a meeting in Malta with an advisory group of experts in the field of small business and micro-credit. The purpose of the meeting was to design a suitable model for a micro-credit and saving scheme under the auspices of the CYP. The outcome of this was that, in 1995, at their meeting in Port of Spain, Trinidad and Tobago, Commonwealth Youth Ministers launched the Commonwealth Youth Credit Initiative (CYCI).

The CYCI was originally conceived as having four phases: (1) Background Planning and Preparation; (2) Development of CYCI Methodology; (3) Pilot-testing the scheme; and (4) Long-term expansion. Phases 1 and 2 were initiated by the CYP, through the Gender and Youth Affairs Division (GYAD) of the Commonwealth Secretariat. The model was developed through extensive consultations with

Commonwealth member governments, non-governmental organisations (NGOs), other agencies, donors and experts in the field of micro-credit and micro-enterprise development.

In Phase 3, 1996–1999, the CYCI was pilot-tested in Guyana, India, Solomon Islands and Zambia (the host countries of the CYP's Regional Centres in each of the four main regions of the Commonwealth), in collaboration with NGO partners in each country. The pilot tests demonstrated that the CYCI model is workable, and provided valuable lessons that can be applied in the replication of the model in other countries.

Phase 4, expansion of the CYCI, is where this toolkit comes in. CYP is disseminating the toolkit in order to assist Commonwealth governments and other stakeholders wishing to implement a micro-credit scheme based on the CYCI model. It is essentially a synthesis of current good practices and lessons learned from the pilot schemes. The most important of these was that young people are 'bankable'. The toolkit does not give CYP any role in micro-credit delivery; the intention is to set out a scheme that can be used by *any* competent agency in an appropriate enabling environment.

Introduction

What is the CYCI?

The Commonwealth Youth Credit Initiative (CYCI) is a micro-credit and enterprise development initiative designed to promote youth employment and alleviate poverty among the young people of the Commonwealth.

In this toolkit 'the CYCI' refers to the methodology of the scheme as practised in 1996–1999. Provision of an integrated package of credit and enterprise training, with the intention of:

- Building economic self-sufficiency
- Widening economic participation
- Contributing to national economic and development goals.

The CYCI was conceived, developed and implemented with a particular target group in mind, namely young people aged 15 to 29. However, it can be adapted for any social group or stratum that a lead agency may wish to assist. It is particularly suited to those entering into entrepreneurial activity for the first time.

The CYCI was developed by the Commonwealth Youth Programme (CYP), at the request of Commonwealth member governments. It is the product of extensive consultations with Commonwealth member governments, non-governmental organisations (NGOs), other agencies, donors and experts in the field of micro-credit and micro-enterprise development.

The results of the pilot tests indicate that the

CYCI works best in an environment where there is already a well-established entrepreneurial culture. Where such conditions do not prevail, the CYCI attempts to instil an understanding of entrepreneurship and good business practices through the training and business counselling components of the package.

The pilot tests have shown that where local conditions are favourable, the CYCI is of proven effectiveness in alleviating poverty, stimulating economic activity and raising the standard of living of disadvantaged young people.

Scope and Objectives of the Toolkit

The CYCI Toolkit is designed for governments, development agencies and NGOs planning to implement a micro-credit programme. It is structured to be sufficiently flexible to meet the differing needs of a range of users, presenting a menu of options that users can adapt to specific national and local circumstances.

The Toolkit is a hands-on, step-by-step guide to the implementation of a micro-credit programme. It can also be used as a training resource to help broaden the knowledge and build the capacities of implementing staff.

The Toolkit consists of four modules:

Module 1: Overview

Module 2: Implementation Guidelines

Module 3: Management, Monitoring and Evaluation

Module 4: Training Resources

Scope and Objectives of the Overview Module

This module presents an introduction to the CYCI model and familiarises users with the major issues and practical steps involved in initiating a micro-credit programme. As well as

defining basic terms and concepts and providing background information about micro-credit, it gives an overview of the enabling environment which makes possible the implementation of such a programme, and defines the roles of the various stakeholders.

Background: Micro-credit and the Commonwealth

What is Micro-credit?

Definition

Micro-credit is generally defined as making small loans available directly to small-scale entrepreneurs to enable them either to establish or to expand micro-enterprises and small businesses. Micro-credit is normally applied to target groups that would otherwise not qualify for loans from formal institutions. This includes the majority of those living below the poverty line.

Lack of credit is a constraint to the development of small-scale enterprises. Most lack access to lending institutions. The reasons for this range from lack of collateral or a credit track record to the fact that most financial institutions find it too expensive to administer the small loans usually sought by the small-scale entrepreneur. Micro-credit fills this gap. Loans at commercial interest rates are given for sustainable small or micro-enterprise projects that provide self-employment. (*See Appendix E for additional facts on micro-credit.*)

The Commonwealth Approach to Micro-credit

The Mandate

The promotion of micro-credit as a means of poverty alleviation in the Commonwealth has received endorsement at the highest political levels. When they met in Edinburgh in 1997, Commonwealth Heads of Government committed themselves to a Commonwealth-wide effort to reduce poverty. They undertook to 'work towards halving the proportion of people living in extreme poverty by the year 2015', and in particular to 'promote the role of micro-credit schemes in reducing poverty

through increased assistance from the international community' (Edinburgh Communiqué, 1997).

The Commonwealth Youth Programme (CYP), an intergovernmental organisation within the Commonwealth Secretariat, works to integrate young people into national development. Founded in 1974, the CYP has for a quarter-century provided a range of services to young men and women, youth workers, NGOs and national government in the four regions of the Commonwealth.

The CYP has developed a Commonwealth Plan of Action for Youth Empowerment to the Year 2005, which was endorsed by the 1998 Commonwealth Youth Ministers Meeting in Kuala Lumpur, Malaysia. The Plan of Action presents policy options grouped under ten strategic objectives, with a number of action points which can be selected and adapted as appropriate to specific national circumstances.

The first strategic objective is:

1. Develop and implement measures to promote the economic enfranchisement of young people and their participation in the economy.

Among the action points suggested as policy options under this objectives are:

2. Promote and support an integrated approach to micro-enterprise training and credit schemes, including the creation of tax incentives to agencies and private-sector partners engaging in micro-enterprise development for youth, the promotion of partnerships of key stakeholders to manage these schemes, the development of Chambers of Commerce for youth enterprises, and the identification

of resources for operating and replicating successful micro-financing schemes.

3. Develop poverty alleviation and employment programmes targeted specifically at young women, young people in special circumstances and those in rural areas.

The Approach of the CYCI

The CYCI takes a holistic approach to micro-credit delivery. This approach emphasises the provision of micro-credit as part of an integrated package that includes skills, marketing and management training; and business counselling, to ensure its effectiveness. The holistic approach is based on the premise that running a successful business requires skills which first-time entrepreneurs may not have. The poor need assistance to translate business ideas into reality, prepare business plans, develop new products and market their product outputs systematically.

The CYCI builds upon the work of such initiatives as the Grameen Bank and the UNDP's MicroStart Guide. However, it differs from these initiatives in that they assume that the provision of credit alone is sufficient to stimulate economic activity for poor people. This 'minimalist approach', as we can call it, argues that poor people already have a wealth of ideas and knowledge of market potential, and simply lack the financial means to transform these into a thriving business. This approach takes the view that, while the

training, business counselling, information technology and other services are helpful, their cost may render the whole project unsustainable, and it is therefore best managed separately (UNDP 1997a).

The minimalist approach has been proven to be successful in many different contexts. However, it may not address the full range of needs of those who are entering into economic activities for the first time – for example, young people or marginalised groups such as women, disabled people, street people and refugees, the poorest of the poor, or any target sector where a strong culture of entrepreneurship is not already established. The CYCI aims to reach these groups by bringing specially targeted support to such groups. Where alternative programmes already exist, the CYCI should not compete with these. The CYCI can be used to complement and support other micro-credit activities which provide only credit and not training or other support.

The CYCI also emphasises the importance of an enabling environment; a political, economic, social and cultural context that encourages the growth of successful micro-enterprises. Peace, political stability and democracy are important elements of the enabling environment. Other factors which also affect the enabling environment include government policy, global and regional macroeconomic forces, and conditions at the local level where the programme is to be implemented.

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:

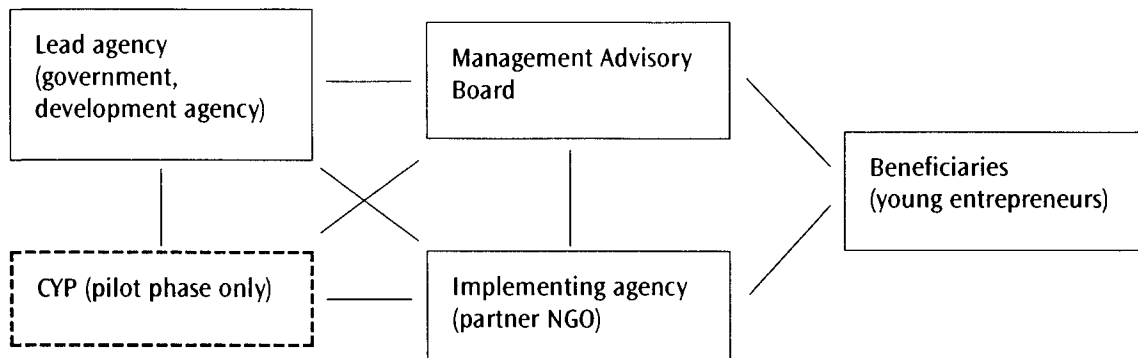
- a ministry or department of government
- an international development agency
- a development bank or other organisation.

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.

Enabling Environment of CYCI

The success of a micro-credit scheme under the CYCI model depends in part on the political, economic, social and cultural environment in which the programme is implemented. This section examines some of the key elements of an enabling environment for the CYCI.

Peace, Democracy and Political Stability

Peace is the first and most basic element of the enabling environment. The CYCI cannot be implemented in a situation of war, dislocation and the threat of violence. Democracy and political stability contribute to peace and an environment that can enable successful CYCI implementation.

Political Will and Supportive Policy, Legal and Administrative Frameworks

Full political support at the highest levels of government is an essential element of the enabling environment for the CYCI. If it is not already present, such political support may be gained through lobbying, advocacy, awareness raising and communications activities. A template for use in such advocacy work is provided in Appendix B.

Political will is also required on the part of district authorities as well as local traditional authorities, whose active support and approval is key to the successful implementation of a micro-credit scheme at the local level.

Political support at the national level is expressed through the importance placed on the programme by the political leadership, the presence of supportive policy, legal and administrative frameworks, and the provision

of financial and human resources that are sufficient to secure the loan fund and administer it.

The government should promote and support an integrated approach to micro-enterprise training and credit schemes: tying them into national and local development plans, and the activities of all relevant economic, agricultural and industrial ministries (Commonwealth Secretariat, 1998b). In other words, for maximum effectiveness, the CYCI should not be merely a small, isolated development programme that is 'added on' to other development plans, but should form part of the main thrust of these plans.

The CYCI is intended for implementation within the context of a market economy in which employment can be readily created and micro-enterprises can flourish. A regime of tax incentives can encourage banks and financial institutions, NGOs and private-sector partners to engage in activities that encourage micro-enterprises and micro-credit. Banking regulations should promote sound financial practices, ensure the security of depositors, and not present impediments to micro-lending.

Adequate Financial and Human Resources

The first and most obvious financial resource is of course the loan fund itself. This may be provided by the national government, by regional or international donor agencies, or individual or corporate donors.

At the level of the lead agency, financial and human resources are needed to oversee the programme, co-ordinate the activities of the various stakeholders, and carry out monitoring and evaluation.

The day-to-day running of the fund and the delivery of loans to client micro-enterprises would normally be the responsibility of the implementing NGO, which will require funding for the start-up and operating costs of the programme.

Culture of Entrepreneurship and Co-operation

At the local level, a CYCI is most likely to succeed in a relatively homogeneous community whose members are accustomed to working together in a spirit of co-operation. The presence of a well-established culture of trade and entrepreneurship is a further contributor to the enabling environment for the CYCI.

Where these elements are not present or are present only to a limited degree, greater emphasis should be placed on enterprise training, business counselling and marketing advice to emergent entrepreneurs, to ensure that they are able to make full use of loans

received. In the pilot projects of the CYCI, the length of training provided to client micro-entrepreneurs varied from a few weeks to several months, depending on the extent to which clients were accustomed to the business environment.

Supportive Infrastructure

An environment where there are already functioning markets and the infrastructure to support them will help to enable the successful implementation of a CYCI. Emergent entrepreneurs benefit from the same infrastructural investments as other businesses. These include roads, communications, transport facilities and/or energy supplies.

Access to raw materials is another important element of the enabling environment. There is a large, untapped potential in the processing of primary commodities, which are currently produced by the rural poor in many areas. Access to the requisite raw materials should not be impeded.

CYCI Stakeholders: Roles and Responsibilities

The stakeholders in the CYCI can be divided into two broad categories. The primary stakeholders are:

- the lead agency (the government, development agency or other organisation that initiates the programme)
- the implementing agency (usually a partner NGO)
- the client beneficiaries
- the financiers.

In some cases a single organisation may fill more than one role – for example, the lead agency may also be the financier for the project. Regardless of who fills them, the roles of these primary stakeholders are all necessary for effective implementation of the CYCI. Secondary stakeholders may include:

- community organisations
- academic/training institutions
- business associations
- unions
- religious groups engaging in community activities
- NGOs not directly involved in micro-credit, and others.

The secondary stakeholders can contribute greatly to the success of the scheme in a variety of ways, according to their specific fields of interest.

The CYCI emphasises a participatory approach in which effective partnerships are forged among the stakeholders, all of whom should be involved in the planning, design, implementation, monitoring and evaluation of the programme.

Primary Stakeholders

The primary stakeholders and their roles and functions are as follows:

Governments

The most effective methods by which governments provide credit and business services to poor entrepreneurs are indirect funding and facilitating funding of non-governmental intermediaries that can provide efficient and effective services. The government ministries that play a pivotal role include:

- Economic Planning and Development
- Agriculture and Rural Development
- Youth and Community Development
- Gender Affairs
- Education
- Trade and Industry
- Legal Affairs.

The state has the social responsibility and mandate to eradicate poverty and to improve the lifestyles of its people. It has a role to instil a spirit of enterprise into its people, especially young people – enhancing the qualities of creativity, self-reliance and individual endeavour.

The role of the government is to:

- provide political commitment and policy-making, ensuring political stability and good governance;
- create a conducive macro-economic environment to enterprise and private sector development;

- regulate financial markets, establishing banking rules to ensure depositors security and sound financial practices;
- access financial resources and technical expertise;
- implement legislation that removes the barriers to women's economic participation, particularly as they relate to property rights, asset holdings, credit policies and labour laws;
- establish the institutional arrangements of the CYCI and facilitate the activities of the implementing agency;
- encourage development banks to play catalytic roles including providing funding and encouraging effective participation of non-governmental intermediaries;
- involve and consult all micro-credit stakeholders especially the poor, young people, the private sector and NGOs, in policy formulation;
- ensure adequate monitoring and evaluation of micro-credit programmes;
- facilitate the development of sound, ethical practices and good conduct, and a value-based micro-credit culture in which entrepreneurship can develop as a means for broader social and economic development;
- promote and fund NGOs that develop the small and micro-enterprise sectors and involve young people;
- lobby the multilateral institutions to press for resources to benefit young entrepreneurs;
- encourage and facilitate networking and consultations between the various stakeholders in order to encourage policy dialogue as well as share and disseminate successful models.

Financiers

The financiers are those who provide the funding for the programme. Funders may include the following:

- governments
- private sector financial institutions
- bilateral and multilateral donors
- national development banks and foundations
- the business community
- international aid agencies and donors.

Another important category of stakeholders, even though they may not actually provide funding themselves, are the central banks and financial institutions responsible for determining policies, banking regulations and financial instruments such as interest rates.

There are two main types of funding:

- direct funding to micro-projects
- indirect funding through an intermediary.

Bilateral donors, multilateral donors and international aid agencies often fall in the latter category. They may lend to governments as part of a large aid package. These in turn may fund national micro-credit programmes through national banks, which in this case become direct donors, often called second-tier lending institutions. These institutions channel loan funds through the implementing agencies, which are often smaller formal or informal institutions including some commercial banks, NGOs, credit unions and co-operatives.

Financiers should be encouraged to provide funding which is sufficiently flexible to cover various needs, including funds for institutional development, and capacity building activities which will strengthen the long-term sustainability of the implementing agency and assist it in scaling up and attaining financial self-sufficiency. Financiers should also strive to

ensure openness in their practices and conduct, have a sense of accountability to the state as well as the beneficiaries, and maintain high standards of professionalism in their relations with clients and other stakeholders.

The scope of involvement by a funding agency includes:

- the provision of loan funds and project start-up costs
- the provision of training funds
- the provision of financial technical expertise, where appropriate
- participation in Management Advisory Board meetings
- monitoring activities to ensure that loans are used for the intended purpose and that the enterprises survive – these could include mid-term evaluations and workshops to review progress on a regular basis.

The above are essential activities that must be carried out for the effective implementation of a CYCI. In addition, financial institutions may consider undertaking or supporting some of the following activities:

- publishing reports, dissemination of information as well as support for NGO networks that provide a forum for sharing experiences and exchanging ideas.
- research into the impact of credit policies and schemes on beneficiaries and on the economy
- developing effective partnerships between banks and NGOs through credit lines, deposit services and shared facilities.

The implementing agency

The implementing agency – the partner NGO or lender – delivers loans to the client beneficiaries. It usually has direct contact with beneficiaries through a network of field officers. In addition, the implementing agency

provides basic business and management training to the borrowers. This training may either be supplied directly by the implementing agency, or indirectly through a training institute or similar body.

NGOs and community-based self-help organisations have played a significant role in the delivery of micro-credit to the poor because of their comparative advantage in using participatory techniques, promoting community action and using more cost-effective means of providing services to poor people. NGOs can provide a forum for marginalised groups including women, young people, the disabled, refugees and street people, and the poorest of the poor.

Implementing agencies often receive funds in the form of grants, either in response to specific micro-credit project requests or as part of a large aid package which leaves the use of the funds to the discretion of the NGO. NGOs may also raise funds from the public to support their development activities, including micro-credit. Some micro-credit finance is tied with technological interventions.

Some NGOs have developed linkages with formal financial institutions to leverage capital through commercial banks, guarantee schemes and money markets.

Although in the CYCI model the implementing agency is usually an NGO with experience in micro-credit and/or enterprise training, where such an NGO is not present at the local level, another organisation may take up the implementation role. These other implementers could include:

- *poverty-orientated banks* – specialised credit institutions with their own charters of lending to the poor using a group approach and peer pressure as collateral. Examples include as the Grameen Bank in Bangladesh and SEWA Bank in India;
- *development banks* – as well as operating normal bank facilities, these may have a specialist unit in financial services for

micro-enterprises. Individual loans may be disbursed from a physically decentralised banking system;

- *governments* – usually indirectly through parastatal finance corporations and national banks;
- *affiliate networks* – a village bank run by its members may gain access to lending capital through the affiliate network of a major financial institution;
- *community-based organisations* including self-help groups – if they have the requisite human resource capacity, these organisations may be able to access funds and in turn lend to individual entrepreneurs in groups.

In the absence of a suitable NGO partner, one of these types of organisations may be appropriate as an implementing agency, providing they fit the criteria identified in Section 6, Selecting the Partner Agency. In general, national and commercial banks will need to develop new attitudes, organisational structures, capacities, procedures and financial instruments to respond to the particular needs of micro-credit financing.

The role of the implementing agency is to:

- formulate and design an appropriate credit scheme, in collaboration with other stakeholders;
- take responsibility for the day-to-day operation of the credit scheme;
- manage the loan fund and borrower repayments;
- empower beneficiaries through entrepreneurship, business and management training and ongoing counselling;
- access financial services by either (i) creating innovative linkages with formal financial institutions while remaining outside of them, or (ii) transforming itself

into a formal financial institution, e.g. the Grameen Bank; and

- monitor the scheme through regular reviews with beneficiaries, and report back to the lead agency, funders and other authorities.

Beneficiaries

Beneficiaries can be classified as *direct and indirect beneficiaries*. Direct beneficiaries are the borrowers/loan recipients, while indirect beneficiaries include families and communities who benefit from the use of the loans.

The poor are intended to be the direct beneficiaries of most micro-credit schemes, because they often lack the collateral and security required by commercial banks. Sometimes, because of a lack of education, they may find the paperwork and procedures demanded by lending institutions too complicated and difficult to deal with.

The involvement of the beneficiaries includes:

- creating and running successful micro-enterprises;
- participating in policy dialogue and design of micro-credit schemes;
- forming borrower groups, providing peer support and exerting peer pressure on defaulters;
- forming marketing co-operatives, lobby and pressure groups, and training groups through which they can gain skills and business and counselling services;
- participating in Management Advisory Boards
- developing relationships with banking systems
- developing relationships with local business mentors and becoming apprentices of existing businesses to gain technical and business skills

- advocating and lobbying governments to support micro-enterprise development within their communities.

The intended beneficiaries of a micro-credit scheme should be consulted at all stages:

- choice of credit scheme
- ownership of credit scheme
- levels of service and contribution rates
- operation and supervision of loan repayments
- criteria for receiving loans
- promoting positive attitudes to micro-credit within communities and institutions
- monitoring and accountability.

Secondary Stakeholders

- organisations representing young people, women, disabled people, refugees and street people, and other marginalised groups;
- churches and other religious groups with charitable community activities;
- NGOs and community-based organisations which may not necessarily be involved in

the delivery of micro-credit;

- private sector institutions;
- business communities;
- lobby groups for the poor;
- academic and research institutions; and
- the media.

The roles played by these stakeholders include:

- advocacy and lobbying on behalf of young people;
- publicity and promotion of the scheme;
- serving as mentors and role models for beneficiaries;
- providing supplementary human and financial resources;
- ensuring the accountability and transparency of implementers;
- assisting the sustainability of young entrepreneurs' businesses by buying their products and using their services;
- contributing to national policy dialogue;
- analysing the impact of their actions on young people and micro-credit programmes.

Action Points for the Lead Agency

This section outlines the preliminary steps to be taken by the lead agency (national government, development agency or other organisation) for the implementation of a micro-credit scheme based on the CYCI. Governments may wish to seek the assistance of an international development agency, a regional organisation or other partner to assist in implementing the initiative, in which case many of the steps to be taken may be brokered through such a partner organisation providing appropriate technical assistance.

The CYCI operates at three levels:

1. The initiative level (implemented by the lead agency: a national government, international development agency or other organisation)
2. The programme level (implemented by partner NGO or implementing agency)
3. The project level (implemented by beneficiaries).

Figure 2 shows how these three levels of implementation are interrelated.

At the initiative level, the implementation of a CYCI initiative takes place in five phases:

1. Set-up
2. Selecting the implementing agency
3. Staff and institutional training
4. CYCI programme implementation
5. Monitoring and evaluation.

Phases 1 and 2 are dealt with in this section. *Phases 3, 4 and 5 are touched on here, and discussed in Modules 4, 2 and 3 respectively of the CYCI Toolkit.*

Set-up

There are four main steps in the set-up phase:

1. Develop a Plan of Action
2. Set up institutional arrangements
3. Strengthen the enabling environment
4. Obtain funding.

Step 1: The Plan of Action

It is advisable to develop a Plan of Action for the implementation of a CYCI. The main elements of the Plan of Action are:

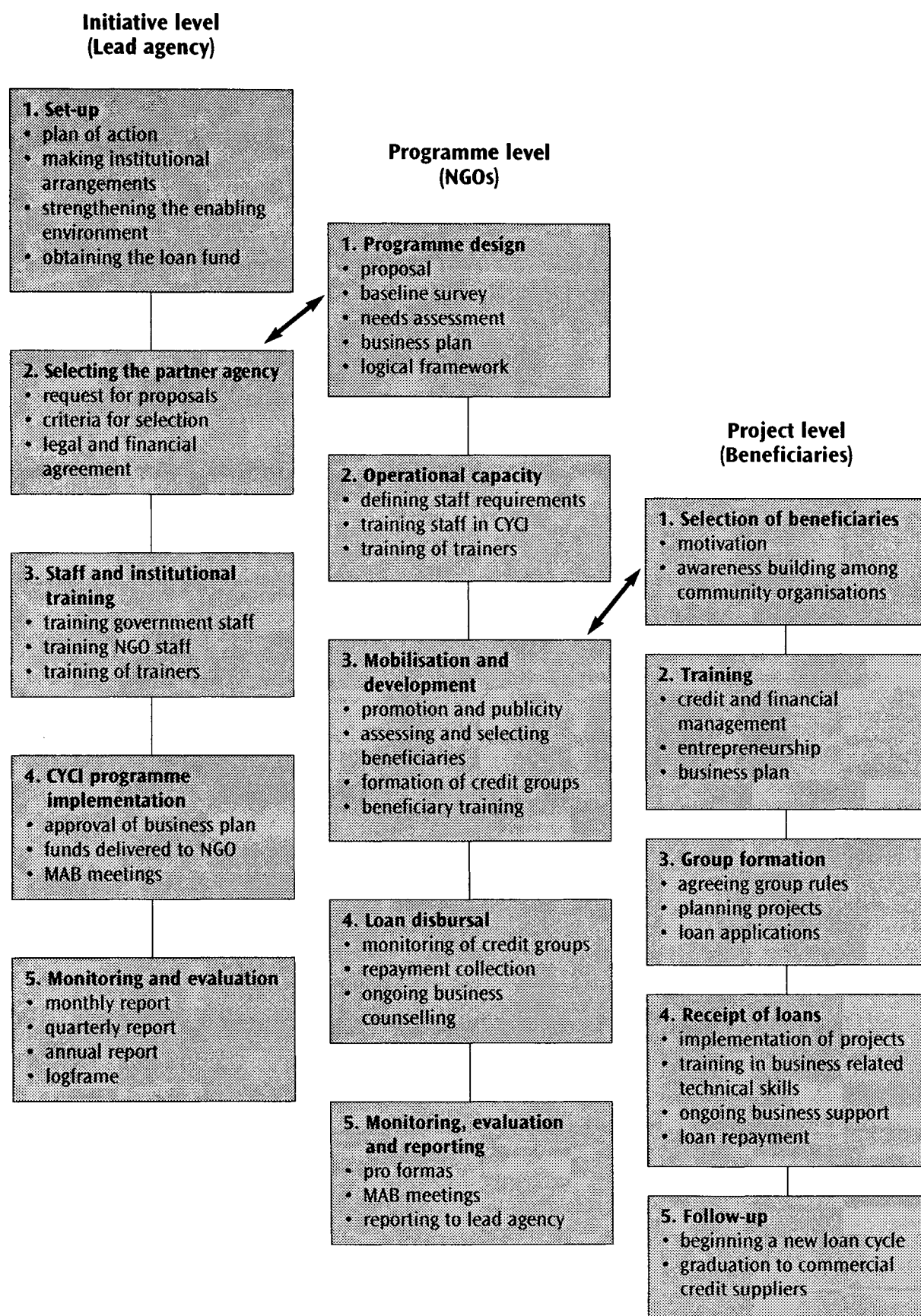
- location(s) in which the CYCI will be implemented
- target groups addressed
- institutional arrangements for implementation
- procedure for selecting the partner NGO
- overall budget and timeframe for the programme.

Step 2: Set up institutional arrangements

The main institutional arrangements of the CYCI are the lead agency, the point of contact, and the Management Advisory Board. If a government, development agency, regional organisation or other partner is assisting the lead agency in implementing the initiative, then that agency also becomes part of the institutional arrangements.

Lead agency and Point of Contact: if the CYCI is being initiated by a national government, the first step to be taken in setting up the institutional arrangements is to establish the lead agency and points of contact. The lead agency may be the Ministry of Youth Affairs

Figure 2: The Commonwealth Youth Credit Initiative Implementation Processes



or a related portfolio, such as Community Development or Agriculture and Rural Development.

Management Advisory Board: The next step is to convene the Management Advisory Board (MAB), consisting of representatives of the key stakeholders. These will be people from the lead agency, the implementing agency(s) the business community, banks, youth institutions and young people themselves. In determining the exact structure of the MAB, flexibility and adapting to local circumstances are recommended. In some circumstances it may be possible for the CYP to provide a representative to the MAB.

The main business of the first meeting of the MAB is to:

- present the CYCI programme
- review the Plan of Action
- determine needs and priorities
- draw up a preliminary list of potential partner NGOs from which the implementing agency(s) will finally be selected.

At subsequent meetings the MAB will review the short list of potential partner agencies and make the final selection. Once a partner NGO is selected as the implementing agency, a senior staff member of the NGO will serve on the MAB.

After that the MAB plays a management and advisory role, supervising, monitoring and evaluating the implementation of the CYCI project cycle. Some members of the MAB may participate in CYCI training programmes in order to deepen their knowledge of how the CYCI works.

Meetings of the MAB should be rotated between the offices of the lead agency, the partner NGO, and localities in which CYCI projects are under way. It is recommended that the Chair of the MAB be elected by the board on a yearly basis.

Step 3: Strengthen the enabling environment

A first condition of the enabling environment for the CYCI is peace, democracy and political stability. Assuming this to be present, the first step in strengthening the enabling environment is to ensure that the requisite political will is present at the highest levels. This will enable other strengthening activities such as the legislative review to take place more easily. A template for advocating for the CYCI is provided at Appendix B.

It is also important to ensure that the legal, policy and regulative environment is conducive to micro-credit. This involves a review of existing legislation, policy statements and regulations to ensure they do not contain constraints to micro-lending. The review should be undertaken by the lead agency in collaboration with the relevant ministries – finance, trade, etc.

A third aspect of the enabling environment is the general ethos, attitude and culture regarding micro-enterprise development. Governments should seek to build an atmosphere of trust, confidence and co-operation, especially with prospective partner NGOs which will implement the programme.

Step 4: Obtaining funding

In some cases, funding may already be allocated by the national government, a bilateral or multilateral donor, or other source. In other cases, application will need to be made to such a source, based on the Plan of Action.

Funds that are needed for the CYCI are of four kinds:

- the loan fund itself
- funds for the day-to-day operation of the programme
- funds for the training of staff and beneficiaries
- funds for programme start-up costs (e.g. expansion of NGO premises).

Where possible, it is recommended that there be more than one source of funding. A programme with several sources of funding has more likelihood of sustainability than one that depends on a single donor (UNDP, 1999a).

Selecting the Implementing Agency

Identifying an appropriate implementing agency is the most important part of the CYCI set-up. Experience has shown that selecting the right partner NGO is critical to the successful implementation of a CYCI.

The selection process has three main steps:

1. Send out request for proposals
2. Select an agency based on the proposals received
3. Sign a legal and financial agreement with the selected agency.

At all times governments and partner NGOs should strive to work together in an atmosphere of trust and confidence. Lines of communication should be kept open and, where possible, government and NGO staff should meet in person, so as to establish and maintain co-operative and smoothly functioning working relations.

Step 1: Send out request for proposals

The lead agency issues requests for proposals to a list of NGOs drawn up from information supplied by NGO umbrella groups, international development agencies, regional organisations, or by the government itself.

The Request for Proposal should outline the broad goals of the initiative, the basic methodology and the specific information being requested. This information includes:

- *Overview of the organisation* – including a mission statement, legal status, brief history, description of services currently provided, relevant previous experience, political affiliations, if any, and links with other organisations
- *Context* – including the political and macro-economic environment, the current economic and social conditions in the proposed area of intervention, including youth unemployment, and the current providers of credit in the area
- *The proposed intervention* – including target group(s), specific goals, promotion and publicity, timeframe, work plan, and anticipated outcomes
- *Operational capacity* – including the current staff numbers, capacity, qualifications and experience, what staff will be needed to implement the programme, what training equipment, resources and assets the organisation has, and proposals to increase staff and upgrade equipment if necessary
- *Proposals for the training programme* – including training of staff to implement the programme and training of beneficiaries
- *Budget and funding* – including start-up costs, operating costs, training costs, capital costs (loan fund), sources of income and funding, and the sustainability target.

Step 2: Select an agency

Based on the proposals received, the most appropriate agency is selected by matching the proposals received against the following selection criteria. The implementing agency should ideally:

- have mission objectives and policies consistent with poverty alleviation goals and should be actively engaged in seeking to improve the status and conditions of marginalised young people, particularly women
- be a legally registered institution with a constitution, memorandum of association, etc.
- have no political affiliations and be sympathetic to the ideals of the Commonwealth

- have an established track record of effectively planning and implementing projects and programmes
- demonstrate mature management skills and considerable levels of sustainability
- have a policy of consulting with beneficiaries in the design of programmes
- have effective outreach capacity to facilitate links and promote a sense of ownership and mutual accountability between the NGO and the beneficiaries of the programme
- have an extensive infrastructure at grass-roots levels to enable hands-on collection of repayments, rapid monitoring, and maximum contact between field staff and beneficiaries
- have sound, transparent accounting procedures for financial review and monitoring, and be able to present audited statements demonstrating their competence in financial management
- have adequate and appropriate staff capable of:
 - sound financial management
 - conducting training, business counselling and field monitoring
 - undertaking evaluations and impact assessments, and regular reporting to funders, government authorities and beneficiaries.

Of course, the lead agency may not be able to find an NGO that matches all these criteria perfectly. A template for assessing the suitability of a potential partner NGO to be the implementing agency of the CYCI is presented at Appendix C of this module.

Step 3: Sign a legal and financial agreement

Once the appropriate implementing agency has been selected, a legal and financial agreement is signed between it and the lead agency. The legal and financial agreement details the

obligations of the implementing agency and those of the lead agency. The agreement consists of the main document and an annex which summarises operational and technical aspects of the programme. The agreement is signed by representatives of both parties and countersigned by witnesses.

A template for the drafting of a legal and financial agreement and annex is included at Appendix D of this module.

Staff and Institutional Training

Implementation of the CYCI requires:

- training of lead agency personnel
- training of staff of the implementing agency
- training of beneficiaries.

Training of lead agency and NGO personnel is likely to include an element of training of trainers, in order to replicate the programme, and in particular to provide training for the programme beneficiaries, which is normally handled by the implementing agency.

(Training is discussed in Module 4 of the Toolkit.)

CYCI Programme Implementation

The lead agency's role is now mainly one of supervision, monitoring and evaluation. Specifically at the implementation stage, the steps to be taken by lead agencies are:

- approval of the implementing agency's business plan
- paying the loan fund to the implementing agency
- organising and attending meetings of the Management Advisory Board
- maintaining strong motivation and a sense of 'ownership' of the programme on the part of the MAB members, implementing

agency and other stakeholders

- maintaining a cohesive, integrated institutional system to support the smooth running of the programme.

The actual implementation of the programme is carried out by the implementing agency. *This is discussed in Modules 2 and 3 of the CYCI Toolkit.*

Monitoring and Evaluation of the Programme

The CYCI includes a comprehensive system for monitoring and evaluation, involving the use of indicators to measure the implementing

agency's performance in implementing the programme, and its impact on target beneficiaries and their communities. *These indicators are discussed in detail in Module 3 of the Toolkit.*

The main instruments for reporting, monitoring and evaluation are:

- monthly report
- quarterly report
- annual report
- logical framework.

These are discussed in Module 3 of the Toolkit.

References and Further Reading

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Appendix A: The CYCI Model¹

Preconditions

Political Support

Full political support from the Governments of those countries wishing to participate in CYCI pilot is an absolute prerequisite for the success of this initiative. Similarly, the active support and approval of district authorities as well as local traditional authorities.

Prevailing Market Economic Conditions

Only within countries where an open economy exists can CYCI be expected to make any unique contribution to the development of viable enterprises established by young people.

No Competing Credit Programmes

CYCI is an initiative designed to bring specially targeted support to young people in areas where no such provisions exist. Accordingly, CYCI schemes should not be established in areas where any alternative programmes are in existence. However, CYCI may complement other schemes which provide only credit and not training or other support.

Target Group/Criteria

Age

The young women and men targeted by CYCI will be within CYP's own agreed age limits of 16² to 29; but special attention should be paid to national legislation and practice relating to the legal position of those under the age of majority.

Means Test

A suitable means test will be devised for each site to ensure that the project participants are drawn from the poor in both rural and urban areas.

Training

All participants will receive training in entrepreneurship development and enterprise skills, including marketing, as a prerequisite to receiving loans. CYP will offer support such as training materials and expertise.

Gender Balance and Equal Opportunities

Young men and women will have equal access to training and loans, regardless of religion, caste, political affiliation, HIV status, literacy, disability or any other characteristic.

Borrower Requirements

Group Self-selection

Participants will work together in groups of five to ten people and will determine the nature of the business idea that they wish to pursue individually or collectively. Group members should not be from the same family. Participants will be encouraged to develop their own group constitution and rules and to decide on the first two borrowers. Formation of groups creates peer pressure, which will promote compliance with project rules, and provide peer support at times of difficulty.

Group members will be expected to open a

¹Appendix A reproduces the original document that presented the CYCI model. Some minor modifications have been made in the light of experience and to reflect good practice as developed in the pilot projects.

²This was subsequently amended to 15.

joint savings account with a savings bank of their choice to encourage savings and to provide security in the event of default.

The training for participants and project staff will catalyse group formation.

Business Plans

All borrowers will be required to complete a basic business plan, which demonstrates that their proposed business is viable and sustainable. This will be a very simple document (in the local language) and participants will receive help in developing their business ideas as part of the training.

Accountability

The borrowers will be made accountable to the project by signing an agreement that they will follow the rules and regulations, and will repay their loans in full to their groups.

Nature of Activities

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

Nature of Loans

Procedures and conditionalities

The nature of the loans is such that income-generating projects that provide self-employment will be the target for start-up funds, while projects that provide employment for others will be the target for scale-up funds. The loans are administered and delivered only if borrowers satisfy CYCI conditions set out by project staff.

Size of loans

CYCI is intended to focus on small-scale enterprises and will seek to deliver loans to as many participants as possible; accordingly

loans will be small. It is anticipated that loans delivered to first-time borrowers during the pilot phase will be between US 50 and US\$100. Once repayment of the loan is complete, the Management Advisory Board may consider loans above US\$250.

An appropriate rate of interest is applied and repayment is expected on a weekly basis within a 52-week schedule. Repayments will consist of interest and part of the capital. In case of default, repayments will be taken from the savings accumulated both in the group fund, and on an individual basis.

Pattern of loan delivery

If the number of borrowers in each group is five, the loan delivery standard format to groups is the 2.2.1 format, where two borrowers are given their loans and monitored for five weeks. If repayment is prompt and other rules and regulations are observed, the next two borrowers are given loans and then further monitoring takes place for five weeks, before the last member of the group receives his/her loan.

Institutional Arrangements

NGO partners

CYCI will be implemented through NGO partners in areas where potential partners are located. The NGO will be responsible for administering the credit facility as well as conducting training of the borrowers.

Fund management will be in the hands of the NGO. The Commonwealth will deposit the fund in a commercial bank. Money collected as repayment and interest will be recycled as second loans or loaned to new borrowers.

Partner NGOs must have no political affiliations and must be sympathetic to the ideals of the Commonwealth.

Management Advisory Board

A Management Advisory Board (MAB) will be

set up to monitor and evaluate CYCI. If the scheme is to involve CYP, the board will include youth representatives, the project supervisor, a CYP Regional Centre staff member, and a representative from the business and Government Ministries.

The MAB will receive reports on the project and the Fund Statement every quarter and report directly to CYP.

CYP

CYCI will not be directly administered by CYP. CYP will provide external monitoring and evaluation, seek funding and disseminate the CYCI model. CYP will also make available training manuals, training expertise, and other support services.

Monitoring will take place at the enterprise, individual and regional levels.

Sustainability

Each CYCI project will be expected to reach a position of sustainability after three years. NGOs to participate in CYCI project will be selected on their ability to attain sustainability of the loan fund.

CYCI will not support enterprises that contribute to the degradation of the environment.

It is expected that participants should eventually be able to access the commercial banking network once they have accumulated sufficient assets/savings and collateral.

Appendix B: Advocating the CYCI

Promoting and advocating the CYCI are necessary to make the initiative work. Some points to bear in mind when seeking to 'sell' the initiative to funders, government decision-makers, NGOs, community leaders and young people themselves are:

Know your audience: different people are interested in CYCI for different reasons. Among the key stakeholders you may need to influence are:

- *government:* Head of Government and Cabinet; Ministries of Youth Affairs, Development, Finance, Women's Affairs, local politicians
- *the finance sector:* the central bank, the development bank commercial banks, credit unions, informal financial institutions
- *beneficiaries:* young women and men, parents, teachers, community leaders
- *NGOs and training institutions:* those working directly and indirectly with young people, micro-credit and/or enterprise development.

Tailor your message to suit your audience: each of the stakeholders mentioned above has a different set of concerns and interests.

Points to Emphasise

- *micro-credit works:* experience has shown that poor people and young people are

'bankable' and can effect their own economic development if credit and business support are available

- *micro-credit is not a universal panacea:* poor communities still need food, water, sanitation, electrical power, infrastructure, health services and education
- *the CYCI offers an integrated package* of credit, training and business support to maximise the probability of success
- *the CYCI builds upon successful approaches* that have worked in the past, including the group savings approach, and implementation through a partner NGO
- *the CYCI emphasises community participation* and a consultative stakeholder approach
- *the CYCI is flexible*, and is designed as a menu of options from which stakeholders may choose the most appropriate to national and local conditions
- *the CYCI has been pilot-tested* in each of the four main regions of the Commonwealth, and offers a synthesis of best practice in enterprise development and provision of micro-credit. However, it is not a prescriptive solution to all the problems that may be encountered in implementing a micro-credit programme. Flexibility and a creative approach to problem solving are essential.

Appendix C: Selecting the Implementing Agency

To what extent (e.g. on a scale of 1 to 5) does the prospective partner agency have:

- mission objectives and policies consistent with the goals of the CYCI? The partnership between the lead agency and the implementing agency should be based on a track record of successful activity in the same areas as the CYCI: youth development, enterprise development and micro-credit provision.
- a solid reputation as a reliable and effective organisation, with a sound legal status and constitution, a solid financial footing and honest and efficient staff, and without partisan political affiliations? The partner agency should be able to provide written references or testimonials, and be well spoken of in the communities in which it operates.
- mature management skills and considerable levels of sustainability?
- a policy of consulting with beneficiaries in the design of programmes?
- effective outreach capacity to facilitate links and promote a sense of ownership and mutual accountability between the NGO and the beneficiaries of the programme?
- an extensive infrastructure at grassroots levels to enable hands-on collection of repayments, rapid monitoring, and maximum contact between field staff and

beneficiaries?

- adequate, transparent accounting procedures for financial review and monitoring?
- adequate and appropriate staff capable of:
 - sound financial management
 - conducting training, business counselling and field monitoring
 - undertaking evaluations and impact assessments, and regular reporting to the lead agency, funders, and beneficiaries.

In seeking to establish this information, it is advisable to:

- meet and talk to the management and staff of the NGO as soon as possible
- visit their premises and observe their management style, staff morale, rapport with clients, day-to-day work practices and attitudes
- ask to see financial audits or accounts to determine the organisation's financial standing and financial management capabilities
- talk to clients/beneficiaries/communities the organisation has assisted, and hear how it is regarded by the people it claims to be serving.

Appendix D: Legal and Financial Agreement

There follows a template for the drawing up of a legal agreement between the lead agency and the implementing agency of the CYCI. This template assumes that the lead agency is a ministry within a national government, and

that 'Commonwealth Youth Credit Initiative' is the name of the programme being implemented. If this is not the case, the template can be modified accordingly.

**AN AGREEMENT BETWEEN
[NAME OF IMPLEMENTING AGENCY]
AND
THE GOVERNMENT OF [COUNTRY],
MINISTRY OF [LEAD AGENCY]
REGARDING THE IMPLEMENTATION OF THE
COMMONWEALTH YOUTH CREDIT INITIATIVE IN
[COUNTRY]**

WHEREAS the Government of [country] has the intention to implement a programme to provide credit to young people in [country], known as the Commonwealth Youth Credit Initiative (the CYCI) and

WHEREAS [name of implementing agency] ("IA") possesses expertise and resources which would assist the Government of [country], Ministry of [lead agency] in implementing the CYCI in [country].

THEREFORE [IA] and the Government of [country], Ministry of [lead agency] ("the Parties") agree to implement the CYCI on the following terms:

1.0 OBLIGATIONS OF [NAME OF IMPLEMENTING AGENCY]

[implementing agency] will:

1.1 Establish a facility for the extension of credit in accordance with and subject to the Project Specifics set out in the attached Annex 1, which shall form part of this agreement.

1.2 Subject to clause 1.7, use

- (a) funds received under clauses 2.1 and 2.2;
- (b) loans repaid by borrowers and
- (c) all development fund paid by borrowers on the loan amount and any other earnings received in respect of the funds and loans referred to in paragraphs (a) and (b) above,

solely as credit to be extended in accordance with clause 1.1. Title to these monies shall not vest in [IA].

1.3 Be liable to pay to the Government of [country], Ministry of [lead agency] on demand a sum or sums equalling.

- (a) any extension of credit made not in accordance with clause 1.2;
- (b) subject to clause 1.7, any funds which on termination of this agreement are not at that time disbursed in accordance with clause 1.2 and which comprise:
 - (i) funds received under clause 2.1 or 2.2;
 - (ii) loans repaid by borrowers; and

- (iii) Development fund paid by borrowers on the loan amount and any other earnings received in respect of the funds and loans referred to in subparagraphs (i) and (ii) above;

and

- (c) bad debts exceeding 25% of total credit extended

For the purpose of paragraph (c) of this clause:

- (i) 'Bad debts' means all credit extended in accordance with clause 1.2 which has not been repaid in accordance with the terms on which it has been extended, and
- (ii) 'Total credit extended' means all credit which is due to be repaid at the same time as the bad debts (as defined).

1.4 Ensure that it complies with local laws in performing its obligations under the agreement.

1.5 Appoint and manage staff to perform its obligations under this agreement in accordance with local employment laws and practices.

1.6 Ensure that all:

- (a) funds received under clause 2.1 or 2.2;
- (b) loans repaid by borrowers, and
- (c) Development fund paid by borrowers on the loan amount and any other earnings received in respect of the funds and loans referred to in paragraphs (a) and (b) above

are deposited in an interest bearing account or accounts operated solely for the purpose of receiving and disbursing such monies. Any account opened in accordance with this clause shall refer in its title to the CYCI.

1.7 Be entitled to use all the interest and other earnings referred to in clause 1.6 (c) to defray any expense incurred in carrying out its obligations under this agreement or for any other purpose it sees fit.

1.8 Ensure that all cheques drawn on or other withdrawals made from, the accounts or accounts referred to in clause 1.6 are countersigned (in the case of a cheque) or authorised (in case of other withdrawals) by an authorised representative of the Government of [country], Ministry of [lead agency]. This clause shall not apply to cheques or withdrawals in respect of a sum less than \$US50.

1.9 Ensure that all expenditures from the account or accounts referred to in clause 1.6 are properly accounted for and monitored.

1.10 Ensure that full and up to date financial records are kept detailing all income accruing to and expenditure from, the account or accounts referred to in clause 1.6. The Government of [country], Ministry of [lead agency] shall have access to these records on reasonable notice.

1.11 Provide quarterly financial reports to the Government of [country], Ministry of [lead agency] detailing all income accruing to, and expenditure from, the account or accounts referred to in clause 1.6.

1.12 Provide full audited account to the Government of [country], Ministry of [lead agency] annually.

- 1.13 Provide progress and implementation reports to the Government of [country], Ministry of [lead agency] twice a year in accordance with monitoring criteria to be prescribed by the Government of [country] Ministry of [lead agency].

2.0 OBLIGATIONS OF THE Government of [country], MINISTRY OF [LEAD AGENCY]

The Government of [country], Ministry of [lead agency] will:

- 2.1 Pay [funding amount] to [IA] to enable it to perform its duties under this agreement.
- 2.2 At a time or time after the payment is made under clause 2.1, pay to [IA] such further sum or sums as the parties agree is or are necessary for the [IA] to perform its obligations under this agreement, up to a maximum total of [supplementary funding amount]. for each year that this agreement is in force. This amount and timing of each payment or payments will be agreed from time to time between the parties.
- 2.3 Provide technical support to the [IA] in the form of technical expertise and other non-financial resources, to be agreed between the parties.

3.0 Agency Excluded

For the avoidance of doubt, the [IA] is not acting as agent for the Government of [country], Ministry of [lead agency], and shall not in any way represent itself to third parties as doing so, in carrying out its obligations under this agreement.

4.0 Indemnity

- 4.1 [IA] shall insure itself against all actions, claims demands, liabilities damages, cost and expenses arising out of or in respect of damage to property or other loss, or personal injury to or death of any person, which arises as a direct or indirect result of the performance or non-performance by [IA] of this agreement.

5 Provision for Modification of this Contract

The agreement may be reviewed by the parties every twelve months or as may be necessary.

6. Arbitration

The parties shall endeavour to settle by negotiation any dispute which arises in connection with this agreement. If negotiation fails, the dispute shall be referred for arbitration in accordance with [insert name of appropriate arbitration statute] which forms a part of this agreement.

7.0 Force Majeure

- 7.1 If either party is unable to perform the contract or delayed in the performance of the contract due to Force Majeure, that party shall, as soon as practicable and in every case within one month, notify the other party. The Party notified may, in its discretion, suspend or terminate the contract.

7.2 Neither Party shall be liable to the other for any breach or non-performance of its obligations under this agreement or for losses or damages sustained by the other party where such breach or non-performance of the agreement is caused by Force Majeure.

8.0 Applicable Law

This agreement is governed by, and shall be construed in accordance with the Laws of [country].

9.0 Duration

9.1 The agreement shall commence on [starting date] and expire on [termination date]. Expiry shall not affect any rights or obligations conferred or incurred under the agreement while it is in force.

9.2 The agreement can be renewed by either party upon giving the other party one month notice before the expiry date.

10. Whole Agreement

The agreement, including Annexes I and II and the criteria to be prescribed under clause 1.13, shall constitute the whole agreement.

11. Termination

Either Party may suspend or terminate this agreement by giving six months notice in writing without affecting any rights conferred or obligations incurred while the contract is in force.

IN WITNESS HEREOF THE HANDS OF THE PARTIES ARE SET ON THE DAY AND YEAR FIRST BEFORE WRITTEN.

SIGNED:..... DATE:.....

POSITION:.....

A duly authorised representative of Government of [country], Ministry of [lead agency].

SIGNED:..... DATE:.....

POSITION:.....

A duly authorised representative of [implementing agency]

ANNEX I: PROJECT SPECIFICS AS REFERRED TO IN CLAUSE 1.1 OF THE AGREEMENT

1. Borrower Lending Criteria

(i) *Age of borrowers*

16–29 years, with preference given to those under 24. Special attention will need to be paid to national legislation and practice relating to the legal position of those under the age of majority.

(ii) *Means test*

No access to credit or other capital from existing sources, in accordance with criteria to be determined by the Parties prior to any transfer of funds under clause 2.1 of the agreement.

(iii) *References and assessment*

Credible references, either oral or written, regarding the borrower's suitability and previous relevant experience.

(iv) *Access and actively seek to achieve a non-discriminatory gender balance*

Access to funds shall be provided regardless of religion, political affiliation, socio-economic status, HIV status, literacy, or disability.

(v) *Location*

Living within the project area, such area to be determined by the Parties prior to any transfer of funds under clause 2.1 of the agreement.

(vi) *Lending to individuals only, who must be part of group*

Lending shall be to individuals, who may only borrow as members of a group. The group must comprise five individuals, and have cohesion and a sense of purpose. No direct incentive or encouragement to be given to formation of groups.

(vii) *Business plans*

Individual borrower must have completed a basic business plan, oral or written, which demonstrates that proposed business is sustainable and which contains terms as to repayments.

(viii) *Nature of activities*

Business activities must be non-exploitative and environmentally sustainable, lawful, and not contrary to the principles of the Commonwealth embodied in the Harare Declaration of 1991.

Preference to income-generating projects that provide self-employment

2. Lending Procedure

(i) Size (upper and lower limits)

With a range US\$50-500. The loan must be large enough to be of effective use to the borrower, but small enough for him/her to manage the repayments within the intended time schedule.

(ii) Pattern of delivery to individual members of groups

Two borrowers in a group to be given their loans and monitored for five weeks. If repayment is prompt and in accordance with the terms on which the loan is made, then the next two borrowers in the group are to be given loans. Monitoring will continue for another five weeks before the last member of the group is given his/her loan.

(iii) Lump sum loans

Preferable to deliver loan as a lump sum.

(iv) Savings scheme

Borrowers to be required to save money on a regular basis.

[Implementing agency] will ensure that these savings are deposited on group deposit in a safe commercial bank which pays a competitive rate of interest, will assess the level of savings insurance that is available and will take all necessary action to reduce the risk of loss of savings if the commercial bank becomes distressed.

3. Terms of Loan Repayment

(i) Repayment schedule

Loan terms not to exceed 52 weeks. The precise length of the term will vary according to the size of the loan and the ability of the business to repay the loan.

Repayments should be weekly and calculated and agreed with the borrower. Repayments must be frequent enough to facilitate effective monitoring and to allow sufficient capital to remain in the business for operating expenses.

(ii) Accountability of borrowers

Before any funds are extended to them, borrowers must sign an agreement that they will repay their loans in full in accordance with the terms on which the loan is made. Individuals are to be jointly and severally liable for loans made to all members of the same group.

4. Further Criteria and Conditions for Lending

The Parties may from time to time agree upon such further conditions and criteria for lending as appear necessary for the effective implementation of the agreement.

Appendix E: Some Facts about Micro-credit

1. Micro-credit is increasingly popular as a means of alleviating poverty

The potential contribution of micro-credit to poverty alleviation has been officially recognised by development practitioners and donors alike and is receiving attention at the highest financial and political levels. In February 1997, the World Bank convened a Micro-credit Summit, which pledged to raise US\$20 billion to reach 100 million poor people, using the NGO style of delivery, which is also the basis of the CYCI.

Poor people are as endowed with entrepreneurial and creative skills as anybody else, but have often been under-employed for lack of access to land and other productive resources. By providing small loans to assist them in exploring and developing their skills and engaging in productive micro-enterprises, micro-credit generates employment and incomes, and contributes to national development goals. Successful micro-credit schemes include the Grameen Bank in Bangladesh, SEWA in India, ACCION in Latin America, KREP in Kenya, PRIDE Africa, and Opportunity Trust, amongst many others (Buelcher, 1994).

2. Micro-credit empowers those to whom it is directed

Micro-credit can transform the position of poor people from that of being recipients of welfare and spectators in the development process to participants and actors with the ability to shape their own development processes. Where the poor have been empowered in this way, they have demonstrated their ability to organise themselves into marketing groups, form lobbying and pressure groups and improve their bargaining power.

Case studies carried out by various aid agencies (the CYP, the Grameen Bank, BRAC, KREP, Opportunity Trust and Christian Aid amongst many others) in Asia, Africa and Latin America indicate the benefits that micro-credit have brought to poor people. A comparison of the borrowers with non-borrowing households has shown that the former have clearly benefited from the loan schemes (Bundell, 1997). Women borrowers have increased their status and decision-making roles since their transformation from perceived as dependents. In India, women borrowers have reported that they can now go to the market and provide for their families as well as save for a rainy day. This is also thought to bring family stability (ICECD, 1997).

3. Lending to the poor is not a new concept

In many countries, traditional money-lenders and group savings schemes of various kinds have for a long time provided the poor with financial resources. However, banks have often lent money at high interest rates, or in excessively large quantities that made the repayments beyond the means of all but the most resourceful entrepreneurs. Or they have insisted on collateral and security, which the poor could not provide. Thus, the poor have sometimes been labelled as an 'unbankable', a risky target group left to rely on their own means or be exploited by moneylenders.

However, the experiences of NGOs in the last decade have demonstrated that the poor can successfully use small loans to earn an income and are prompt repayers. For example, Opportunity Trust records a repayment rate of 95 per cent. The Grameen Bank in Bangladesh, one of the best-known micro-credit institutions, started as an NGO and has since graduated to the status of bank.

4. Micro-credit works best when it is delivered by community-based NGOs

When governments and financial institutions have lent money to the poor, there have been problems of low repayment rates, excessively high administrative costs and ineffectual monitoring. Government-subsidised loans, especially in the agriculture sector, were often viewed as hand-outs for which there was no need to pay back.

The successes that community-based NGOs have enjoyed in reaching the poor are due to factors such as proximity, trust, commitment, client participation, flexibility and responsiveness. These provisions have made traditional collateral unnecessary. Other key elements that appear to promote the success of loan schemes to the poor include cutting the loan processing time, reducing paperwork to a minimum, simplifying application forms and having a network of loan collectors who are themselves part of a group savings scheme (Buechler, 1995).

5. Micro-credit works for enterprises at various stages of development

As well as stimulating the development of new enterprises and industries, micro-credit also serves to strengthen and consolidate existing ones. Studies on household and rural economies have recognised the significant role played by off-season/off-farm incomes in promoting the economic independence and prosperity of rural farming communities. These incomes are derived mainly from seasonal enterprises which may, in many cases, benefit from low-cost, accessible credit to ensure their viability throughout the seasonal cycle.

Limitations of Micro-credit

1. Micro-credit is not a universal panacea for eliminating poverty

While micro-credit is certainly an effective tool in empowering the poor, it cannot by itself win the poverty war. Its delivery should therefore not be seen as an end in itself, but rather as one of

many ways of helping people escape the poverty circle. The poor have a range of needs (health, training and education, water and other infrastructure) which also need to be addressed, and which need to be paid for (Bundell, 1997). Hence, micro-credit should be administered alongside such poverty alleviation measures as health, education and other programmes.

The impact of micro-credit on the poor is enhanced where their other needs have also been met. Healthy, educated people are more likely to establish profitable and sustainable businesses, generating a high return on loans, than unhealthy, uneducated people. Therefore, it is advised that resources earmarked for other key development programmes should not be diverted to micro-credit, but rather be maintained and complemented with micro-credit interventions to promote economic development.

2. Micro-enterprises also have limitations

Micro-enterprises – the primary beneficiaries of micro-credit – themselves have various limitations. They generally have a small production base and poor purchasing power, and operate beyond the threshold of government regulation and assistance. Where many micro-enterprises produce the same goods, for the same price, the problem of market saturation may arise. In such situations, micro-credit programmes alone may result in damage by stimulating further price competition without stimulating demand. Possible solutions may include finding ways to diversify product lines and improve infrastructure so that goods produced by local micro-enterprises can be more widely distributed. These solutions are not found simply through the provision of credit.

3. Micro-credit is not the only way to create employment

It is sometimes argued that micro-enterprises provide only self-employment and do not

generate significant employment, as is the case with large companies. This argument is valid in situations where the establishment of large companies is feasible but has not taken place, whether because of government regulations or other reasons. However, in the majority of areas where micro-credit has been introduced, there has never been any notable interest from large companies (for various reasons including lack of infrastructure) and the only feasible option available to the poor is self-employment.

There are certainly situations in which large companies can have a much greater impact than micro-credit on unemployment. However, experience suggests that up to 40 per cent of micro-enterprises may in fact create employment opportunities for at least two people. Thus, the relative merits of micro-enterprise versus large company investment need to be weighed in each particular situation

to ensure maximum benefit to the local community. It should also be borne in mind that, for the poor, the goal of increased productivity and income is as important as the goal of employment creation. This should also be reflected in the evaluation of micro-credit schemes.

Nevertheless, not all poor people are born entrepreneurs. Nor will the environment in which the poor find themselves necessarily be one in which a wide range of profitable small-scale entrepreneurial activities are possible. Therefore micro-credit does not obviate the need to create wage employment, as self-employment is not an option for all poor people. Many will certainly continue to rely on wage employment for their livelihood. This suggests that governments are well advised to continue to invest in employment creation programmes alongside micro-credit interventions.

**THE COMMONWEALTH YOUTH CREDIT
INITIATIVE TOOLKIT**

MODULE 2

**Implementation
Guidelines**

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Twelve Steps to Implementing the Commonwealth Youth Credit Initiative

Scope and Objectives of this Module

The implementing agency manages the day-to-day running of the Commonwealth Youth Credit Initiative (CYCI at programme level. It is normally a non-governmental organisation (NGO) experienced in micro-credit delivery, working in collaboration with a lead agency, such as national government or international development agency.

This second module of the CYCI Toolkit is for use by the implementing agency. It presents an overview of the CYCI programme cycle and the 12 steps to be taken in the early phases. The later phases, concerned with training, loan disbursement and recollection, and monitoring, evaluation and reporting, are dealt with in subsequent modules.

The Role of Implementing Agency

The CYCI is implemented at three levels:

- by a *lead agency* such as a national government or development agency at the initiative level;
- by the *implementing agency* or partner NGO at the programme level; and
- by *beneficiaries* themselves at the project level. Figure 1 shows how these three levels are interrelated.

The implementing agency – i.e. partner NGO or lender – delivers loans to the client beneficiaries. It contacts beneficiaries directly through a network of field officers. In addition, the implementing agency provides basic business and management training to the borrowers. This training may either be supplied directly by the implementing agency, or indirectly through a training institute or similar body.

Specifically, the implementing agency:

- formulates and designs an appropriate credit scheme, in collaboration with other stakeholders;
- takes responsibility for the day-to-day operation of the credit scheme;
- manages the loan fund and borrower repayments;
- empowers beneficiaries through entrepreneurship, business and management training and ongoing counselling;
- accesses financial services by either (1) creating innovative linkages with formal financial institutions while remaining outside of them or (2) transforming itself into a formal financial institution;
- monitors the scheme through regular reviews with beneficiaries, and reports back to funders and other authorities.

Overview of the CYCI Programme Implementation Cycle

The five phases of the CYCI Programme Implementation Cycle are shown in Figure 2.

Phases 1 to 3, Programme Design, Building Operational Capacity, and Mobilisation and Development, are dealt with in this module. *Training, which forms part of the steps included in phases 2 and 3, is discussed in greater detail in Module 4 of the CYCI Toolkit.*

Phases 4 and 5, Loan Disbursement and Payment Collection, and Monitoring and Evaluation are discussed in Module 3 of the CYCI Toolkit.

Figure 1: The CYCI Implementation Processes

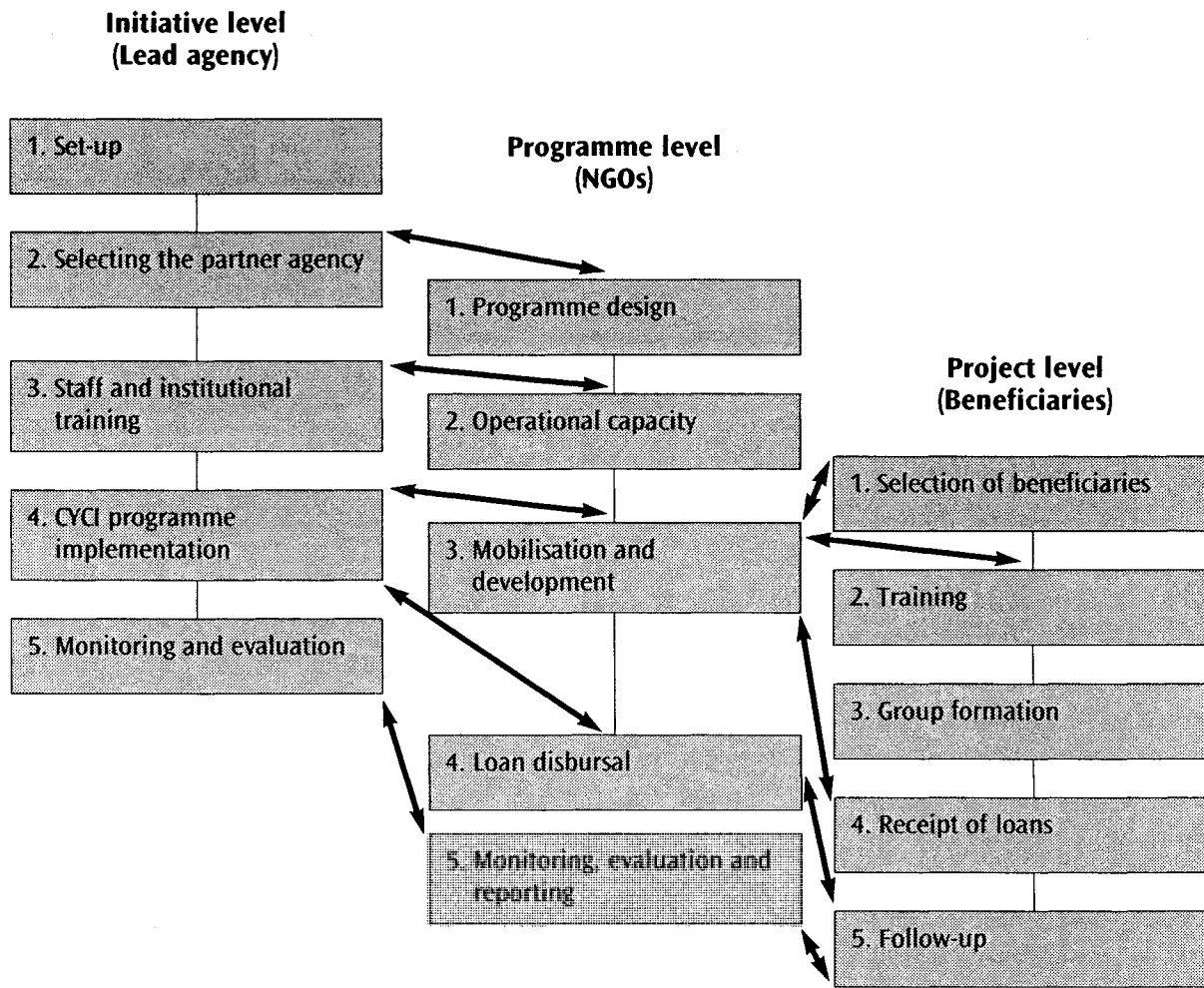
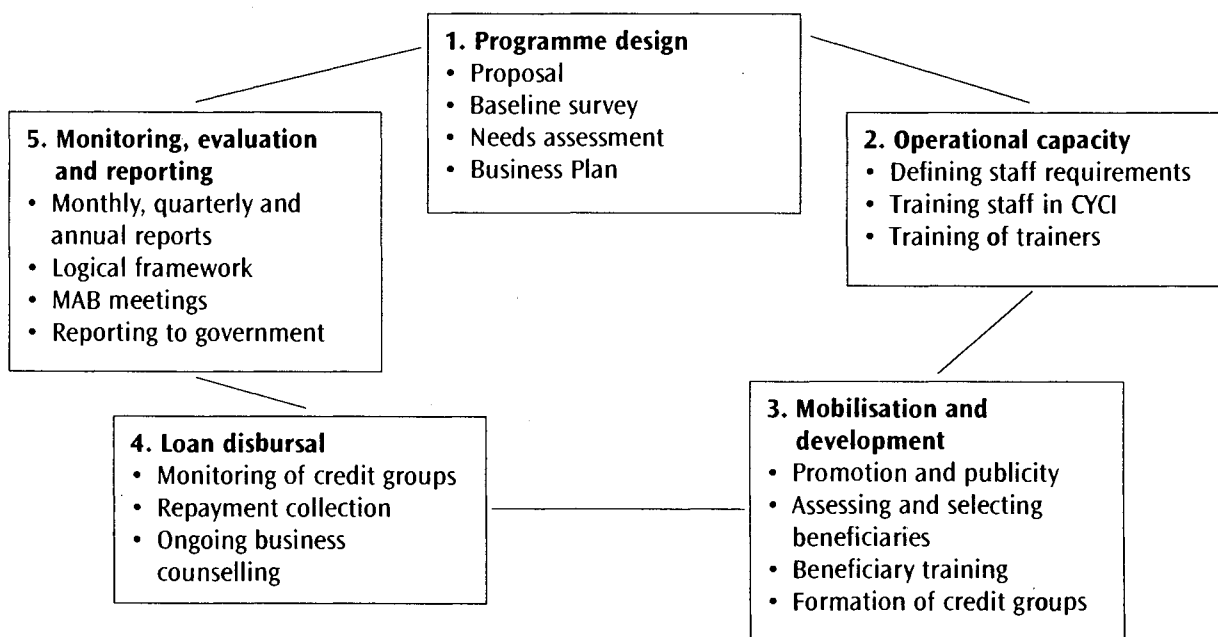


Figure 2: The CYCI Programme Implementation Cycle



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

1. Executive Summary 2. Overview of Organisation • 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 3. Context of Proposal • 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	4. Business Plan • Proposed intervention – Overall objective – Specific goals – Target Group(s) – Promotion and Publicity – Timeframe – Work Plan – Anticipated outcomes • Operational capacity – current staff capacity – what staff will be needed to implement the programme – proposal to increase staff if necessary • Training programme – of staff to implement the programme – of beneficiaries • Budget and funding – start-up costs – operating costs – training costs – capital costs (loan fund) – sources of income and funding – sustainability target Monitoring, evaluation and reporting – 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.

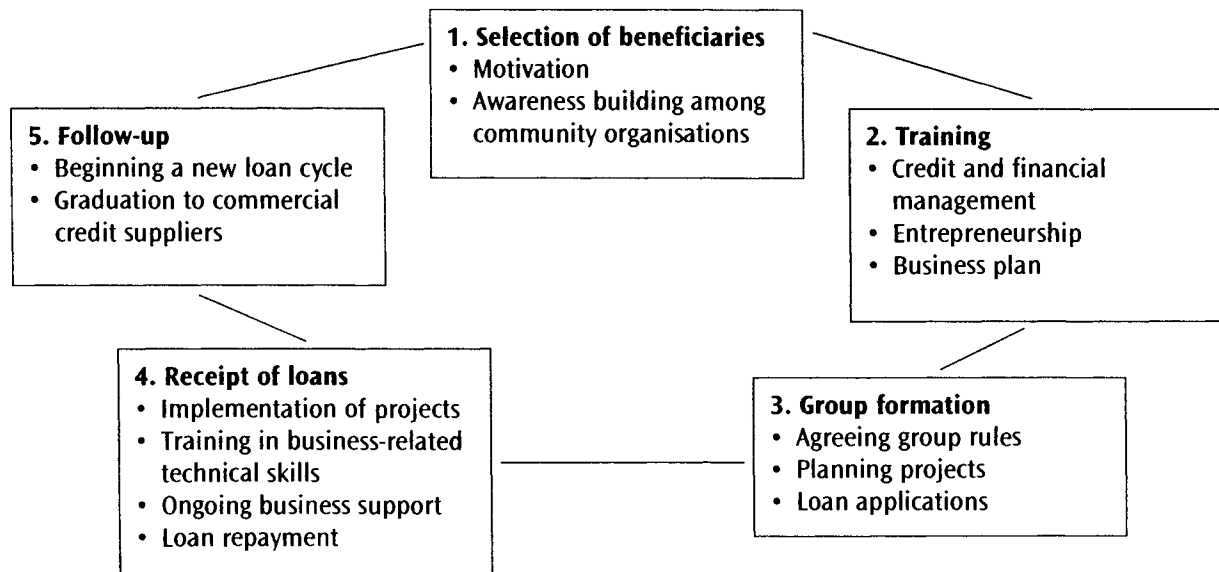
These are presented in greater detail in the remainder of this module. The business plan should show how the loan

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)	activities on local and regional environment
Economic profile:	Infrastructure and facilities:
• 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	• hospitals/health clinics • banks • post offices • roads • transportation
Gender differentials:	Local administrative and social institutions:
• in social roles • in economic activities • in levels of employment, income, education, literacy, health • in local by-laws, regulations and customs	• local and municipal government authorities • policing and security • traditional leaders and meetings • community activities
Environmental factors:	Local media and communications:
• strengths, weaknesses, opportunities and threats in the natural environment • impact of current and potential economic	• 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

Phase 2. Building Operational Capacity

The CYCI implementing agency will have been selected on the basis of its suitability to deliver the programme, including its operational capacity. In all cases, staff will require basic training on the workings of the CYCI as outlined above.

Step 7. Staff Training Requirements

The CYCI implementing agency requires a staff with a particular set of skills and knowledge, all of which are necessary for the successful implementation of the programme. The implementing agency's staff require:

- A working knowledge of the CYCI, including:
 - goals and objectives
 - basic terms and concepts
 - key defining features
 - key stakeholders
 - institutional arrangements
 - structures and procedures
- financial management skills for the management of the loan fund, including:
 - negotiations with formal financial institutions, e.g. commercial banks
 - screening and approval of loan applications
 - setting of interest rates for loans and savings
 - determination of loan sizes and repayment schedules
 - loan disbursement and repayment collection
- the capacity to provide training to the beneficiaries in such areas as:

- formation and maintenance of credit groups
- financial management of loans and businesses
- entrepreneurship and business skills
- marketing
- personal development and motivation
- the capacity to enter the areas where the communities of beneficiaries are located and carry out:
 - baseline surveys and participatory rural appraisal
 - promotion and marketing of the credit programme
 - recruitment of potential beneficiaries
 - business counselling
 - ongoing mentorship and guidance
 - assistance in developing the technical skills of beneficiaries
 - monitoring, evaluation and reporting
- language and communications skills
 - in areas where a range of different local languages are spoken
 - in areas where literacy rates are low and communication with beneficiaries must be carried out verbally or using visual signs, maps, models, etc.

Step 8. Staff Roles and Responsibilities

The following staff roles and functions are key to the implementation of a micro-credit scheme:³

³This section draws on UNDP (1997).

Programme manager

The programme manager is a senior staff member of the NGO, a university graduate with considerable experience in project management. The programme manager's responsibilities include:

- providing overall leadership and guidance for the programme
- hiring and supervising programme staff
- overseeing finances and programme administration
- establishing linkages with donors, banks and other organisations
- supervising programme development, policies and guidelines
- being a member of the CYCI Management Advisory Board.

Loan Supervisor

The loan supervisor is responsible for the day-to-day running of the operation, including:

- designing and implementing field activities
- hiring and supervising field officers
- reviewing loan applications and approving loans
- managing loan disbursement and repayment collections (in collaboration with field officers and the book-keeper)
- meeting regularly with field officers and other programme staff.

Field Officers

Field officers are responsible for the implementation of the programme at the grassroots level. They are normally youth and development workers experienced in motivating, counselling and organising young people. They should be fluent in local languages and should have extensive knowledge of the communities where

beneficiaries are located. However, they should not be involved in processing loans in their own home communities.

The responsibilities of the field officer include:

- promoting and developing the programme in the target communities
- assisting in the formation and training of credit groups
- assisting beneficiaries in making loan applications
- collecting loan repayments and following up on late payments/defaulters
- providing business counselling, motivation and ongoing support to beneficiaries.

Trainers

The implementing agency needs to have staff that can deliver training to programme staff, field officers and beneficiary groups. Trainers should be able to:

- train programme staff, field officers and programme beneficiaries in the workings of the CYCI;
- train field officers in entrepreneurship development, business counselling and motivation;
- train beneficiaries in financial management, entrepreneurship, business skills, marketing, personal development and self-esteem.

In some cases, trainers may have to impart technical skills relating to the business activities of the beneficiaries, for example, operation of a sewing machine, techniques of food preservation, or use of new agricultural technology.

Support staff

Support staff may include an administrative assistant, secretary and receptionist. Support staff, who should speak the local languages,

are responsible for:

- assisting in communications between the loan supervisor and the field officers
- general administrative duties.

Depending on the size of the implementing agency, many of the roles and responsibilities

outlined above can be shared between several staff members, or conversely, combined so that two roles are undertaken by one individual. For example, in a small NGO the programme manager will also serve as the loan supervisor and field officers may also be trainers.

Phase 3. Mobilisation and Development

The mobilisation and development phase of a CYCI programme comprises four elements:

- Promoting and publicising the scheme
- Assessment and selection of beneficiaries
- Beneficiary training
- Formation of beneficiary groups.

These four elements are dealt with in this section. *Beneficiary training, enterprise development and formation of beneficiary groups are also discussed in Module 4 of the CYCI Toolkit.*

Step 9. Promoting and Publicising the Scheme

Once the programme has been designed and approved, promote the scheme in the target communities where it is to be implemented. There are three stages:

- preparation
- field visits
- getting support from other agencies.

Preparation

Familiarise all staff with the programme, design a communications plan and prepare the brochures, posters, and visual aids to be used to promote the programme in the field.

Staff familiarisation with the programme can be handled through a half-day, one-day or longer workshop, depending on the staff's level of involvement with the programme design. Keep field officers closely involved in the whole process of programme design, including baseline surveys and needs assessment. If they are not – for example, because they are newly

hired staff – familiarise them thoroughly with all aspects of the programme. This can be achieved as part of the general staff training component of the CYCI (*see Module 4 of the Toolkit*) or dealt with separately as specific preparation for the promotion of the programme.

A communications plan is a useful tool in promoting the programme and should include:

- dates, times and locations of planned field visits
- names of community leaders, representatives of youth groups and other individuals/groups who should be contacted
- promotional materials to be developed
- local media that can be of use in promotional activities.

Much of the local information used to build the communications plan should be accessible, together with the data gathered during the baseline survey. For example, informants who were helpful during the baseline survey, and those individuals or groups that assisted in the programme design, should be contacted during the field visits.

Flyers, brochures, posters and visual aids are essential tools in promoting the scheme. Flyers, in the local language, should explain the programme and invite potential beneficiaries to attend a public information meeting. In areas of low literacy levels or where a range of local languages are used, visual aids should be designed which represent the scheme by way of maps, charts, diagrams or models. (Some visual presentations of CYCI are included in Appendix B. *See also Module 4, Training Resources, for further examples of how the programme can be promoted.*) Where available,

video is a good medium for explaining a CYCI scheme.

Field Visits

The promotion of the scheme can be accomplished in two field visits (UNDP, 1997).

During the initial visit, make contact with the key community leaders, youth representatives and informants identified in the communications plan. Provide them with general information about the programme, gather support among community leaders, and distribute flyers, posters, etc. Contact local media. Agree a time, place and date for a second meeting, and invite potential beneficiaries to attend.

During the second visit, hold an information workshop. Organise it in a public assembly area and provide potential beneficiaries and other stakeholders with a more detailed explanation of the programme, the rules for joining, what is expected of participants, and so on. Materials for this presentation are included in Module 3 of the Toolkit. If a video-player is available, show the information video at this workshop.

Invite participants to consider whether they wish to join the programme and, if so, to complete an application form.

Getting Support from other Agencies

In order to institutionalise the programme, work with commercial banks, and other agencies and organisations that may have a stake in the scheme. The implementing agency usually requires the services of a local bank in order to deposit the loan fund, and to make withdrawals for loans and other outgoings. The beneficiaries also require group bank accounts in which to deposit loans and group savings. Individual beneficiaries also require individual bank accounts. The implementing agency should meet with commercial banks to apprise them of the programme and its approach and enlist their support. If possible, invite

representatives of commercial banks to the information workshop described above. If not, make separate arrangements for these meetings.

There may be other NGOs working in the area whose collaboration may be sought, or with whom it would be useful to set up communications and informal linkages. Where possible, invite these agencies to the information workshop.

Step 10. Assessing and Selecting Beneficiaries

Select beneficiaries to participate in the CYCI through a two-stage process:

- completion and assessment of application forms; and
- personal interviews.

The field officer identifies potential beneficiaries at the information workshop and provides them with application forms. S/he arranges a subsequent field visit in order to meet and have informal discussions with potential beneficiaries. Where possible, make appointments for these discussions at the information workshop. However, if there are any potential beneficiaries who cannot attend the information workshop allow during the discussion visit to meet with them. A sample beneficiary application form is provided in Appendix A.

These informal discussions provide the field officer with an opportunity to get to know potential beneficiaries, establish a rapport, and review the application form, if one has been filled out, and clarify any answers on the form that are incomplete or ambiguous. This is also an opportunity for the field officer to assist potential beneficiaries who are illiterate or have difficulty filling in the application form.

Based on what s/he learns in these discussions, the field officer writes a brief report and appends it to the application form. The

Figure 7: A Typical Breakdown of Numbers in the Selection Process

	Women	Men	Total
Number of application forms distributed	125	125	250
Number of completed application forms received	90	110	200
Number of applicants called for interview	70	70	140
Number of applicants finally selected	35	35	70

Source: ICECD

completed forms are returned to the implementing agency, the applications are assessed and a selected number of applicants are called for interview.

In determining how many application forms to hand out, reference should be made to the planned number of beneficiaries. Field officers should distribute some 3 to 4 times that number of forms, so that a wide range of applications is received. In terms of the numbers of applications processed, a typical breakdown for one CYCI programme in a specific community or area might be as shown in Figure 7.

Criteria for assessing applications

Beneficiary applications are assessed on the basis of the application form, the field officer's comments and the interview. See template for assessing applications at F.

Questions that should guide the selection include the following:

- **does the applicant have a genuine need for the full package of services that the CYCI offers?** (Some applicants may already have thriving businesses and the necessary business skills, and only be interested in low-cost credit. Others may already have access to credit via commercial banks, or have a level of prosperity which provides them with a higher standard of living than that of the target beneficiaries.)
- **does the applicant have a clear understanding of the principles and practicalities of the programme,** including

group formation, group savings and peer support/peer pressure?

- **is the applicant fully aware of the responsibilities of beneficiaries,** including that of repaying the loan within the specified time?
- **is the applicant highly motivated,** with a strong will to succeed in his/her chosen business?
- **does the applicant have a clear idea of what use s/he would make of the loan?** Although business ideas may undergo modifications and refinements during the training process, a clear plan at the outset is always an advantage.

Applicants who are selected for the programme are then enrolled in training programmes, at which they will refine their business ideas, learn the basics of financial management, form credit groups and prepare a finalised Business Plan and Loan Application.

Step 11. Beneficiary Training

The CYCI takes a holistic, integrated approach to micro-credit provision. Successful completion of an intensive training programme is both a preparation for entering into entrepreneurial activity and a prerequisite for receiving a loan under the CYCI model.

The essential areas in the basic CYCI beneficiary training programme cover:

- Overview of CYCI methodology
- Motivation, awareness, communications

F: Template for Assessment of Applicants

1. TYPOLOGY OF BENEFICIARY:

- (a) Already running a business? Yes/No)
- (b) Trained but without capital? (Yes/No)
- (c) Completely untrained with good business idea? (Yes/No)
- (d) Others:
- (i) Young men/women living with HIV. (Yes/No)
 - (ii) Street people/ refugees (Yes/No)
 - (iii) Other group (specify)

2. ASSESSMENT OF BACKGROUND (FAMILY CIRCUMSTANCES AND PREVIOUS EXPERIENCE)

.....

.....

3. ASSESSMENT OF STATED GOALS AND REASONS FOR APPLYING

.....

.....

4. FIELD OFFICER'S COMMENTS ATTACHED (yes/no)

5. OVERALL ASSESSMENT AND RECOMMENDATIONS

.....

.....

Name Of Loan Supervisor:

Signature Date

6. FINAL DECISION

Name Of Programme Manager:

Signature Date

skills, personal development and growth

- Development of a business idea – including identification of business opportunities, product selection, feasibility study
- Marketing
- Credit, savings and financial management skills, including book-keeping and reporting to the implementing agency
- Formation of savings and credit groups
- Preparation of a Business Plan and Loan Application.

Other specific modules may be added, depending on the specific needs to be addressed. For example, leadership, conflict resolution, environmental sustainability and gender awareness are all relevant topics that may be particularly appropriate in a given context.

The exact structure and content of a CYCI training programme needs to be developed within the specific context in which the programme is being implemented. Variables within this context include:

- the size of the group to be trained
- their existing levels of skills in the essential areas listed above
- the nature and range of business opportunities available in the target area
- the extent to which a culture of entrepreneurship exists in the area
- the training budget available.

A sample training schedule covering the essential areas of the CYCI is provided below. *Full details of the content of training programmes are provided in Module 4 of the CYCI Toolkit.*

Step 12. Formation of Beneficiary Groups

The formation of credit groups is a critical phase in the implementation of a CYCI. It can

be done before the training starts or after it has finished. Forming groups as part of the training programme itself helps to ensure that the process is an orderly and effective one, and that all group members are clear about their rights and responsibilities. Linking group formation to the training programme also provides the opportunities for participants to get to know each other informally and learn about each other's business plans and projects beforehand. Ideally, groups should be formed around common interests or goals, to promote group cohesiveness. They can even be based on groupings that existed before the introduction of the programme.

Group members act as guarantors for each other's loans, and defaulting loan repayments may be covered out of group savings. Also, new loans may not be accessed by any member of the group if any other member is in arrears with loan repayments. It is therefore essential that group members come together in a spirit of mutual trust, respect, transparency and accountability. It is important to emphasise these values throughout the course of the training.

The benefits of group lending are well known (UNDP, 1997):

- Group self-selection serves as a screening process for the character of individual members and the validity of their business plan
- Group members provide peer pressure towards prompt repayment
- Group members provide each other with support in times of difficulty
- Groups can pool their abilities in terms of administration of loans and repayments. This may provide learning experiences for group members. It also enables the implementing agency to keep its administration costs to a minimum, thereby enabling lower interest rates within the context of a sustainable programme.

CYCI Sample Training Schedule

Day 1: Introduction and overview	Welcome and introductions Ice-breaking activities Presentation of CYCI Overview Presentation of Training Overview
Day 2: Personal development (1)	Motivation Communications skills Introduction to entrepreneurship Group Exercises
Day 3: Developing a business idea (1)	Identification of business opportunities Identifying a market Product selection Research
Day 4: Developing a business idea (2)	Calculating costs Legal and practical issues Preparation of a Business Plan
Day 5: Marketing the product	Market research Setting objectives Determining strategies Group exercises
Day 6: Personal Development (2)	Leadership skills Conflict resolution Gender awareness Environmental sustainability
Day 7: Financial management skills (1)	Principles of group credit and savings Accountancy and bookkeeping (1)
Day 8: Financial management skills (2)	Bookkeeping (2) Reporting to implementing agency
Day 9: Group formation	Beneficiaries form credit groups Establishing rules and regulations Rights and responsibilities of group members Roles and functions of group officers Distribution of loan application forms
Day 10: Finalisation of Business Plan and Loan Application	Review and fine tuning of Business Plans Completion and group approval of Loan Application forms with Business Plans Closing review and celebration

Figure 8: Good Practice Guidelines for Group Formation

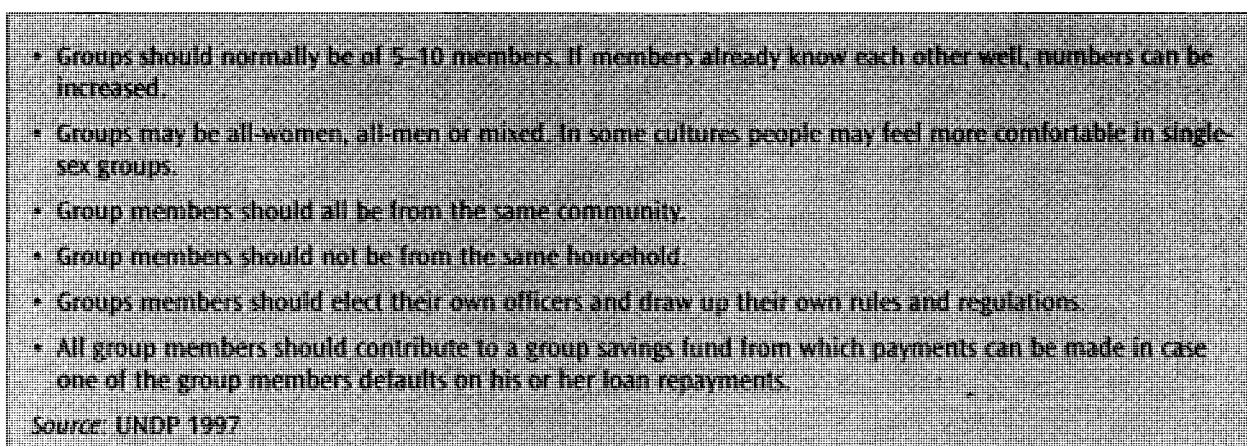


Figure 8 shows some good practice guidelines for credit group formation.

Establishing rules and regulations

In order to remain in the group, members must observe the group's rules and regulations, which are determined partly by the implementing agency at the programme design stage, and partly by group members themselves. Areas covered by basic rules and regulations agreed by group members may include the following:

- eligibility criteria for joining the group
- criteria and procedure for expulsion from the group
- criteria and procedures for approving individual members' loan applications
- maximum number of members
- procedure for electing group officers, length of term, removal from office
- attendance at meetings
- collection of loan payments
- group savings.

Roles and functions of group officers

Credit groups require, as a minimum, a group leader and a group treasurer. The responsibilities of these officers are as follows:

The group leader: organises and chairs group meetings; serves as the contact person between the group and the implementing agency's field officer; submits group-approved loan applications to the field officer; co-ordinates the group's response to late or defaulting loan repayments on the part of any member; and resolves any other problems that may arise within the group.

The group treasurer: is responsible for maintaining records of all financial transactions relating to individual loan disbursement, loan repayments, and group savings.

Rights and responsibilities of group members

As credit group members, all CYCI beneficiaries have the right to:

- peer support and encouragement, courtesy and respect
- have their business plans and loan applications considered by the group
- a fair and impartial decision regarding group approval of their application.

Members have the responsibility to:

- make prompt loan repayments
- contribute to a savings fund which can be used to make loan repayments if any group member defaults

- treat their fellow members with courtesy and respect, and provide moral support and encouragement to each other in their business ventures.

Once the groups are formed and the loans are

disbursed, beneficiaries will still require ongoing business support and counselling. This is normally supplied by Field Officers in the course of their regular field visits. *More details on this are found in Modules 3 and 4 of the CYCI Toolkit.*

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Appendix A: Commonwealth Youth Credit Initiative Beneficiary Application Form

1. BIOGRAPHICAL DATA

Name(s)
(Surname) (Forename)

Date of birth..... Present age

Marital Status (Single/Married/Divorced)

Nationality

Permanent Residence (House/Plot Number, Street, Village or Town, District, Postcode if applicable))

.....
.....
.....
.....

Date of Assessment

1.1 Guardian/parent

Name

Address
.....
.....

Telephone number Fax.....

E-Mail (if applicable)

Relationship to applicant: Nationality

Guardian/parent's occupational status: (tick where appropriate)

- | | |
|------------------------|------------------------|
| (a) Employed full-time | (b) Employed part-time |
| (c) Self-employed | (d) Unemployed |

Occupation

2. EDUCATION AND TRAINING

Educational Attendance

Year Completed/Stopped School/College/University

Reason for Discontinuing Education

Business/Life Skill Training Received:

(a) business management (Yes/No)

(b) book/record keeping (Yes/No)

(c) financial planning (Yes/No)

(d) pricing and product costing (Yes/No)

(e) marketing and advertising (Yes/No)

(f) salesmanship/sales (Yes/No)

(g) stock control (Yes/No)

(h) Other skills acquired/trained in (please list)

.....

.....

3. BUSINESS SKILLS AND EXPERIENCE

Do you have any business experience? Yes/No)

If so, please describe

.....

.....

.....

Are you currently involved in a business (Yes/No)

If so, please describe

Type of Business:

(a) Manufacturing (b) Trading/Merchandising

(c) Services (d) Exporting

(e) Others (state)

How long have you been in business? (state period e.g. months, years)

What does your business involve? (describe in detail)
.....

Source of equipment/raw materials/technology:

(a) local (b) imported

(c) other sources (state)

Market for your products/merchandise

Local foreign/export

4. REASONS FOR APPLYING

Is your goal to:

(a) start a new business? (b) expand or upgrade an existing business?

(Tick where appropriate)

Describe the business you wish to start or upgrade (if upgrading, you may refer to Section 3 above):

Type of Business:

(a) Manufacturing (b) Trading/Merchandising

(c) Services (d) Exporting

(e) Others (state)

What does the business involve? (describe in detail)
.....

Source of equipment/raw materials/technology:

(a) local (b) imported

(c) other sources (state)

Market for your products/merchandise

Local foreign/export

How would the CYCI assist you in the goal stated above?

.....
.....
.....

What training would you require?

.....
.....

How would you use a CYCI loan?

.....
.....
.....

What size of loan would you require (amount in national currency)?

Does your guardian/parent(s) support your project? (yes/no)

Why can't your guardian/parent provide capital for your project?

.....

Would you be able to repay the loan in:

(Tick where appropriate)

(a) three months (b) six months

(c) nine months (d) one year

(e) more than one year (state length of time needed)

Have you been a recipient/beneficiary of any loan scheme before? (Yes/No)

If so, state organisation (if possible, please attach documentary proof)

.....

Have you ever defaulted on a loan repayment before? (Yes/No)

If so, please state reasons for defaulting

.....

Are you willing to conform to the CYCI terms of loan repayment? (Yes/No)

5. DECLARATION AND SIGNATURE:

I declare that the information provided on this form is true and correct to the best of my knowledge:

Signature..... Date.....

Appendix B: Visual Presentations for Promotion of CYCI

These are some sample visual presentations which can be adapted for use as overheads, slides, flip-charts or promotional flyers.

What is CYCI?

The Commonwealth Youth Credit Initiative (CYCI) is a programme which provides low-cost, easily accessible credit and enterprise training, development and business counselling to young entrepreneurs.

Who is CYCI for?

The CYCI is for young people who have a good business idea and who are going into business for the first time, or who need help in expanding or upgrading their business.

Who implements CYCI?

The CYCI is implemented by an implementing agency working in collaboration with the lead agency and with young people themselves.

How does CYCI work?

- Young people send in application forms
- Beneficiaries are selected and training begins
- Beneficiaries form credit groups in order to receive loans.
- Loans and repayments are managed by the groups themselves
- Group members receive ongoing business support and counselling
- Groups report back to implementing agency
- If all repayments are made on time, group members can access bigger loans

Key features of CYCI

- NGO style of delivery – the loan fund is managed, loans are distributed and training is provided by an NGO with experience in micro-credit and/ enterprise development.
- credit accompanied by entrepreneurial development, business and management training and credit
- group lending and use of group savings as collective collateral against loans
- democratic participation by beneficiaries
- peer support and use of peer group pressure to ensure prompt repayment
- support services, marketing assistance and information
- clear, accountable and transparent mechanisms for monitoring and evaluation

**THE COMMONWEALTH YOUTH CREDIT
INITIATIVE TOOLKIT**

MODULE 3

**Management,
Monitoring and
Evaluation**

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Introduction

Scope and Objectives of this Module

This third module of the CYCI Toolkit is designed for the implementing agency, which manages the day-to-day running of the CYCI at the programme level, and for the lead agency which initiates it.

This module provides specific, step-by-step guidelines on the management, monitoring and evaluation of a CYCI programme. It presents detailed information in seven steps on two

specific phases of the CYCI programme cycle:

- general management, loan disbursement and repayment collection; and
- monitoring, evaluation and reporting.

It also includes information on designing the loan package and on general management of the programme.

Phases 1, 2 and 3 of the cycle are discussed in Module 2.

General and Financial Management of the Programme

Governance

In addition to the internal governance mechanisms of the implementing agency, the CYCI recommends that a Management Advisory Board (MAB) be set up to oversee the implementation of the programme. The MAB consists of representatives of key stakeholders in the CYCI and meets regularly to supervise and advise on programme implementation. It reviews the monthly and quarterly statements provided by the implementing agency (see Section 5) and makes recommendations accordingly. Other functions of the MAB include setting general policies for the programme and raising funds (UNDP, 1997).

Members of the MAB include:

- a representative of the lead agency for the CYCI (such as the designated point of contact);
- a representative of the implementing agency (usually the programme manager);
- a community leader such as a teacher or traditional leader in the target community;
- a local bank manager; and
- a prominent local business person.

Record-keeping and Accountancy

The record-keeping needs of the implementing agency fall into two parts:

- a 'portfolio system' which tracks the loans and repayments of individual borrowers; and
- a general accounting system recording all the financial transactions of the organisation (CGAP, 1998).

The accounting system

The CYCI implementing agency will require the services of a trained and competent bookkeeper to maintain ongoing records of all financial transactions of the organisation. The organisation will also require a professional accountant, who may be hired on a consultancy basis, to make financial statements based on the records kept by the bookkeeper. The accountant may also assist the bookkeeper in the establishment of record-keeping systems most appropriate to the needs of the particular organisation. Careful bookkeeping is a key ingredient of success for a micro-finance institution, because it provides information that is essential for effective decision-making regarding the management and ongoing development of the programme.

The establishment and operation of a complete bookkeeping and accounting system is beyond the scope of the CYCI Toolkit, and requires the services of a qualified and competent accountant and bookkeeper. The implementing agency of the CYCI would normally require an accounting system that includes the following elements (CGAP, 1998):

- chart of accounts
- general journal
- general ledger
- subsidiary ledgers (accounts receivable, inventory, fixed assets)
- transaction reports
- financial statements.

In seeking to establish such a system, or to upgrade the existing bookkeeping system in an organisation, the following principles should be borne in mind:

Figure 1: Co-ordinating the Management Advisory Board

Selecting members: The members of the Management Advisory Board should be drawn from a mix of areas – government, banks and businesses, NGOs, training institutions, community leaders, youth representatives. There should be a good gender balance. Most importantly, members should be committed to the success of the initiative.

Focus on key tasks: it is important to keep a focus on the main tasks at hand, and not allow the MAB to get side-tracked onto trivial or irrelevant issues.

Building a team: MAB members are normally volunteers. Motivating them is important. Some key ways of doing this are:

- Involve board members in the design of the programme. Give them a sense of ownership.
- Keep them informed of developments at all times.
- Encourage informality and open discussion at meetings.
- Remind board members of the purpose of the MAB and the CYCI.
- Emphasise the benefits the programme brings, and celebrate its successes.
- Ensure that the advice of the MAB is listened to and acted upon. Members need to feel that what they say is important and respected.

- **identify information needs clearly:** in the design of financial and other statements, consult the users of the statements to ensure that the right information is included;
- **build in flexibility:** different stakeholders need different information at different times – ensure that systems for the issuance of reports can meet these needs;
- **provide the right amount of information:** there should be enough information to provide a complete picture, but not so much that it is impossible to extract the specific information that is needed; and
- **use descriptive account numbers:** the chart of accounts should be structured so that each account has a number that easily identifies what kind of account it is. For example, the first digit could identify whether it goes under assets, a liabilities or equity. Subsequent digits could identify whether the item pertains to loans, savings, training, marketing, or some other facet of the organisation's operation. For a more detailed analysis of how to structure a chart of accounts for a micro-finance institution, see CGAP (1998).

Part of the responsibility of the accountant would be to produce the quarterly and annual reports described in Phase 5 of this module, Monitoring, Evaluation and Reporting.

The portfolio tracking system

Phase 4 in this module, which describes the process of disbursing loans, outlines a simple system for tracking the portfolio of loans. Some indicators for monitoring and evaluation using information contained in this system are outlined in Phase 5.

The system as outlined can be kept manually, i.e. on paper. However, it is recommended that where possible a computer software system be used, supported by manual record on paper where necessary (e.g. on field visits).

Computer Software for Record-keeping

The choice of which computer software package to use in the implementation of the CYCI depends on a number of factors, including the size of the organisation, the number of beneficiaries, and the resources

available. No single system exists which meets all the needs of all micro-finance institutions. Many institutions adapt existing systems to suit their own needs, or hire a software developer to custom-build a system to their own specifications (CGAP, 1998).

Some currently available systems, together with a checklist of criteria for evaluating

software options¹ are described in Appendix I. They are presented for information purposes only; there may be other systems not mentioned that are more appropriate to some users' needs. The CYCI does not recommend any particular system, and individual agencies should determine their best option based on their specific requirements.

¹Information about these software packages is drawn from CGAP (1998), Ledgerwood (1999) and supplier sales information.

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.¹

Step 4: Dealing with Defaulters

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

¹This 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.

Phase 5. Monitoring, Evaluation and Reporting

Monitoring and evaluation, Phase 5 of a CYCI programme cycle, takes place at various levels. The implementing agency must monitor and evaluate the impact of the programme at the project level to ensure that individual enterprises and credit groups are developing satisfactorily. It must also monitor and evaluate its implementation of the entire programme, especially financial flows, loan recovery rates and the achievement of the overall goals of the programme. The implementing agency must also report regularly to the lead agency, donor agency or other funding bodies involved in the initiative.

Monitoring, evaluation and reporting should cover not only the performance of the programme itself (number of loans issued, loan recovery rates, etc.) but also the impact of the programme and its success in achieving its stated goals. One goal of the CYCI is to alleviate poverty. Monitoring and evaluation should therefore include an assessment of its impact on poverty in the target area.

Step 6: Selecting, Gathering and Interpreting Appropriate Indicators

Indicators that can be used to monitor and evaluate the implementation of a CYCI programme fall into two major categories:

- those that measure directly the activities of the implementing agency ('implementation indicators'); and
- those that measure the impact those activities have on the target group of beneficiaries and the communities in which they live and work ('impact indicators').

(i) Implementation indicators

Provided that the implementing agency has a reliable management information system, it can use information gained from that system to monitor and evaluate its delivery of the programme. The basis of such a system should be the accountancy and portfolio systems described in Chapter 2 of this module.

The indicators that can be generated include those that measure portfolio performance, productivity and efficiency, and financial sustainability. The calculation and interpretation of these various kinds of can be extremely complex. The indicators presented here are some of the more simple and useful ones.¹

In the discussion that follows, 'portfolio' refers to the total amount loaned. Thus 'outstanding portfolio' refers to the total of all the unpaid balances of all loans at a given point in time.

Portfolio performance indicators: these measure, in broad terms, how well borrowers are performing in terms of repaying their loans, and whether delinquencies and defaults are reaching dangerous levels.

One of the most useful of these indicators is *portfolio at risk*. This is calculated by dividing the outstanding balance on all loans that have a payment past due, by the total unpaid balance of all outstanding loans.

portfolio at risk =

$$\frac{\text{unpaid balance of loans with payment past due}}{\text{total of unpaid balance of loans (including past due)}}$$

For example, assume the implementing agency

¹This section is largely drawn from CGAP (1998), Ledgerwood (1999) and UNDP (1997), all of which provide further details of these and other indicators.

has made a total of five loans of \$100 each, and that three borrowers have paid back \$20 of their loans. Two borrowers have missed a payment and only paid back \$10. Thus, there are two loans past due, each with an unpaid balance of \$90, for a total of \$180. There are also three non-delinquent loans with an unpaid balance of \$80, for a total of \$240. Therefore the total unpaid balance is $180 + 240 = \$420$, and the portfolio at risk is 180 divided by 420, which equals .4286 or 43 per cent. This would probably be considered an unacceptably high level of portfolio at risk.

As a general guide, portfolio at risk should not normally rise above 15 per cent.

Portfolio at risk should not be viewed in isolation, or it may be misleading. For example, if the implementing agency has written off a large number of loans (i.e. has decided that the likelihood of recovering the loan is remote and has transferred funds from the loan loss reserve to the outstanding unpaid balance), the portfolio will present a healthier picture than is warranted by the high delinquency rate of the programme. Therefore portfolio at risk should always be compared with an indicator which shows the value of loans that are written off, such as the loan write-off ratio. This is calculated by dividing the total value of loans written off over a period (month, quarter, half-year, year) by the average outstanding balance over the same period (to obtain the average outstanding balance, add the outstanding balance at the beginning of the period to the outstanding balance at the end of the period, and divide by two).

$$\text{Loan write-off ratio} = \frac{\text{amount written off over the period}}{\text{average outstanding portfolio over the period}}$$

As a general guide, the loan write-off ratio should not be higher than 2 per cent.

Another situation, in which portfolio at risk can paint an unnecessarily negative picture, is where a large number of borrowers repay their

loans via a financial intermediary, such as a village bank. If only one out of ten borrowers defaults on a payment, the total of all outstanding loans to that group may be included in the portfolio at risk, even though only one borrower is delinquent. In these circumstances, another indicator can be used: the current repayment rate. This is calculated by dividing payments received during a specified period (e.g. one month) by payments that became due during the same period.

$$\text{Current repayment rate} = \frac{\text{number of payments received during the period}}{\text{number of payments falling due during the period}}$$

So if, for example, in one month 12 people should have made a payment but only nine payments were received, the current repayment rate is $9/12$ which equals 75 per cent.

Productivity and efficiency indicators: these measure how well the implementing agency is making use of the resources at its disposal.

Productivity of staff can be measured by dividing various amounts, such as the number of loans outstanding or the portfolio outstanding, by the number of field officers working in the programme. A simple indicator would be *field officer productivity*, defined as the number of loans outstanding per field officer.

$$\text{field officer productivity} = \frac{\text{number of loans outstanding}}{\text{number of field officers}}$$

As a general guide, a target figure of 175 for the loan staff efficiency could be set (assuming that all field officers work full-time).

It should be noted, especially when making comparisons between different agencies, that the loan staff efficiency varies with the length of the loan term and the frequency of repayments. A field officer can handle more loans when loan terms are longer and repayments less frequent.

The same calculation can be used to arrive at a figure for office staff productivity, defined as the number of outstanding loans per office staff member (this includes all the staff at the implementing agency's offices who are engaged on the programme, but excluding field officers).

$$\text{office staff productivity} = \frac{\text{number of loans outstanding}}{\text{number of office staff members}}$$

Field officer productivity and office staff productivity can be combined to produce an indicator of *programme staff productivity*, defined as the number of outstanding loans per programme staff member (this includes all the staff engaged on the programme, including both those at the implementing agency's offices and field officers).

$$\text{programme staff productivity} = \frac{\text{number of loans outstanding}}{\text{total number of programme staff members}}$$

A target figure for each of these productivity ratios could be 200.

The best indicator of operational efficiency is the *operating cost ratio*. This is defined as the operating expenses over a given period, divided by the average portfolio outstanding over the same period. Operating costs include salaries, administrative expenses, depreciation and overhead but do not include loan loss provisions or financial costs such as interest payable on borrowed funds. The average portfolio outstanding over a given period is calculated by adding the outstanding portfolio at the beginning of the period to the outstanding portfolio at the end of the period and dividing by two.

$$\text{Operating cost ratio} = \frac{\text{operating costs over a given period}}{\text{average outstanding portfolio over the same period}}$$

In general, the implementing agency should aim to have an operating cost ratio of between

13 and 21 per cent.

Another indicator of efficiency is cost per unit of currency loaned. If, for example, the loans are paid in US dollars, the cost per dollar loaned is calculated as the operating costs over a given period, divided by the total amount dispersed (in dollars) over the same period.

$$\text{Cost per unit of currency} = \frac{\text{operating costs over a given period}}{\text{total amount loaned over the same period}}$$

The lower the figure for cost per unit of currency loaned, the more efficiently the organisation is working.

In general, the implementing agency should aim for a cost per unit of currency no higher than 15 per cent.

Financial sustainability indicators: these measure the extent to which the implementing agency can cover its costs with earned revenue.

One indicator of financial sustainability is *operational self-sufficiency*. This is calculated by dividing earned income (i.e. operating income, excluding grants) by operating costs, financing costs and loan loss provisions.

$$\text{operational self-sufficiency} = \frac{\text{operating income}}{\text{operating costs} + \text{loan loss provisions}}$$

Operational self-sufficiency is achieved when this figure is greater than 100 per cent.

Another indicator of financial sustainability is *financial self-sufficiency*. This is calculated in a similar way to operational self-sufficiency, except that included in costs are financing costs (such as interest payable on borrowed funds), and cost of capital (which includes the impact of inflation on the loan fund).

$$\text{financial self-sufficiency} = \frac{\text{operating income}}{\text{operating costs} + \text{financing costs} + \text{loan loss provisions} + \text{cost of capital}}$$

Again, financial self-sufficiency is achieved

when this figure is greater than 100 per cent.

Calculating the cost of capital is quite complex, especially where part or all of the loan fund is itself borrowed capital on which the implementing agency must pay interest. It is recommended that a figure for the *adjusted* cost of capital be used, as this takes into account cases where funds may be borrowed at different rates, e.g. commercial (market) rates and subsidised or concessionary rates.

Adjusted cost of capital =

[inflation rate x (average equity – average fixed assets)] + [(average funding liabilities x market rate of debt) – actual financing costs]

(ii) *Impact indicators*¹

All of the indicators so far discussed deal with measuring the performance of the implementing agency in administering loans and managing the loan fund. It is equally important, although perhaps more difficult, to measure the impact that the programme is having on the target beneficiaries and their communities. These impacts can have different dimensions: a micro-credit and enterprise development programme's impact on beneficiaries may be economic, social and cultural, or again personal and psychological.

However, analysing these impacts presents some difficulties. It is difficult to measure a decrease in poverty in a local area. While some indicators may suggest that the programme has caused a small increase in standards of living, this may only be temporary, or may be explained by other causes. For example, money is fungible, in other words, it can be used in different ways. Money that was paid as a loan to improve a business may end up benefiting the household of the entrepreneur; providing a modest increase in standard of living while not adding to the profitability or sustainability of his/ her business. Also, beneficiaries may provide inaccurate reports on the progress of

their business, because they think that to do so may improve their chances of getting another loan through the programme.

In order to overcome these difficulties, it is advisable to use several methods in combination. These should be both qualitative and quantitative; in other words, they should include both statistical analysis and observation of the beneficiaries and their life circumstances in the local setting. Qualitative data complements the information contained in statistical data and can be used, for example, to help explain unexpected results arising from quantitative analysis.

Impacts can be measured at the enterprise level, the household level and the community level. Some examples of indicators that can be used at each of these levels included the following:

At the enterprise level:

- **output** – how much is the enterprise producing? How much compared with last month, last year?
- **asset accumulation** – has the enterprise increased its assets (e.g. through the purchase of new machinery, equipment or animals)?
- **technology** – has the enterprise introduced new technology to improve quality or quantity of output?
- **employment** – how many people are employed by the enterprise? How many were employed last month, last year?
- **income** – what is the net monthly income of the enterprise? What was it a year ago?
- **market** – Where does the enterprise sell its goods or services? Has it penetrated new markets in the last month? In the last year?

At the household level:

- **income** – what is the total monthly income

¹This section draws from Ledgerwood (1999).

of the beneficiary's household? What was it a year ago?

- **asset accumulation** – have the assets of the household increased? In what ways?
- **savings** – what level of savings has the household accumulated? What was the level one year ago?
- **consumption** – has the household's consumption of food increased? Has its consumption of non-food items (e.g. clothing, fuel) increased?
- **empowerment** – has the beneficiary's decision-making role, status, or control of financial resources increased?

At the community level:

- **employment** – what is the percentage of unemployed people in the community? Of under-employed people? Of underemployed or unemployed people between the ages of 15 and 30?
- **income** – has the income of the community as a whole increased?
- **health and well-being** – have there been decreases in the numbers of unhealthy/malnourished/seriously ill people in the community? Has there been a change in the incidence of infant mortality?
- **education** – have members of the community benefited from new educational opportunities? Increased levels of literacy?

These indicators can be gathered using surveys and questionnaires, as well as the techniques of participatory rural appraisal. *These techniques are discussed in detail in Module 2 of the CYCI Toolkit (see p. 7).*

Impact indicators can be tabulated using the logical framework described below.

Interpreting indicators

Care should be taken in interpreting indicators, especially where comparisons are being made

between different agencies, programmes or communities. Differences may be caused by extraneous factors that are not built into the data being interpreted, but which have an effect on it. For example, different agencies may have different ways of calculating their assets (CGAP, 1998); different beneficiaries may interpret survey questions differently and respond accordingly (Ledgerwood, 1999); an increase or decrease in prosperity in a local area may be caused not by the programme but by some other factor, such as investment by a large multinational or a natural disaster such as drought or storm damage.

In particular, when assessing or comparing the performance of different implementing agencies, it should be borne in mind that such factors as amount of loans, size, growth rate and maturity of the organisation, geographical location and conditions, and inflation and exchange rates will affect the performance of the agency as reflected in the indicators discussed above (CGAP, 1998). For example, where field officers are engaged not only in credit maintenance but also in providing ongoing business counselling and support, this will be reflected in a lower figure for field officer productivity (based solely on the number of loans outstanding) than where field officers do not provide this kind of support.

Where possible, trend analysis should be employed in interpreting indicators. This entails looking not only at how things are at a given moment, but also how they have changed over time. Seasonal cycles, for example, may seriously affect performance month-by-month, whereas comparison with one year ago will yield a truer picture.

Step 7: Tools for Monitoring, Evaluation and Reporting

The CYCI makes use of a number of tools for monitoring, evaluation and reporting. These tools are designed to benefit both the implementing agency by providing it with a

clearer picture of its own performance, and the supervising and funding bodies, which require confirmation that the loan fund is being put to good use and that the programme is producing the desired result.

The main tools are:

- monthly report
- quarterly report
- annual report.

Other tools are the logical framework, the minutes of various meetings, particularly those of the Management Advisory Board, and mid-term and terminal evaluation reports.

Monthly Report

The monthly report is a *pro forma* completed by the implementing agency on a monthly basis and submitted to the Management Advisory Board and the lead agency that initiated the programme. It generates an overall picture of the activities over the previous month, as well as providing for trend analysis and the generation of some basic performance indicators. It is therefore a useful tool not only for reporting purposes but also for the implementing agency to monitor its ongoing management of the programme.

A blank *pro forma* for a monthly report is included at Appendix F.

In completing this form, the following should be borne in mind:

- Delinquent beneficiaries (item 5) refers to the number of beneficiaries who have defaulted on one or more repayments and *currently* have repayments overdue. If a beneficiary defaults on one or more payments, but later catches up and makes good all overdue payments, then they are no longer delinquent. Hence, no cumulative (year-to-date) total is included.
- In calculating the numbers of full-time office staff and field officers (items 7 and 8),

part-time workers can be counted as fractions. For example, if there are two field officers working half-days, together they can be counted as one full-time officer. Item 9 is equal to item 7 plus item 8.

- The number of loans outstanding (item 10) is equal to the figure of total loans disbursed, year to date (see item 18) plus any unpaid loans carried over from the previous year, minus total loans repaid in full (item 18). Where loans have been written off (item 39), these should also be subtracted if (and only if) the implementing agency is no longer making an active effort to recover the loan.
- The total unpaid balance of loans with payments past due (item 35) can be calculated by consulting the beneficiary records of all those with payments overdue. The total amounts (interest and capital) still owed by all these beneficiaries are added together to produce this figure.
- The outstanding portfolio (item 36) can be calculated by adding the total interest due (item 26) and the total capital due (item 30).

Quarterly Statement

The quarterly statement includes a detailed financial statement, a summary of the key performance indicators, and a narrative report describing the progress of programme implementation over the three months prior to the issuance of the report. The narrative report should include beneficiary impact assessments, focusing on what the outcomes of the programme have been in terms of achieving its goals.

A blank form for the quarterly report is provided at Appendix G.

Annual Report

The annual report includes both a detailed financial statement for the year and a compilation of the information contained in

the monthly reports. It should also include a narrative section summarising the narratives included in each of the quarterly statements, and focusing on the outcomes of the programme.

A blank form for the financial statement which can be used for both quarterly and annual reports is provided at Appendix H.

Logical Framework

The use of logical framework analyses is now increasingly common and if carefully used can be a powerful tool both for ongoing monitoring and evaluation of the project and for reporting to government and funding agencies. The logical framework is a simple table that allows the implementing agency to measure its progress in moving towards its stated objectives.

Figure 2 shows how a logical framework is constructed.

The narrative summary provides a brief description of the goal, purpose, output or input. The objectively verifiable indicators are the signs that the goal or purpose is being reached, that the input is being made or that

the output is being produced.

The sources of verification are the means of obtaining information about the objective indicators. The assumptions and risks are the assumptions upon which the analysis is based and the risks entailed in making those assumptions.

For example, a specific goal of the programme may be 'to provide young people with the necessary skills to start and run their own businesses'. The objectively verifiable indicator could be that 'within one year of starting the programme, 80 per cent of beneficiaries should be running successful, sustainable businesses'. The source of the verification would be reports sent in by the beneficiaries themselves, confirmed by field visits to the sites of the businesses, to observe their day-to-day operations. Assumptions could be that the economy is stable, inflation is under control and there will be no major political changes. A risk could be that the staff remain with the agency rather than defecting to other employment.

The logical framework is a continuously evolving document which should be added to and rewritten as and when new ideas emerge

Figure 2: Logical Framework

Stage	Narrative summary	Objectively verifiable indicators	Sources of verification	Assumptions and risks
Goal	The wider problem the programme solves within higher-level objectives	The quantitative and qualitative ways of measuring or judging goal achievement	Monitoring means for measuring or judging goal achievement	External conditions needed to achieve the higher-level objective
Purpose	The direct effect of the programme needed to achieve the goal	The quantitative and qualitative ways of measuring or judging purpose achievement	Monitoring means for measuring or judging purpose achievement	External conditions needed to achieve the goal
Inputs	The precise activities to be completed to produce the outputs	The resources needed to perform each activity	Monitoring means for measuring activity completion and the use of resources	External conditions needed to achieve each output
Outputs	The specific outputs of the programme to achieve its purpose	The quantitative and qualitative ways of measuring or judging output achievement	Monitoring means for measuring or judging output achievement	External conditions needed to achieve purpose
Budget				

or new information comes to light. Ideally, it should be posted on the wall of the implementing agency's office.

Minutes of meetings and evaluation reports

The minutes of meetings, especially those of the Management Advisory Board, are useful

means of monitoring the programme during implementation.

If desired, a mid-term evaluation and a terminal evaluation can also be done. These would be compiled on the basis of the various other monitoring and evaluation tools, as well as any other relevant inputs.

Replicating the Cycle

The CYCI is cyclical in that it can be repeated or replicated at two levels:

- the programme level (that of the implementing agency); and
- the project level (that of the beneficiaries, each of whose business venture, based on the loan received, can be regarded as a 'project').

Once the implementation cycle of the CYCI programme has been completed, it can be replicated in one of two ways:

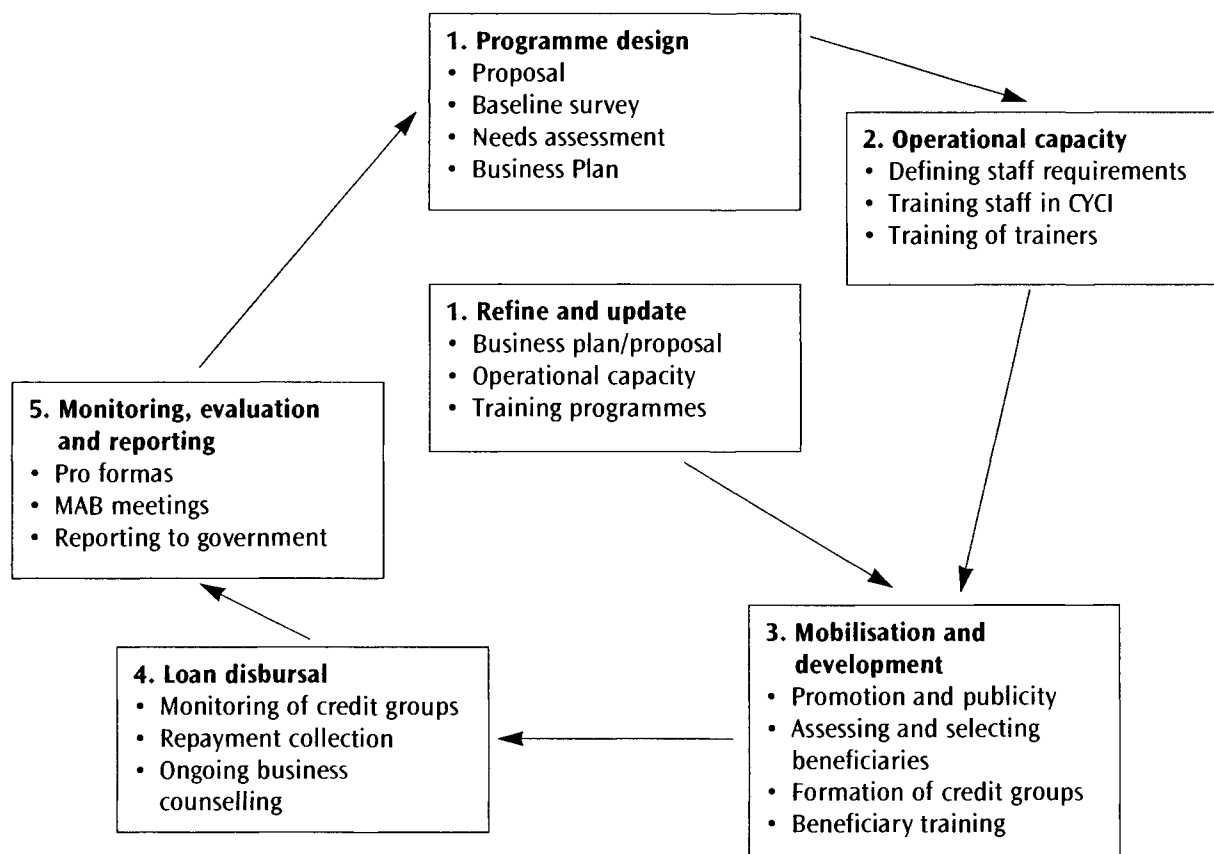
- a similar programme may start in the same area, but with a new set of beneficiaries; and/or

- an entirely new programme may be initiated in another area.

If the programme is to be replicated, refinements and updates can be made to the Business Plan, the operational capacity of the implementing agency, and the training programme. These refinements and updates should be based on experiences gained and observations made during the monitoring and evaluation process. If an entirely new programme is to be developed, the experiences of the previous cycle can inform and enrich all aspects of the new programme design.

The CYCI project implementation process is

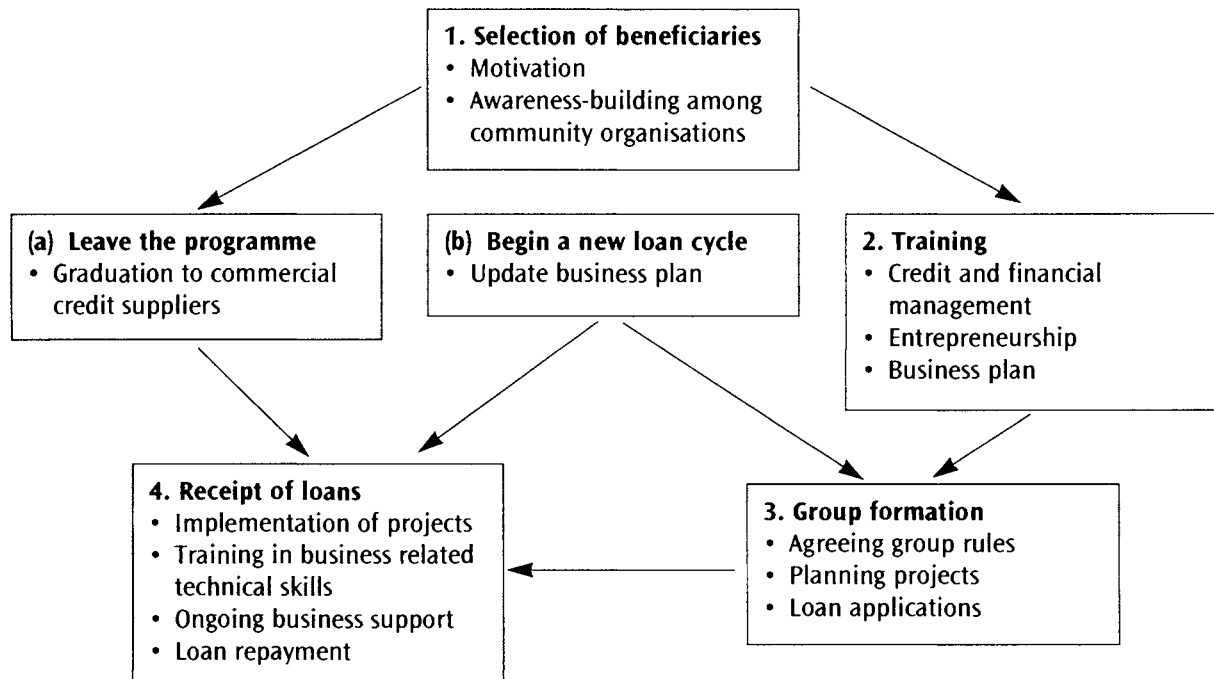
Figure 3: Replicating the Programme Cycle



also cyclical. Once it has been completed, beneficiaries may either (a) access a new round of loans as part of the same programme, or (b) leave the programme. If they have established

a good track record of business management and growth, they will probably be able to graduate to commercial suppliers of credit.

Figure 4: Replicating the CYCI Project Cycle



References and Further Reading

CGAP (1998), *Microfinance Tools: Management Information Systems for Microfinance Institutions*, Prepared by Deloitte Touche Tohmatsu International, in association with MEDA Trade and Consulting, Shorebank Advisory Services, Charles Waterfield and Nick Ramsing. Consultative Group to Assist the Poorest.

Commonwealth Secretariat (1998), *Promoting Enterprise and Economic Development*, Module 11, CYP Diploma in Youth in Development Work.

Ledgerwood, J. (1999), *Microfinance Handbook:*

An Institutional and Financial Perspective, Washington DC, World Bank.

Robinson, M. (1994), 'Savings Mobilisation and Microenterprise Finance: The Indonesian Experience' in Ledgerwood, *op. cit.*

Sinha, S. (ed.) (1998), *Micro-credit: Impact, Targeting and Sustainability*, IDS Bulletin, Vol 29, no. 4, October 1998.

UNDP (1997), *MicroStart: A Guide for Planning, Starting & Managing a Microfinance Programme*, New York: United Nations Development Programme and Pact Publications.

Appendix A: CYCI Loan Application Form

A. Personal Details

1. Surname: 2. Forename(s):
3. Address of Residence
.....
4. Postal address (if different from above)
.....
5. Date of birth 6. Sex (F/M) 7. Age
8. Nationality 9. National ID/Social insurance no.
10. Marital status 11. Education level attained:
12. Name and address of parent or guardian:
.....
13. Relation to applicant:
14. Name of savings group
15. Name and address of business:
.....
16. Average weekly income from business (if it is a new business, estimate the amount):
.....
17. Is this a legally registered enterprise? (Yes/No) If so, attach copy of registration.
18. Nature of business
19. Previous experience in this type of business
.....
20. Relevant training courses attended/passed
.....
21. Do you have a bank account? (Yes/No) If so, please state:
22. Name of bank: 23. Sort code:
24. Account number: 25. Type of account (checking/savings)

B. Details of Loan

26. Amount of loan:

27. Period of repayment:

28. Use of loan (specify what is to be purchased and how much it costs):

..... Amount:

(a) raw materials/supplies/ goods for resale:

.....

(b) fixed assets:

.....

(c) Overheads/administration:

.....

..... Total amount requested:

29. Have you ever borrowed money before? (Yes/No)

If so, state name of lending institution and amount

.....

30. Did you pay back the loan on time? (Yes/No) If not, state reasons:

.....

31. Do you currently have any debts? (Yes/No) if so, state creditor and amount:

.....

32. Do you have savings, land, machinery or other assets? (Yes/No)

If so, describe:

.....

Total value of assets:

33. Signature and declaration:

I, the undersigned, hereby declare that the information on this application is true and accurate to the best of my knowledge.

Applicant's Signature: Date:

Credit approval (for use of credit group):

33. We, the undersigned, hereby approve the loan as described above. We understand that we as a group are responsible for the timely repayment of the loan and interest, that if the borrower cannot repay the loan we are responsible for making the payments, that savings we have made as a group may be used for this purpose, and that no new loans are payable to any member of this group until any overdue or late repayments on this loan have been paid in full.

Group Leader:

Name (printed): Signature: Date:

Group Treasurer:

Name (printed): Signature: Date:

Group Members:

Name (printed): Signature: Date:

Name (printed): Signature: Date:

Name (printed): Signature: Date:

Name (printed): Signature: Date:

Name (printed): Signature: Date:

Name (printed): Signature: Date:

Name (printed): Signature: Date:

Name (printed): Signature: Date:

Name (printed): Signature: Date:

Credit approval (for use of Implementing agency):

34. Amount approved:

35. Interest rate:

36. Repayment period (attach repayment schedule)

37. Compulsory savings: (frequency of payment) (amount)

38. Signature of loan supervisor: Date:

Source: UNDP 1997 and CYP

Appendix B: Promissory Note

I, the undersigned, agree to pay (implementing agency)
the sum of (total loan principal)
at an interest rate of (monthly interest rate) per month
repayable in instalments of (amount per payment) every frequency of repayment)
The first repayment is due on (first due date)
and the last is due on (last due date)
The total amount payable is (principal plus interest),
of which is the principal and is interest.

I am a member of credit group.

I also undertake to pay (amount) on (frequency) as compulsory savings, which
are refundable to me, in full but without interest, once my loan and interest have been paid in full.

I understand that if any instalment is not paid on the date due, the whole amount of the unpaid
balance remaining on the loan, including all interest not yet paid, becomes due and payable with
interest from the date of default, and may be paid from the savings of the credit group named
above.

Applicant's name (print): Signature: Date:

Group Officers:

Leader's name (print): Signature: Date:

Treasurer's name (print): Signature: Date:

Group Members:

Name (printed): Signature: Date:

Name (printed): Signature: Date:

Name (printed): Signature: Date:

Name (printed): Signature: Date:

Name (printed): Signature: Date:

Source: adapted from UNDP, 1997

Appendix C: Beneficiary Passbook

Beneficiary Name: Credit group name:

Amount of loan: (principal) plus (interest)

Frequency of payment Amount per payment

Compulsory savings: (amount)

*to be deducted from the loan prior to issuance (.....)

*to be paid in instalments of (amount) every (frequency) (.....)

(*tick where appropriate)

Payment number	Amount due	Date due	Amount paid	Date paid	Balance remaining	Remarks
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						

Source: UNDP, 1997

Appendix D: Transfer Report

Borrower's name:	Amount paid:	Date of payment:
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
Total payment collected:		
Total amount deposited:		
Amount transferred to field agent		

Appendix E: Beneficiary Record

Beneficiary Name: Credit group name:

Beneficiary Address:

..... Sex (M/F)

Summary of loans:						
Loan number	1	2	3	4		
Purpose:						
Date issued:						
Principal:						
Interest:						
Total loan:						
Compulsory savings:						
Term:						
Interest rate:						
Loan repayment record:				Loan number:		
Payment number	Amount due	Date due	Amount paid	Date paid	Balance remaining	Remarks
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						

Appendix F: CYCI Monthly Report

Name of implementing agency:

Month

	This month:			Previous month:			Year to date:			Comments:
Beneficiaries:	f	m	total	f	m	total	f	m	total	
1. Total number of beneficiaries										
2. No. of beneficiaries trained										
3. No. of beneficiaries who received loans										
4. No. of beneficiaries who fully repaid loans										
5. No. of delinquent beneficiaries										
6. Number of credit groups formed										
Implementing agency:	f	m	total	f	m	total				
7. No. of full-time office staff										
8. No. of full-time field officers										
9. Total staff working on the programme:										
10. Number of loans outstanding:										
11. Field officer productivity: ¹										
12. Office staff productivity: ¹										
13. Programme staff productivity: ¹										
14. Number of meetings of loan assessment committee										
15. Number of meetings of Management Advisory Board										

Loans & savings:										
16. Number of loan applications received										
17. Number of loan applications processed										
18. No. of loans:	f	m	total	f	m	total	f	m	total	
– approved										
– rejected										
– disbursed										
– repaid in full										
19. Total value of loans to women										
20. Total value of loans to men										
21. Total value of loans disbursed										
22. Value of smallest loan										
23. Value of largest loan										
24. Interest rate or range of rates										
25. Loan period or range of periods										
26. Total interest due:										
27. Total interest received:										
28. Total interest payments over due by 1 month										
29. Total interest payments over due by 3 months										
30. Capital payments due										
31. Total of capital repayments over due by 1 month										
32. Total of capital repayments over due by 3 months										
33. No. of defaulters by one month										
34. No. of defaulters by 3 months										
35. Total unpaid balance of loans with payments past due										
36. Total of all unpaid balances (outstanding portfolio)										
37. Portfolio at risk: ²										

38. Number of loans rescheduled				
39. Number of loans written off				
40. Value of loans written off				
41. Average outstanding portfolio: ³				
42. Loan write-off ratio: ³				
43. Payments received this month/year:				
44. Payments that became due this month/year				
45. Current repayment rate: ⁴				
46. Amount saved by credit groups in this period				
47. Total accumulated savings of credit groups				

Notes:

1. 'Field officer productivity' equals 'number of loans outstanding' divided by 'total number of field officers'. 'Office staff productivity' equals 'number of loans outstanding' divided by 'total number of office staff'. 'Programme staff productivity' equals 'number of loans outstanding' divided by 'total number of programme staff (including both field officers and office staff)'.
2. 'Portfolio at risk' equals 'total unpaid balance of loans with payments past due' divided by 'total of all unpaid balances (outstanding portfolio)'.
3. 'Loan write-off ratio' equals 'total amount written off over the period' divided by 'average outstanding portfolio over the period'. 'Average outstanding portfolio over the period' is obtained by adding this month's outstanding portfolio to the previous month's, and dividing by two (for the year to date figure, add the outstanding portfolio at the beginning of the year to this month's outstanding portfolio, and divide by two).
4. Current repayment rate equals 'payments received during the period', divided by 'payments that became due during the period'.

Comments:

Source: CYP; CGAP (1998); Ledgerwood (1999); UNDP, 1997

Appendix G: CYCI Quarterly Report

Name of implementing agency:

Quarter: Dates (from) (to).....

1. Financial statement

(attached)

2. Performance indicators	(this period)	(previous period)
portfolio at risk	_____	_____
loan write-off ratio	_____	_____
current repayment rate	_____	_____
programme staff productivity	_____	_____
operating cost ratio	_____	_____
cost per unit of currency	_____	_____
operational self-sufficiency	_____	_____
financial self-sufficiency	_____	_____

3. Narrative report

Appendix H: Financial Statement

(1) Income and expenses

Income:

Interest on loans:	_____
Interest on investments:	
accrued and received	_____
accrued but not received	_____
total	_____
Other income (state source):	_____
Total income:	_____

Expenses:

Salaries/consultancy fees	
Staff salaries	_____
Consultancy fees	_____
Sub-total salaries/consultancy fees	_____
Office overheads	
office rental	_____
office furniture/equipment	_____
office supplies	_____
telephone	_____
utilities	_____
bank charges	_____
transportation/travel costs	_____
advertising and promotion	_____
insurance	_____
repairs and maintenance	_____
Sub-total overheads	_____
Other expenses	
cost of capital	_____
loan loss provision	_____
Sub-total other expenses	_____
Total expenditures	_____
Profit/(loss)	_____

(ii) Assets and liabilities

Assets:	(this period)	(previous period)
Cash	_____	
Bank deposit account	_____	
Loans receivable	_____	
Interest receivable	_____	
Arrears receivable	_____	
Fixed assets	_____	
Total assets:	_____	_____
Liabilities		
Accounts payable	_____	
Loans payable	_____	
Interest payable	_____	
Loan loss reserve	_____	
Total liabilities:	_____	_____
Net worth (assets minus liabilities)	_____	_____

Appendix I: Computer Software Packages

FAO Microbanking System

This integrated package can handle loans, savings accounts, time deposits, current accounts, customer information, and the general ledger. It can also provide for internal checks and issue management reports.

The package works on a standard Personal Computer and is sufficiently flexible to work as a single teller, a stand-alone installation or a multi-teller installation. It exists in two editions: the Standard RunTime Edition (SRTE) and the Extended Edition (EXTE), the latter of which allows users to make major modifications to the standard package.

The SRTE version costs US\$800 (as of 1997); this allows an unlimited number of users and a three-month warranty. The EXTE version costs US\$8,000 access fee plus a site license fee for each installation, of \$400 per site for the first ten sites, \$250 per site for 11-100 sites, and \$200 per site for more than 100 sites. It is recommended that a contract be negotiated between the user and an authorised support service provider for assistance with installation, customisation and long-term technical support beyond the three-month warranty period.

The software has been installed at more than 900 locations in more than 20 countries in Asia, Africa, the Caribbean and Latin America.

Contact: Food and Agriculture Organisation of the United Nations, Rome, Italy
Telephone: 39-6-5225-3817; Fax: 39-6-5225-6850.

Grameen Banker/Grameen Accounts

These two packages provide respectively a micro-credit loan monitoring system and an accounting system. Successfully operated at field level for more than three years, they are in use in Grameen Bank branch and zone offices in Bangladesh and Nepal.

The accounting package allows users to enter daily vouchers, and provides a daily transaction statement, cash and bank book, general ledger, income and expenditure, balance sheet and other features.

The loan tracking package, which is DOS and Windows-based, monitors information on each borrower, and includes daily instalment collection, monthly collection sheet production, monthly process, and year-end closing activities. The software supports group-lending methodologies and includes four different methods of calculating interest rates. It can also handle savings.

The two packages each have a selling price of US\$300.

Contact: Computer Services Unit, Grameen Bank Trust, Dhaka, Bangladesh
Telephone: 880 2-9005350, 9005257-68 (ext. 1243 or 1214); Fax: 880-2-806319.

Fig. 5: Checklist of Criteria for Evaluating Accounting and Portfolio-Tracking Software

Ease of use

- how user-friendly are the interface and screen design?
- are comprehensive manuals and documentation provided?
- are hands-on tutorials available?
- are help menus included?
- does it automatically detect errors and prohibit the entering of contradictory or mathematically inconsistent data?

Features

- does it handle both accounting and loan portfolio tracking?
- can it calculate interest rates according to a range of methods?
- can it handle a range of repayment methods and schedules?
- can it handle a range of different loan and savings products?
- can it calculate key indicators automatically?
- can it be adapted to local languages?
- can data be disaggregated by gender?
- can it be customised to suit specific needs?
- can automatic linkages between loan and accounting elements be established?
- can it print a range of user-specified reports in a range of formats?

Compatibility and system requirements

- what operating system does it run on (DOS, Windows, AppleMac, Unix, etc.)?
- what are the system requirements (memory, hard disk space, processor speed)?
- can it run on a local or wide area network?
- is it compatible with existing hardware and software within the organisation?

Security

- does it provide for passwords and levels of authorisation?
- can data be protected from unauthorised modification?
- does it include automatic or manually operated data backup systems?
- can documents and modifications to documents be tracked for auditing purposes?

Support

- is technical support by telephone available?
- is technical support through the Internet available?
- is technical support through site visits available?
- is user training available?

Costs

- basic purchase price
- installation fees
- additional user charges
- additional charges for use on different sites
- training costs
- technical support costs

Source: adapted from Ledgerwood (1999)

IPC Banking System

This software contains modules for loan monitoring, savings, fixed deposits and accounting. It can run in DOS on stand-alone PCs, and under Novell and Windows networks.

The product of ten years' experience in micro-lending, the package provides extensive support for the entire lending process, starting with registration of the loan application, loan application analysis, integrated generation of loan agreements and payment plans (with a wide range of possible payment plans), various interest calculation procedures, close arrears monitoring, and basic support for group lending.

The system is installed in more than ten institutions in ten countries in Africa, Europe and Latin America.

IPC personnel visit user sites for installation, configuration and user training. The price depends on the type of contract, the number of modifications required, and the number of installations. The minimum cost of a contract is US\$50,000.

Contact: IPC GmbH, Am Eisernen Schlag 31, 60431 Frankfurt am Main, Germany
E-mail: ipc_sys@compuserve.com

Micro Finance 2000

This is an easy-to-use, basic savings and loan application with integrated general ledger. It can calculate interest rates on either the declining balance or flat rate method, and supports group lending. It can issue a wide variety of reports including standard financial statements, delinquency reports and client balance listings. It also includes a Windows-based financial reports package, with balance sheet, income and expenses statement, liquidity report and delinquency report.

The software runs under DOS or Windows on any level of Personal Computer. It can report 38 performance ratios, which are useful in the monitoring and evaluation of the performance of the credit programme.

Installed in some 70 locations in eight countries in Africa and Asia, the software costs US\$700 per user per year, and is sold in three-year blocks including remote support and upgrades.

Contact: DBS Consult (South Africa)
Telephone: 27-21-234838; Fax: 27-21-244179.

Quicken '98

This is an inexpensive, user-friendly accounting software package for individuals and small businesses. It includes built-in invoicing and report printing facilities, and calculating monthly repayments according to size of loan and interest rate. It can allow for a large number of loans. Quicken is the package recommended by the UNDP's MicroStart guide (UNDP, 1997).

It is widely available in PC or AppleMac formats.

Contact: Intuit software +44 (0) 1932 578 500

Solace for Workgroups

This system supports translation management facilities; two languages may be resident at the same time. The translation of the user interface to a local language is included in country customisation of the package.

It can handle an unlimited number of user-definable loan accounts, including group loans, as well as user-defined savings account products and current (checking) accounts. It includes full-featured financial tracking, including a general ledger and cash-book, and provides a wide range of (over 200) management, administrative and operational reports.

Currently installed in 13 locations in Australia, New Zealand, South Africa and Zimbabwe, the system can run on Windows 95, Windows 98, Windows NT, UNIX and AS400 operating systems.

The cost is US\$3,000 per user, plus run-time costs and an annual support fee.

Contact: DBS Consult (South Africa)

Telephone: 27-21-234838; Fax: 27-21-244179.

**THE COMMONWEALTH YOUTH CREDIT
INITIATIVE TOOLKIT**

MODULE 4

Training Resources

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Introduction

Scope and Objectives of this Module

This is the fourth module of the CYCI Toolkit. It is designed for the use of the implementing agency which manages the day-to-day running of the CYCI at the programme level, as well as the lead agency (government department or international development agency) that initiates the project.

This module provides specific guidelines on

providing the various types of training included in the CYCI model. It complements the other modules, which can be used as resource manuals in the training of staff in the CYCI philosophy and methodology. This module is a 'trainer's guide' to the provision of such training, and includes guidelines for the training of trainers and for the provision of training to the beneficiaries of the CYCI programme.

Overview of CYCI Training Needs

The CYCI takes an integrated, holistic approach to micro-enterprise development, including the provision of training, business counselling and credit facilities. The CYCI is normally initiated by a lead agency (such as a government department or international development agency) and implemented in partnership with an implementing agency, usually a non-governmental organisation (NGO) with experience in micro-credit, enterprise development and/or youth development work. The implementing agency works in partnership not only with the lead agency but also with commercial banks and other institutions which provide basic financial services.

The training needs of the CYCI are therefore fourfold: some degree of training will be required by:

- staff of the lead agency
- staff of the implementing agency
- beneficiaries; and
- banks and financial institutions.

Staff of the Lead Agency

The lead agency is in charge of overseeing the implementation of the CYCI. It may be a government department, for example, the Ministry of Youth Affairs, or an international development agency or NGO. In the first instance, training of lead agency staff takes the form of an orientation programme that familiarises them with the CYCI philosophy and methodology.

There may be a number of government departments that would benefit from such an orientation. The CYCI depends for its success on an enabling environment. The principal elements

of this enabling environment are:

- peace, democracy and political stability
- political will
- adequate financial and human resources
- supportive policy, legal and administrative frameworks
- culture of entrepreneurship and co-operation
- supportive infrastructure.

Policy, legal and administrative frameworks may need to be adjusted in order to ensure that there are no legal or administrative barriers to micro-enterprise development. Macro-economic policies, interest rates and banking and trading regulations need to be conducive to the creation of a climate in which micro-enterprises can flourish. It is advisable therefore that a wide range of government policy-makers and decision-makers be aware of the CYCI. The lead agency should consider involving many of these key stakeholders in the CYCI orientation programme.

The major topics covered in the orientation training programme for lead agency staff are:

- CYCI philosophy and methodology
- implementation
- monitoring and evaluation.

Implementing Agency

Once the lead agency has initiated the CYCI and selected a partner NGO as its implementing agency, the staff of that agency also require the basic orientation programme. In addition, the partner NGO will require additional training in various aspects of implementing the CYCI,

including management of the loan fund and provision of ongoing business counselling and support.

Most important of all, the implementing agency provides training to the programme beneficiaries. Therefore, training staff may themselves require training in order to prepare them for this role.

Staff who require training include those who will administer the programme, as well as those who provide beneficiary training and ongoing business counselling to the beneficiaries. These include the programme manager, the loan supervisor, field officers and trainers.

Topics covered in training for the staff of the implementing agency should include:

- CYCI methodology and implementation
- the CYCI project cycle
- micro-enterprise development
- business counselling
- management of the loan fund
- providing training to beneficiaries.

Beneficiaries

Providing training to the young entrepreneurs who are the target beneficiaries of the programme is the largest single training requirement of the CYCI. Once potential beneficiaries have been identified and passed through the CYCI selection process to be accepted into the programme, their next challenge is to pass through the CYCI training process.

In the CYCI model, successful completion of the training programme is a prerequisite for receiving a loan. One of the activities in the training programme is the preparation of a comprehensive business plan. This helps ensure that those who receive loans are well prepared to make optimum use of them. Also, beneficiary training provides an opportunity

for trainees to get to know each other, share their business ideas and ultimately form themselves into credit groups for the purposes of preparing loan applications, receiving loans, starting group savings, and providing peer support. If necessary, peer pressure is applied through these groups to ensure that loan repayments are made on time.

Topics which should be covered in the beneficiary training include:

- CYCI methodology
- group formation and functioning
- group and individual savings
- financial management of businesses, loans and savings
- entrepreneurship and marketing
- personal development.

Banks/Financial Institutions

The implementing agency works in partnership not only with the lead agency but also with commercial banks and financial institutions from which it obtains the financial services necessary for the administration of the loan fund. Services include disbursement of loans, deposit of loan repayment and the operational banking needs for its day-to-day functioning (revenues, expenses, staff salaries, etc.).

It is important that the relationship between the implementing agency and its local provider of financial services be a positive and mutually supportive one. Micro-credit is based on a philosophy and methodology that, while not incompatible with those of commercial banks, may differ from them in a number of ways. In order for commercial financial institutions to fully understand and appreciate the CYCI, it is advisable for representatives of these institutions to attend a basic orientation programme. It may also be useful for these institutions to gain an understanding of the CYCI approach to the financial management of

the loan fund, by attending a training session on this topic.

Training topics that may be of interest to banks and other commercial financial institutions therefore include:

- CYCI philosophy and methodology
- implementation
- financial management of loans and savings.

Who Provides Training?

When a lead agency decides to implement a CYCI, initial orientation training is normally provided by a technical expert familiar with the CYCI approach and experienced in micro-credit and enterprise development. Such expertise may be available from within the human resources of the lead agency, or may be provided externally in the form of technical assistance from an international donor agency. The same basic orientation is provided to the implementing agency, once it has been selected.

However, the resources available for such technical assistance may be limited. In any case, the CYCI is designed to be a sustainable programme which can be replicated on an ongoing basis by a lead agency such as a national government. Therefore, from the outset, the CYCI emphasises the training of trainers so that increasing numbers of people – government staff, NGO staff and trainers – can be made aware of how to implement a micro-credit programme based on the CYCI model. The training of trainers is particularly important to ensure that increasing numbers of young women and men can benefit from the full range of services – credit, training and business support – offered by the programme.

CYCI Training Programmes

The training requirements for the CYCI can be broken down into the following three courses:

- Orientation Course (lead agency, government

ministries, financial institutions)

- Implementation Course (lead agency, implementing agency and financial institutions)
- Beneficiary Training Course (programme beneficiaries).

Each of these courses is dealt with in a separate section of this module. It should be noted that these courses are offered as suggestions. Users will need to tailor the models provided to suit specific national circumstances. Guidelines on designing appropriate training courses are provided in *Designing and Implementing Training Courses* in this module.

The orientation course and the implementation course consist of a series of units, each of which includes the main topics to be covered, some suggested activities, and review questions. The suggested activities are only suggestions, and should be adapted to suit local needs and priorities. Activities include:

- trainer-led activities (e.g. lectures with visual aids);
- class activities (involving the whole class); and
- group activities (in which the class divides into groups of two to five persons).

The review questions can be used to stimulate discussion in executing the suggested activities, or can be provided as hand-outs or used in a general class discussion at the end of each unit.

Each unit makes use of overhead transparencies and hand-outs, which can be adapted to specific needs. Templates for overheads and hand-outs are included in the appendices to this module. Where it is not possible to use an overhead projector, overheads can be copied onto a flip chart or chalkboard, or simply photocopied and used as hand-outs.

Orientation Course

The Orientation Course provides personnel from the lead agency with the information they require to initiate a micro-credit and micro-enterprise development programme based on the CYCI model. Since it presents a general overview of micro-credit and the CYCI, it may also be useful for other personnel besides those directly involved in implementing the initiative: finance, development planning, education and trade policy makers could benefit from gaining an appreciation of the CYCI approach and integrating an awareness of it into their own field of activity. Furthermore, it may be advisable to invite representatives of commercial banks and financial institutions to the course, to raise their awareness of how micro-credit works and how it differs from their usual practice.

The material presented in the course is covered in detail in Module 1 of the CYCI Toolkit: CYCI Overview. It is recommended that trainees read the module before the training takes place; however, this is not essential. In any case, the module serves as a reference manual for both trainers and trainees during the course and for ongoing use throughout CYCI implementation.

The course presented here is only an outline. Users are strongly advised to develop their own orientation course, based on the material in Module 1 of the CYCI Toolkit and adapting this course, where appropriate, to suit their specific needs and context.

Course Overview and Objectives

Overview

The sample outline course provided here consists of six units:

- Unit 1. Introduction

- Unit 2. Background: Micro-credit and the Commonwealth
- Unit 3. Overview of the CYCI Model
- Unit 4. Enabling Environment of CYCI
- Unit 5. CYCI Stakeholders: Roles and responsibilities
- Unit 6. Action points for lead agency

Each unit could take anything from half an hour to half a day, depending on the time/resources available and the particular needs of the participants. Also, units may not all require the same amount of time. For example, it may be desirable to spend more time on Unit 6 than on some of the others, since this presents the action points that must be taken in order to establish the CYCI.

Objectives

By the end of this course, participants should have a general working knowledge of the CYCI, its mission, goals, objectives, philosophy and approach. They should have a good understanding of the major actions required to initiate a CYCI at the level of the lead agency, including set-up, selecting the implementing agency, programme delivery and monitoring, evaluation and reporting. Specific skills acquired should include identifying ways of strengthening the enabling environment of the CYCI, and evaluating proposals from prospective implementing agencies, and supervising programme implementation.

Participants who require an in-depth knowledge of programme implementation, including general and financial management, portfolio tracking and the use of indicators and tools for monitoring, evaluation and reporting, are referred to the course on CYCI

Implementation in the next section of this module.

Unit 1. Introduction

Topics covered

- I. Welcome and introductions
- II. Scope and objectives of the training
- III. What is the CYCI?

Suggested activities

- The trainer makes some general introductory remarks and introduces herself/himself.
- Participants introduce themselves in turn and identify at least one specific thing they expect to obtain from the orientation course.
- The trainer gives a brief description of the CYCI and an overview of the Orientation Course, using the overhead transparencies provided (Overhead nos. 1 and 2).
- *Group activity:* if desired the class may divide into groups for an ice-breaking activity such as forming pairs and sharing information about themselves, their experiences of micro-enterprise development, their expectations, things they would like to change, etc. Different pairs can then be formed and the same kind of information shared again.

Unit 2. Background: Micro-credit and the Commonwealth

Topics covered

- I. What is micro-credit?
- II. Approaches to micro-credit

The Commonwealth Plan of Action on Youth Empowerment

Suggested activities

- The trainer initiates a class discussion about

micro-credit – what its purpose is, what it can achieve, what it cannot achieve, what it requires in order to achieve its aims.

- Using Overhead no. 3, the trainer presents the two approaches to micro-credit – the minimalist approach and the holistic approach.
- *Class discussion:* participants discuss the advantages and disadvantages of each approach. The trainer concludes by emphasising that the CYCI uses the holistic approach. This can be done in the context of a brief overview of the strategic objectives of the Commonwealth Plan of Action on Youth Empowerment (see Overhead no. 4).

Review questions

1. What are the two main approaches to micro-credit delivery?
2. What are the principle elements of the holistic approach?
3. What are the limitations of micro-credit?
4. Under what circumstances can micro-credit be effective in alleviating poverty?
5. What micro-credit programmes have been tried in your country? How successful were they in: promoting enterprise development? alleviating poverty? What were the reasons for their success/lack of success?

Unit 3. Overview of the CYCI Model

Topics covered

- Definition, scope, goal and objectives of the CYCI
- Key features of CYCI
- Institutional arrangements
- Target beneficiaries
- Training, group formation, and delivery of loans

- Monitoring and evaluation.

Suggested activities

- Using Overhead no. 5 (or a flip chart), the trainer gives a short presentation of the definition, scope, goal and objectives of the CYCI.
- *Class discussion:* the trainer invites the class to identify as many key features of the CYCI as possible, based on their current knowledge. Each feature is written on the chalkboard or flip-chart. The findings are then compared with the list of key features on the hand-out.
- The trainer presents the institutional arrangements of the CYCI using Overhead no. 6. The class then separates into groups to (1) identify the lead agency in the national context; (2) potential members of the Management Advisory Board and (3) identify possible partner NGOs or possible ways of identifying potential partner NGOs. The findings of each group are discussed by the class as a whole.
- *Class discussion:* the trainer invites the class to identify the target beneficiaries of the programme. How are they defined by age, gender, geographical location, family circumstances, income level, education level? The findings are written on the flip-chart or chalkboard.
- The trainer gives a brief overview of the processes to be undertaken by the implementing agency: beneficiary selection, training, group formation, disbursement of loans, and monitoring and evaluation, using the hand-outs.

Review questions

1. What are the key features of the CYCI?
2. How can these features contribute to achieving the CYCI's stated goals and objectives?

3. Has anything like the CYCI been tried in your country? What were the results? How did that programme differ from the CYCI?
4. Should credit for poor people be subsidised by the government in order to keep interest payments low? State the reasons for your answer.
5. Who are the target beneficiaries of the CYCI as envisioned in your country? What are their physical, economic, health and educational needs?

Unit 4. Enabling Environment of CYCI

Topics covered

- Peace, democracy and political stability
- Political will
- Adequate financial and human resources
- Supportive policy, legal and administrative frameworks
- Culture of entrepreneurship and co-operation
- Supportive infrastructure

Suggested activities

- The trainer presents a brief overview of the enabling environment, using Overhead no. 6. The class breaks into groups to discuss the current level of political will and resource availability for the establishment of the CYCI in the country. Where is political will strongest? Where is it weakest? Where and how can resources be accessed? Where should advocacy efforts be concentrated? Findings are shared in a general discussion with the whole class.
- The trainer distributes hand-out A. S/he may also draw attention to Module 1 of the CYCI Toolkit, especially Appendix B, 'Advocating the CYCI'.
- Class discussion: drawing on the present

knowledge and experience of the class, what policy, legal and administrative barriers currently exist to the success of micro-enterprise development? How can hidden barriers be brought to light? Where can staff go to find out more about areas where there are gaps in their current knowledge? The trainer writes up on the flip-chart/chalk board any answers on which there is general consensus.

- Group discussion: group members discuss the strengths, weaknesses, opportunities and threats (SWOT) to the establishment of a successful micro-enterprise development programme in a specific area of the country, in terms of the prevailing culture, infrastructure and other conditions facing the target beneficiaries. Findings for different areas are compared in a general discussion involving the whole class.

Review questions

1. Regarding the establishment of an effective micro-enterprise development scheme, what is the single most positive factor in the enabling environment as it now exists in your country?
2. What are four other positive factors in the current environment?
3. Where could advocacy and promotion efforts be most effectively applied in order to improve the enabling environment?
4. What will you do, personally, to improve the chances of success of the CYCI in your country?
5. What will you ask your colleagues/boss to do?

Unit 5. CYCI Stakeholders: Roles and Responsibilities

Topics covered

- Primary stakeholders
- Secondary stakeholders

- Doing a stakeholder analysis

Suggested activities

- *Class discussion:* the class brainstorms about who the stakeholders are in the CYCI. Then they break into groups and ask the questions in Overhead no. 7, about each of the key stakeholders.
- *Class discussion:* the findings of the group discussions are compared and tabulated on a flip-chart or chalkboard. Through discussion the class arrives at an agreed stakeholder analysis.

Review questions

1. Who are the key stakeholders in the CYCI?
2. What are their main points of agreement?
3. What are the potential sources/areas of conflict?
4. What strategic interventions could be made, and by whom, to align the stakeholder interests in a more supportive/productive way?
5. What can you do to ensure that these interventions are made?

Unit 6. Action Points for Lead Agency

Topics covered

- Set-up
- Selecting the implementing agency
- Staff and institutional training
- Programme implementation
- Monitoring and evaluation

Suggested activities

- Using Overhead no. 8, the trainer provides an overview of the main steps of the Set-up phase.

- *Group activity:* working in pairs or small groups, participants draw up a draft plan of action for CYCI implementation in the national context, including identifying possible institutional arrangements, sources of funding, location of implementation, target group(s) addressed, potential partner NGOs, budget and timeframe.
- Each group presents their plan of action to the whole class using the flip chart, and the class discusses the merits of each plan.
- The trainer presents the three main steps in the process of selecting a partner agency, using Overhead no. 8, and drawing attention to the legal and financial agreement included in Module 1 of the CYCI Toolkit.
- *Group activity:* working in pairs or small groups, participants discuss their opinions, expectations and experiences in requesting and evaluating proposals from potential partner NGOs and selecting an appropriate implementing agency. They prepare draft proposals which are then evaluation by the class as a whole.
- The trainer presents a brief overview of the CYCI programme implementation cycle, using Overhead no. 9, followed by a question and answer session to ensure participants have a working knowledge of

the programme cycle to be implemented by the partner NGO.

- The trainer presents the mechanisms for monitoring and evaluation, referring once again to Overhead no. 8.

[Note: at this stage it may be desirable to enter into greater detail regarding programme implementation, monitoring, evaluation and reporting. *If so, trainers may refer to Module 3 of the Toolkit and to Units 5 and 6 of the Implementation Course, which is dealt with in the next section of this module.*]

Review Questions

1. What are the functions of the Management Advisory Board? Who are the Board's members?
2. In the Request for Proposals, what information should potential partner agencies be requested to supply as part of their proposal?
3. What are the five most important qualities for the CYCI implementing agency?
4. What are the monitoring and evaluation mechanisms of the CYCI?
5. How can you tell when a micro-credit scheme is successful? Can you identify at least three different criteria for evaluating the success of a CYCI programme?

Implementation Course

Introduction

The Implementation Course provides the staff of the CYCI lead agency and implementing agency with the information they require to implement a CYCI programme. It may also be useful for government personnel and representatives of commercial banks and financial institutions, in order to deepen their awareness of how the CYCI works.

The material presented in the course is covered in detail in Modules 2 and 3 of the CYCI Toolkit. It is recommended that trainees read the modules before the training takes place; however, this is not essential. In any case, the modules serve as reference manuals for both trainers and trainees during the course, and for ongoing use throughout CYCI implementation.

The course presented here is only an outline. Users are strongly advised to develop their own orientation course, adapting this course, where appropriate, to suit their specific needs and context.

Course Overview and Objectives

Overview

The sample outline course provided here consists of six units:

- Unit 1. Introduction
- Unit 2: Programme Design
- Unit 3: Building Operational Capacity
- Unit 4. Mobilisation and Development
- Unit 5. Loan Disbursal and Management
- Unit 6: Monitoring, Evaluation and Reporting

Each unit could take anything from half an hour to half a day, depending on the time/resources available and the particular

needs of the participants. Also, units may not all require the same amount of time. For example, it may be desirable to spend more time on Unit 6 than on some of the others, since this presents the action points that must be taken in order to establish the CYCI.

Each unit of the proposed outline includes the main topics to be covered, some suggested activities, and review questions. The suggested activities are only suggestions, and should be adapted to suit local needs and priorities. Activities include trainer-led activities (e.g. lectures with visual aids) class activities (involving the whole class), and group activities (in which the class divides into groups of two to five persons). The review questions can be used to stimulate discussion in executing the suggested activities, or can be provided as hand-outs or used in a general class discussion at the end of each unit.

Objectives

By the end of this course, participants should have an in-depth, hands-on knowledge of the major actions required to implement a CYCI programme, including programme design, building operational capacity, mobilisation, development, beneficiary training and the formation of credit groups, loan disbursal and repayment collection, providing ongoing business counselling and support, and monitoring, evaluation and reporting. Specific skills acquired should include designing the loan and savings package, operating a portfolio tracking system, and calculating a range of indicators for monitoring and evaluation. Participants should be able to implement a CYCI at the programme level, based on knowledge gained in this course and information contained in the CYCI Toolkit.

Unit 1. Introduction

Topics covered

- I. Welcome and introductions
- II. Scope and objectives of the training
- III. Overview of the CYCI Model
- IV. The role of the implementing agency
- V. Overview of the CYCI Programme Cycle

Suggested activities

- The trainer makes some general introductory remarks and introduces herself/himself.
- Participants introduce themselves in turn and identify at least one specific thing they expect to obtain from the implementation course.
- The trainer gives a brief description of the CYCI and an overview of the Implementation Course, using Overhead nos. 1 and 10.
- *Group activity:* if desired the class may divide into groups for an ice-breaking activity such as forming pairs and sharing information about themselves, their experiences of micro-enterprise development, their expectations, things they would like to change, etc. Different pairs can then be formed and the same kind of information shared again.

The trainer presents an overview of the CYCI Model, the role of the implementing agency, and the CYCI programme Cycle, using Overhead nos. 5, 6 and 9 and hand-out B.

- *Class activity:* the class brainstorms about how the CYCI should be implemented in the specific context of the geographical area selected and the implementing agency's past experience.

Review questions

1. What does the CYCI have in common with

previous activities undertaken by your agency? How does it differ from previous activities undertaken by your agency?

2. What capacities of your agency can be drawn upon in the implementation of the CYCI?
3. What capacities need to be developed by your agency in order to implement the CYCI effectively? How can that capacity building be achieved?
4. What are the principal elements of the CYCI programme cycle?
5. Who are the other stakeholders in the CYCI? What role can they play?

Unit 2: Programme Design

Topics covered

- I. The importance of client participation
- II. Baseline survey
- III. Identification of potential beneficiaries and needs analysis
- IV. Designing the loan and savings package
- V. Business plan
- VI. Budget

Suggested activities

- The trainer gives an introductory talk on the importance of client participation in the design of programmes. Using Overhead no. 11, the trainer presents an overview of techniques and good practice in Participatory Rural Appraisal (PRA).
- *Class discussion:* class members share their experiences and perspectives on PRA and discuss how these can be brought to bear on CYCI implementation.
- *Group activity:* in small groups, participants develop strategies for carrying out a baseline survey using the techniques discussed. These are then presented to and evaluated by the whole class.

- *Class activity:* the class discusses criteria and techniques for the identification of potential beneficiaries, and for carrying out a needs assessment in the local context.
- *Class activity:* the trainer leads a discussion of the main issues to be decided in designing the loan and savings package, using Overhead no. 12.
- The trainer presents the main elements of the business plan and budget, using hand-outs C and D. This could then be compared with the business plan submitted by the implementing agency as part of its proposal.

Review questions

1. What techniques of PRA are most appropriate to the locality in which the CYCI is to be implemented? Why?
2. What criteria should be used in identifying potential beneficiaries of the programme?
3. How can the credit, training and other needs of the target beneficiaries be assessed?
4. What is the difference between the flat rate and declining balance methods of calculating interest rates. Which method is preferable for your organisation? Why?
5. What costs have to be covered by interest received on loans?
6. What information is missing from the implementing agency's current business plan? How can that information be obtained and added to the plan?

Unit 3: Building Operational Capacity

Topics covered

- I. Staff training requirements
- II. Staff roles and responsibilities

Suggested activities

- *Group activity:* in small groups, participants evaluate their own or each other's training needs using checklist in hand-out E. They identify their areas of strength and weakness. These can then be shared and discussed by the whole class.
- The trainer presents the main staff roles in implementing the CYCI, using Overhead no. 13. If desired these can then be discussed with specific reference to the implementing agency in question.

Unit 4. Mobilisation and Development

Topics covered

- I. Promoting and publicising the programme
- II. Assessment and selection of beneficiaries
- III. Beneficiary training
- IV. Formation of beneficiary groups

Suggested activities

- *Class activity:* the trainer asks for suggestions on how the programme could be promoted. These are discussed by the class. If necessary, the trainer provides some suggestions, using Overhead no. 14.
- *Group activity:* participants draw up a draft communication plan to publicise the programme. These can then be presented to and discussed by the whole class.
- The trainer presents the criteria for assessing applications as shown in Overhead no. 15.
- The trainer presents an overview of the elements to be covered in a trainee beneficiary programme, using Overhead no 16.

[Note: the amount of detail entered into here, and for the section below on formation of

credit groups, will depend on the level of experience of participants. If they already have extensive experience of designing and implementing entrepreneurship training programmes for young people, it may be necessary simply to outline the training requirements and draw participants' attention to the following elements of the CYCI Toolkit:

- *Beneficiary Training Course* in this Module
- *Mobilisation and Development* in Module 2

If the requisite experience is lacking, it may be necessary to provide a greater focus on how to design and implement the beneficiary training, as described in the module sections mentioned above.]

The trainer presents good practice guidelines for the formation of credit groups, using Overhead no. 17.

Review questions

1. What are the main elements of a communications plan to promote the CYCI?
2. What criteria can be used in assessing applications to join the programme?
3. What are the essential areas to be covered in a CYCI beneficiary training programme?
4. Name five principles of good practice in forming credit groups.
5. What are the main roles, rights and responsibilities of credit group members?

Unit 5. Loan Disbursal and Management

Topics covered

- general management of the programme
- processing of loan applications
- issuing the loan
- repayment collection
- dealing with delinquent payments
- providing ongoing business counselling and support

Suggested activities

- Using Overhead nos. 18 and 19 and hand-out D, the trainer present the main elements of the management of the programme. The importance of hiring a professional accountant is emphasised. The key elements of the accounting system are outlined (the portfolio tracking system is dealt with later in the unit). Using Overhead no. 20, the trainer highlights some key considerations in selecting appropriate computer software.
- *Class activity:* the class discusses strengths, weaknesses, opportunities and threats regarding the general management of the programme.
- The trainer outlines the procedure for processing loan applications and issuing loans, using Overhead no. 21. Drawing attention to the sample promissory note, passbook and beneficiary record presented in *Appendices B, C and E of Module 3 of the CYCI Toolkit*, the trainer explains the use of these forms and answers any questions.
- Using Overhead no. 21, the trainer outlines the procedure for collecting repayments and dealing with delinquent payments. *The trainer explains the use of the sample transfer report in Appendix D of Module 3 of the CYCI Toolkit.*
- *Class activity:* using Overhead no. 21 as a prompt, the class discusses ways of dealing with delinquent payments.
- The trainer present an overview of providing ongoing business counselling and support, using Overhead no. 22.
- *Group activity:* in small groups the participants brainstorm on the best ways to provide ongoing business counselling and support. Their findings can then be shared by the whole class.

Review questions

1. What are the two main record keeping systems required for CYCI implementation? To what extent are these systems already in place in your organisation?
2. Who processes loan applications? What is the purpose of a promissory note?
3. What is the difference between a beneficiary record and a beneficiary passbook? Who uses these documents?
4. Why is it important to deal promptly with delinquent loans?
5. What is mentoring? How can it be employed by your organisation?

Unit 6: Monitoring, Evaluation and Reporting

Topics covered

- Types of indicators
- Portfolio performance indicators
- Productivity and efficiency indicators
- Financial sustainability indicators
- Impact indicators
- Interpreting indicators
- Tools for monitoring and evaluation

Suggested activities

- The trainer presents an overview of the various types of indicators, using Overhead no. 23. The purpose here is not to enter into great detail about each of the indicators shown on the overhead, but rather to draw the broad distinction between implementation indicators and impact indicators, and the different types of indicators that fall under each of these categories.
- Using Overhead no. 24, the trainer gives a detailed presentation of portfolio

performance indicators and answers any questions.

- *Group activity:* the trainer states a hypothetical case of an implementing agency's loan package and the progress of repayments. Based on this, participants work in small groups to calculate the portfolio at risk, the loan write-off ratio and the current repayment rate. Results from the different groups are compared by the whole class. (*Examples of the kind of hypothetical case that can be used are found in the discussion of portfolio performance indicators in Module 3 of the CYCI Toolkit.*) Results are then compared with the rest of the class.
- The trainer presents in detail the productivity and efficiency indicators as shown in Overhead no. 25.
- *Class activity:* the trainer writes hypothetical situations on a flip-chart or chalkboard, and invites participants to provide productivity and efficiency ratios based on those examples.
- The trainer presents the indicators for financial sustainability, using Overhead no. 26.
- *Class activity:* class members discuss all the indicators so far presented, and raise any questions.
- Using Overhead no. 23, the trainer discusses the various kinds of impact indicators.
- The trainer presents the main tools for monitoring and evaluation, using Overhead no. 27. *Drawing attention to Appendices F, G and H of Module 3 of the CYCI Toolkit*, the trainer shows how the indicators can be used in the compilation of monitoring and evaluation tools.
- *Group activity:* in small groups, participants draw up a monthly report, based on hypothetical information supplied by the trainer. The reports are then compared with

the remainder of the class.

- The trainer present the logical framework, using Overhead no. 28.
- *Class activity:* using a flip-chart or the chalkboard, the trainer and participants together fill out a log-frame based on their current knowledge of their organisation, the CYCI programme, and the probable target area for implementation of the programme.

Review questions

1. What is the most important indicator of portfolio quality? Why should this figure not be viewed in isolation?
2. What is an acceptable level for programme staff productivity?
3. What indicators show the operational efficiency of an organisation?
4. How close is your organisation to attaining financial sustainability? How close will it be in one year? Three years?
5. What impact indicators would you select in order to gauge the impact of a CYCI programme in your area? Why?

Beneficiary Training Course

This section presents guidelines on providing training to the beneficiaries of the CYCI. A large number of training materials already exist in the area of youth and enterprise development. Our intention here is not to offer still more such materials, but to point the way to useful publications in various media.

Based on these materials and the guidelines below, trainers are invited to draw up their own beneficiary training programmes according to the specific context in which the CYCI is being implemented.

The structure and content of appropriate training programmes will depend on the following factors:

- the size of the group to be trained
- their existing levels of skills in the essential areas listed above
- the nature and range of business opportunities available in the target area
- the extent to which a culture of entrepreneurship exists in the area
- the training budget and time available.

A sample training schedule is presented in Figure 1. This provides a possible structure and breakdown of material to be covered; it can be adapted to suit specific circumstances.

Annotated Bibliography of Training Resources

The following list includes publications commissioned by the Commonwealth Youth Programme (CYP) as well as other relevant publications of the Commonwealth Secretariat. It also includes a few publications by other

agencies of particular relevance to youth enterprise development and/or micro-credit, as well as a listing of some of the video resources available for training and promotional purposes. Pricing details are presented for information purposes only, and are subject to change without notice.

The listing concludes with a brief overview of Internet web sites where further information of various aspects of micro-enterprise development can be found.

Commonwealth Youth Programme Publications

Risk it! The Youth Enterprise Manual. Compiled by Kevin Ford. London: Commonwealth Secretariat, 1991. ISBN 0-85092-362-X

The CYP published this manual about youth enterprise in order to help youth workers assist young people in becoming more enterprising. It describes and defines enterprise and presents examples from various Commonwealth countries to show youth enterprise in action.

Try It! The Youth Enterprise Workbook. Written by Kevin Ford and Evan Quinine. London: Commonwealth Secretariat, 1995. ISBN 0-85092-416-2

This CYP publication is a companion to the *Risk It!* manual. It offers a range of exercises that trainers can use to encourage the development of enterprise skills and aptitudes among young people. It is designed to provide a basis upon which training programmes can be developed that answer the specific needs in the local context.

Figure 1: CYCI Sample Training Schedule

Day 1: Introduction and overview	Welcome and introductions Ice-breaking activities Presentation of CYCI Overview Presentation of Training Overview
Day 2: Personal development (1)	Motivation Communications skills Introduction to entrepreneurship Group Exercises
Day 3: Developing a business idea (1)	Identification of business opportunities Identifying a market Product selection Research
Day 4: Developing a business idea (2)	Calculating costs Legal and practical issues Preparation of a Business Plan
Day 5: Marketing the product	Market research Setting objectives Determining strategies Group exercises
Day 6: Personal Development (2)	Leadership skills Conflict resolution Gender awareness Environmental sustainability
Day 7: Financial management skills (1)	Principles of group credit and savings Accountancy and bookkeeping (1)
Day 8: Financial management skills (2)	Bookkeeping (2) Reporting to implementing agency
Day 9: Group formation	Beneficiaries form credit groups Establishing rules and regulations Rights and responsibilities of group members Roles and functions of group officers Distribution of loan application forms
Day 10: Finalisation of Business Plan and Loan Application	Review and fine tuning of Business Plans Completion and group approval of Loan Application forms with Business Plans Closing review and celebration

Young Women in Enterprise: A Workbook.
Written and compiled by Teorongonui Josie Keelan. London: Commonwealth Secretariat, 1996.
ISBN 0-85092-416-2

This step-by-step practical workbook is designed to assist young women in becoming financially secure, independent and self-reliant. It includes sections on starting an enterprise, goal setting, budgeting, credit and record keeping, business management, structure and location, and problem-solving.

Promoting Enterprise and Economic Development: CYP Diploma in Youth in Development Work, Module 11. London: Commonwealth Secretariat, 1998

This course manual is part of the CYP Diploma in Youth in Development Work, which is delivered via distance education through partner training institutions in various Commonwealth countries. It includes both theoretical and practical units on aspects of economic development and youth enterprise. Unit five is a training programme that can be delivered by the youth worker to young people who want to set up and run a small enterprise.

Getting Ready for Business, Parts 1 and 2.
Written by Hilton E. Forde. Georgetown, Guyana: Commonwealth Youth Programme Caribbean Regional Centre.

These training manuals were developed in the context of the Commonwealth Caribbean region as part of the CYP Caribbean Regional Centre's Certificate Course in Small Business Development Skills via distance education. They include modules on getting ready for business, financing the business, marketing, and the business plan.

Other Commonwealth Secretariat Publications

Entrepreneurial Skills for Young Women: A Manual for Trainers. London: Commonwealth

Secretariat, 1992. ISBN 0-85092-428-6

This manual provides resource materials and suggests teaching methodologies to those involved in developing entrepreneurial skills among women. It includes three sections: gender issues; achieving motivation training; and how to start and run a business.

Women in Business: Training Materials for the Promotion of Self-Employment among Women. London: Commonwealth Secretariat, 1994.
ISBN 0-85092-404-9

This manual presents case studies of successful women-led enterprises in The Gambia, Papua New Guinea, Trinidad and Tobago, Sri Lanka and Zimbabwe. It also includes training exercises to facilitate analysis of and learning from the case studies.

Publications from Other Sources

Improve your Business: Workbook and Handbook. Edited by D.E.N. Dickson. Geneva: International Labour Office: 1986.
ISBN 92-2-105342-3 (two volumes)

Designed for entrepreneurs, business people, trainers, consultants and extension workers, these publications are designed to assist owners of small-scale enterprises in improving the running of their businesses.

Group Entrepreneurship for Rural Women: Trainer's Manual. Written by Hina Shah and Chandramauli Pathak. Ahmedabad, India: International Centre for Entrepreneurship and Career Development, 1994.

A practical manual which provides a vision of what group entrepreneurship amongst women is; a system for developing skills and knowledge and ushering in attitudinal and behavioural changes among rural women; and a description of the tasks of the trainer within this development process. It includes numerous exercises that can be adapted to suit particular contexts.

Micro-Start: A Guide for Planning, Starting and Managing a Micro-Finance Programme. New York: United Nations Development Programme, 1997.
ISBN 92-1-126060-4

This comprehensive guide is for organisations and individuals who wish to initiate or strengthen a micro-finance programme. It includes chapters on planning, staffing, marketing, forming credit groups, making and managing loans, dealing with repayments, keeping records, accounting and reporting.

Video Resources

Where Credit's Due: The Commonwealth In Action. Commonwealth Secretariat, 1998. VHS: 20 min.

This video, produced by the Commonwealth Secretariat's Information and Public Affairs Division, looks at the four CYCI pilot projects and presents a general overview of the CYCI.

Hands on: What a Difference a Loan Makes. Television Trust for the Environment, 1998. VHS: 27.02 min.

This video, which was broadcast as part of the BBC World Service's Hands On series, shows the positive impact of successful micro-credit schemes in Guyana, Pakistan, Sri Lanka and the United Kingdom, including the CYCI Caribbean Region pilot project.

Internet Resources

The following Web sites have useful information on various aspects of micro-credit and enterprise development.

<http://ntl1.ids.ac.uk/eldis/eldis/htm>
Hosted by the Institute of Development Studies, this site provides information on a vast range of publications about micro-credit.

<http://www.undp.org/uncdf/sum/>
This website contains information about the UNDP's MicroStart project. The MicroStart guide can be downloaded from this site.

<http://www.soc.titech.ac.jp/icm>
This 'virtual library' on micro-credit includes a wide range of resources, including training materials, case studies, 'microfinance idea cards', and links to other Internet sources.

<http://www.microcreditsummit.org>
This site includes the full text of the 1997 Micro-credit Summit Declaration, information about member organisations of consultative councils, and a way of joining the Summit mailing list.

<http://www-esd.worldbank.org/html/esd/agr/sbp/step0.htm>
This is the site of the World Bank's Sustainable Banking with the Poor project. It includes abstracts/working papers, and information on microfinance practices and organisations worldwide.

<http://www.worldbank.org/html/cgap/cgap.html>
This site of the Consultative Group to Assist the Poorest has information on the programme, texts of papers and newsletter.

Designing and Implementing Training Programmes

Some General Considerations

Characteristics of adult learners

Many if not most of the trainees in CYCI training programmes are adults. In designing training programmes for adults, it is important to bear in mind that adult learners have specific characteristics that affect the way they learn (see Shah and Pathak, 1994).

These characteristics may include:

- **a highly developed self-image:** adults tend to know who they are and what they want, and think of themselves as self-directing. They need to be seen as unique individuals, treated with respect, and where possible, directly involved in creating their own learning experiences, since this helps them to acquire a sense of ownership of the knowledge they have gained. Adults do not wish to be treated like children and if they fear or feel that this may happen, an obstacle to learning will be created. Efforts should be made to build the confidence and enthusiasm of trainees at an early stage.
- **life experience:** adults bring to the training a rich variety of lived experiences which can serve as a source of learning, both for themselves and others. Trainers should seek to build on the past experiences of trainees. However, if such experience has led to the entrenchment of fixed attitudes and behaviour patterns, this may present an obstacle to learning (Shah and Pathak, 1994). Trainers need to be flexible in their approach and to encourage trainees to be flexible as well.
- **readiness to learn:** adults may be highly motivated and ready to learn, because they understand the purpose and use of the

information and skills they are being taught. On the other hand, some adults may feel that they are too old or mature to learn new things, which again would be an obstacle to effective training (Shah and Pathak, 1994). A participatory approach of 'learning by doing' will help to satisfy those who are eager to learn and provide encouragement to those who need it.

- **desire to apply knowledge immediately:** whereas children tend to think of their education as a preparation for the future, adults need to see the relevance and practicality of what they are being taught immediately, and to put that knowledge to use as quickly as possible (Shah and Pathak, 1994). Trainers should emphasise the practical nature of the work and avoid tests or exams that may promote a fear of failure.
- **desire for feedback:** adults respond positively to the provision of feedback on their progress in learning. Trainers should seek to provide feedback at all stages of the training.

Training in different cultures

Some trainers who have been successful in one culture may experience difficulty in another. The main reason for this is that they are unable to adjust to new learning environments. There are several environmental and cultural factors which can dictate whether training will be a success or a failure. Among the basic considerations when planning training in a new environment are the following:

- **varying literacy levels:** the level of local educational standards may vary and this could significantly impact upon any

planned training programs. Presentation styles, language levels, training techniques must be in line with the literacy levels and experiences of the group.

- **social, political and economic structural changes:** the trends which affect work in countries where these changes are frequent must be taken into consideration by trainers.
- **work attitudes and behaviours:** these may differ from country to country. The trainer must consider the value systems and standards for recognition.
- **varied learning habits:** trainees may have acquired different learning habits owing to the different approaches employed by educational and training institutions in different countries.

Training programme design and implementation takes place in four main phases:

1. design and development
2. organisation and preparation
3. programme delivery
4. evaluation and modification.

Design and Development

Design and development of the training programme takes place in three main steps:

- target group identification and needs assessment
- setting objectives
- programme development.

Target group identification and needs assessment

Target group identification and needs assessment go hand in hand. Training is intended to fill a particular need, e.g. to build knowledge of CYCI implementation. The target group is therefore all those who require this

knowledge but do not have it. Training is also aimed at particular target groups, e.g. Ministry of Youth Affairs and NGO staff. Needs assessment is therefore necessary to determine which members of these target groups require what kind of training. For example, some NGO staff may be knowledgeable about micro-credit accounting procedures, but not about providing basic training to beneficiaries. In this case, a needs assessment would determine that 'training of trainers' is the primary requirement.

Conducting a needs assessment entails finding out what the current capabilities of the target group are. This can be achieved by such techniques as observation, interviews, questionnaires and task analysis. Current staff capabilities are then compared with the capabilities required to implement the CYCI. A checklist of CYCI staff training needs is included as hand-out E in Appendix A of this module.

It is essential that the training programme be designed to meet the specific needs of the target groups.

Setting objectives

The training programme should include a clear statement of what trainees should be able to achieve at the conclusion of the programme. Ideally, it should also state expected levels of performance and the process for measuring this performance. Clear objectives serve to guide trainers in planning and developing activities, selecting appropriate equipment, materials and facilities and developing evaluation standards.

Programme development

In planning an effective training programme, the most commonly used technique is to divide it into units or lessons.

Lesson plans: a lesson may be defined as a self-contained unit of work which is usually flexible and adaptable to most training situations. In designing a lesson plan, the focus

should be what facts, principles, concepts and skills are to be taught, how they are to be taught and how the training is to be assessed. Lesson plans ensure that important materials are not omitted and greatly assist in time management. They are also yardsticks for assessing the effectiveness and professionalism of trainers.

There are three basic components to a lesson plan:

- *a brief introduction* stating what the lesson is about and what trainees will be expected to do. It includes the lesson title, objectives, relevance to the trainees' learning, required materials, activities and timetable;
- *a section on learning activities* which identifies appropriate instructional methods, arranges the teaching points in sequence and shows how learning should be assessed; and
- *a summary* indicating the anticipated objectives to be achieved and assignments which would reinforce what was learnt during the lesson and to assist trainees in applying what they learnt to their particular situations.

Timetable: each lesson plan should include a timeframe within which trainees will be required to complete an activity or go through the content (with provision for recesses). In addition, the programme as a whole requires a structured timeframe. In estimating the setting up a timetable, account should be taken of the type of content, the amount of detail, any possible learning difficulties, instructional methods and strategy and common group characteristics.

The presentation and format of lesson plans varies according to the experience and style of individual trainers as well as the nature of the exercise. Experienced trainers may be able to utilise abbreviated lesson plans while those less experienced trainers may prefer very detailed and clear-cut plans.

Selecting Training Methods

In designing a training lesson and developing a lesson plan, appropriate training strategies should be selected. The strategy details the particular methodology employed to facilitate the process of learning. In general, a participatory approach is recommended, in which as far as possible trainees 'learn by doing'. A wide spectrum of training methods maintain variety and interest, motivate trainees and allow for their full participation.

Strategies that can be employed include:

- **lectures and demonstrations** – although these are not very participatory methods, they are probably the most commonly used. They employ a one-way system of communication where trainees listen and take notes, occasionally asking questions. Interaction between the group and trainer takes place at the end of the lecture. If the objective is to convey information then this approach may be the most effective, particularly for introducing new subjects since short presentations may serve to stimulate the participants and arouse interest. Lectures present a manageable alternative where time is limited or there is a large group of trainees. The skills of the trainer ultimately determine the effectiveness of this method. The demonstration method is usually highly visual and verbal. It involves showing trainees how some task or procedure should be carried out. Trainees are given the opportunity to practice it with feedback from the trainer.
- **group activities:** trainees work together on tasks and share experiences and difficulties under the guidance of the trainer. The most common methods of group learning are through group discussions and brainstorming. Owing to its informal nature, the group discussion method facilitates good interaction, involvement and retention of information by trainees. In

exploring issues, comparing views and sharing problems, trainees may experience a change in attitude. In brainstorming, trainees generate as many ideas possible in a short time, sharing with the group whatever ideas come to mind, without interrupting the flow of ideas with criticism or discussion. The creative principle of brainstorming is that ideas stimulate the development of other ideas.

- **structured experiences:** these include case studies, role plays and business games. The case study method presents a real-life situation which trainees study and discuss in depth in an effort to diagnose problems and arrive at solutions. In using this method trainees gain new insight into their own ways of thinking, talking, listening, and making decisions. In role plays learning situations are acted out by trainees who put themselves in the place of the characters in an imaginary situation that simulates real life experiences. Business games focus on management principles: groups of trainees are given information on a company and are required to assume various roles in that company, make decisions and take actions. The probable outcomes of the groups' decisions are then assessed. In-basket exercises involve giving trainees a varied set of documentation similar to that with which they deal on a daily basis. Each trainee is required to take action and make decisions based on the content of each document. Results are then evaluated and compared.
- **individual learning,** in which trainees learn not through group interactions or with the direct assistance of the facilitator, but through independent study in which they are merely supervised. This method is usually limited in scope and is most effective if alternated with other training methods.

Selection of the training method determines how the objectives within a particular lesson

will be achieved. The method chosen will depend on factors such as the facilities, objectives, time, size of the group and the trainers' experience.

Organisation and Preparation

Planning is an important element in organising the training programme and provides the foundation for the programme's success. It includes the planning and execution of effective marketing and promotion to recruit prospective trainees, operating within a budget and selecting and organising premises, facilities, equipment and materials. It is also important when organising the training that the calendar be consulted for public holidays and major sporting or other events, since if a training activity coincides with such events participation may be affected.

Recruitment and marketing/promotion

Recruitment and promotion are directed towards the target groups identified in the previous phase. To ensure that those selected to participate in the programme are willing to learn and will benefit from it, it is advisable that the individual profiles of prospective trainees be reviewed before confirming their participation.

Promotion of the programme can be done through the media, personal contact and/or direct mail. Cost is a significant factor; strategies to maintain low promotional costs may include personal contacts with key persons within target organisations, soliciting sponsorship of advertisements in the media or free ads in local newspapers and radio, and distributing brochures with covering letters to key organisations, followed up by personal visits or telephone calls.

Budgeting

Budgeting is a critical part of the overall organisation process. All training programmes are required to be implemented within the

guidelines of a budget. This is necessary in order to establish appropriate fees (or interest rates, in the case of micro-credit beneficiaries) to be charged to trainees, control expenses and give an indication of a projected profit or loss. Training programmes may be funded by donor agencies which require justification for their inputs. If in preparing budgetary estimates, it is determined that there are insufficient funds for the programme as originally planned, then it is necessary to establish priorities and reduce costs.

Facilities and equipment

Early identification and selection of appropriate venues for conducting training programmes are crucial. Any equipment required must be reserved and necessary arrangements made for accommodation for trainees and facilitators. One way of ensuring that all the necessary items are put in place is to develop an organising checklist which details all actions to be done (e.g. reserve conference rooms in a hotel, rent overhead projectors), the target date for the action and the date it was actually carried out.

In selecting a venue for the training, the physical characteristics of the premises should be considered since they could affect the delivery and impact of the training. Factors to be considered include noise levels, comfort, ventilation, lighting, ease of location, accessibility (including wheelchair access), size of training rooms, availability of audio-visual aids and secretarial services.

Room layout for training activities is another consideration. Seating arrangements which foster face-to-face contact encourage participation and communication, and create an informal environment.

Selecting training aids

Training aids are used to communicate and to stimulate. They may include:

- radio and tape recordings

- illustrations, photographs, charts, diagrams, flip charts, chalkboards, bulletin boards, pictures
- slides, transparencies, filmstrips, videotapes
- books, manuals, handouts, financial statements, pamphlets.

In selecting training aids the following general criteria can be applied:

- aids must be suitable to the interest, maturity and ability of the trainees and the activity
- a balance should be maintained in the aids being used
- aids should not be overused, as they may distract from each other or go over the same ground.

Programme Delivery

Establishing a healthy learning climate

A well-designed, short-term training programme should flow naturally. Under minimal supervision, trainees should be able to move easily from one activity to another and understand the relevance of each activity. A sense of common purpose, shared between trainees and trainer, facilitates effective training. Efforts toward fostering a businesslike approach should motivate trainees to learn and are critical. The trainer should want to instruct and enjoy instructing, should know how people learn, and be flexible.

As part of developing a positive and healthy learning climate, the trainer should become acquainted with trainees. This may be done through personal introductions, use of name tags and placing of name cards on tables. Ice-breaking exercises also help set the stage.

Assessing beneficiary expectations

The trainer should ensure at an early stage that the expectations of trainees match the training

being offered. It may be necessary to modify the training content or style of presentation, or to reorient trainee expectations towards the objectives of the training being offered.

There may also be an element of resistance to the training on the part of beneficiaries, stemming from involuntary attendance, arduous tasks, lack of challenge or interest in the topics, resentment of procedures etc. If such resistance is present, sensitive trainers should attempt to understand its cause and resolve it early in the programme.

Control and discipline

Trainers should always be in control of their training sessions, particularly in short-term training programmes where time is limited. Maintaining discipline requires trainers to show respect for the trainees and for themselves. The trainer needs to establish his or her credibility and gain the respect of the trainees. This can be assisted by showing cheerfulness, enthusiasm and confidence in the subjects and the materials to be used. The trainer's manner of speech should present a positive and friendly image.

Trainers who are able to keep control and maintain discipline:

- understand the needs of trainees and feel secure in their relationships with them
- are able to interpret and enforce rules fairly
- know the subject matter well and are aware of related recent developments
- are sincerely interested in people
- use persuasion, reason and good interpersonal relationships as the basis for their leadership style
- conduct themselves professionally at all times.

Timing

Timing is an important consideration,

especially in short-term training. Each training session should have an allotted timeframe. The point at which deviation from this timeframe should commence, if at all, is a difficult question.

Training is always an intense exercise and it is the normal practice for trainers to attempt to achieve more than usual in a particular time. The impact of such intensity varies from individual to individual and while some may find the challenges of the exercise stimulating and exciting others may become exhausted and agitated, or become impatient with those who take longer to absorb information or occupy a lot of time with questions.

Another factor which must be taken into account is the rate at which the training progresses. In determining the appropriate rate at which activities should be implemented and maintained, it is important to identify the 'high points' and the process of smoothing which follows them. Trainees should not be swamped with a large amount of information which exceeds their attention span. Varying the training methods used can help alleviate this problem.

Evaluation and Modification

Measuring the content, quality and effectiveness of the training programme is of vital importance for the main stakeholders: the trainees, the implementing agency, the trainer and the sponsor or funder of the training.

It is important to check the objectives of trainees against the planned objectives during the early stages of the programme. Trainees are always anxious to get feedback on their performance, accomplishments and any areas where they may have fallen short and this helps to motivate them.

Evaluation is also important to trainers at every stage of the programme. They must monitor trainee progress during the programme and identify the more interesting

and relevant activities, as well as ensure that the pace is not so slow as to create boredom and not so fast that trainees become disoriented and lost.

The implementing agency and the training sponsors are generally interested to know if increased productivity and skills utilisation are achieved as a direct result of the training programmes.

The basis for evaluating the benefits of the training programme is the needs assessment which originally defined the training requirements. Results must be measured against training needs as initially defined, and the system of evaluation must establish whether or not the anticipated goals were achieved. Trainers can also benefit from personal and specific feedback from trainees on the materials, delivery process and methodology.

Evaluation is an ongoing process which should be done throughout all stages, from the design stage, throughout the training programme, at the end of the programme and some time after the end of the programme.

Tools for Evaluation

The most common tools used for measurement, evaluation and diagnosis of training programmes are:

- I. questions and answers;
- II. observation of trainee behaviour;
- III. tests and demonstrations; and
- IV. questionnaires.

These tools are used for making feedback systems an integral part of training design and the learning process.

References and Further Reading

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Appendix 1: Handouts

Handout A: Key features of CYCI

Handout D: Sample Budget Sheet

Handout B: Role of the implementing agency

Handout E: Staff training needs checklist

Handout C: Business Plan

Key features of CYCI

- NGO style of delivery
- group lending and use of group savings as collective collateral
- democratic participation by beneficiaries
- use of peer group pressure to ensure prompt repayment
- entrepreneurial development, business and management training
- support services, marketing assistance and information
- mechanisms to ensure effective monitoring and evaluation

Role of the implementing agency

- formulate and design an appropriate credit scheme, in collaboration with other stakeholders;
- take responsibility for the day-to-day operation of the credit scheme;
- manage the loan fund and borrower repayments;
- empower beneficiaries through entrepreneurship, business and management training and ongoing counselling;
- access financial services by either (1) creating innovative linkages with formal financial institutions while remaining outside of them, or (2) transforming itself into a formal financial institution; and
- monitor the scheme through regular reviews with beneficiaries, and report back to lead agency, funders and other authorities.

Business Plan

- Proposed intervention
 - Overall objective
 - Specific goals
 - Target group(s)
 - Promotion and publicity
 - Timeframe
 - Work plan
 - Anticipated outcomes
- Operational capacity
 - current staff capacity
 - what staff will be needed to implement the programme
 - proposal to increase staff if necessary
- Training programme
 - of staff to implement the programme
 - of beneficiaries
- Budget and funding
 - start-up costs
 - operating costs
 - training costs
 - capital costs (loan fund)
 - sources of income and funding
 - sustainability target
- Monitoring, evaluation and reporting
 - key indicators
 - logical framework
 - collection of field data

Handout 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

Staff training needs checklist

- A working knowledge of the CYCI, including:
 - goals and objectives
 - basic terms and concepts
 - key defining features
 - key stakeholders
 - institutional arrangements
 - structures, procedures and mechanisms
 - holistic approach
- financial management skills for the management of the loan fund, including:
 - negotiations with formal financial institutions, e.g., commercial banks
 - screening and approval of loan applications
 - setting of interest rates for loans and savings
 - determination of loan sizes and repayment schedules
 - loan disbursement and repayment collection
- the capacity to provide training to the beneficiaries in such areas as:
 - formation and maintenance of credit groups
 - financial management of loans and businesses
 - entrepreneurship and business skills
 - marketing
 - personal development and motivation
- the capacity to enter the areas where the communities of beneficiaries are located and carry out:
 - baseline surveys and participatory rural appraisal
 - promotion and marketing of the credit programme
 - recruitment of potential beneficiaries
 - business counselling
 - ongoing mentorship and guidance
 - assistance in developing the technical skills of beneficiaries
 - monitoring, evaluation and reporting
- language and communications skills
 - in areas where a range of different local languages are spoken
 - in areas where literacy rates are low and communication with beneficiaries must be carried out verbally or using visual signs, maps, models, etc.

Appendix 2: Overheads

Overhead 1: What is the CYCI?

Overhead 2: Overview of Orientation Course

Overhead 3: Approaches to Micro-Credit

Overhead 4: Strategic objectives of the Plan of Action on Youth Empowerment

Overhead 5: Mission, Scope Goal and Objectives of the CYCI

Overhead 6: Institutional Arrangements and Enabling Environment

Overhead 7: Questions for Stakeholder Analysis

Overhead 8: Action Points for Lead Agency

Overhead 9: Overview of CYCI Programme Cycle

Overhead 10: Overview of Implementation Course

Overhead 11: Participatory Rural Appraisal

Overhead 12: Designing the loan and savings package

Overhead 13: Staff roles and responsibilities

Overhead 14: Promoting and publicising the programme

Overhead 15: Criteria for assessing applications

Overhead 16: CYCI beneficiary training programme: Essential areas to be covered

Overhead 17: Credit Group Formation

Overhead 18: General Management of the Programme

Overhead 19: The accounting system

Overhead 20: Selecting computer software

Overhead 21: Processing loans

Overhead 22: Providing ongoing business counselling and support

Overhead 23: Types of indicators

Overhead 24: Portfolio performance indicators

Overhead 25: Productivity and efficiency indicators

Overhead 26: Financial sustainability indicators

Overhead 27: Tools for monitoring and evaluation

Overhead 28: Logical Framework

What is the CYCI?

The Commonwealth Youth Credit Initiative (CYCI) is a micro-credit and enterprise development initiative designed to promote youth employment and alleviate poverty among the young people of the Commonwealth. It is normally implemented by a lead agency in partnership with an implementing agency, usually an NGO with experience in micro-credit, enterprise development and/or youth development.

Overview of Orientation Course

- Unit 1. Introduction
- Unit 2. Background: micro-credit and the Commonwealth
- Unit 3. Overview of the CYCI Model
- Unit 4. Enabling environment of CYCI
- Unit 5. CYCI stakeholders: roles and responsibilities
- Unit 6. Action points for lead agency

Approaches to Micro-Credit

Minimalist approach

Practised by:

- Grameen Rural Bank (Bangladesh)
- MicroStart Guide (UNDP)

Guiding principles:

- provision of credit alone is sufficient to stimulate productive economic activity for poor people
- provision of training, business counselling, information technology and other services is valid, but costs may render it unsustainable

Holistic approach

Practised by:

- CYCI
- ICECD (India)

Guiding principles:

- provision of micro-credit as part of an integrated package that includes skills, marketing and management training, and business counselling
- running a successful business requires skills which emergent entrepreneurs may not readily possess

Strategic objectives of the Plan of Action on Youth Empowerment

1. Develop and implement measures to promote the economic enfranchisement of young people and their participation in the economy.
2. Strengthen social support systems and collaboration between key stakeholders in youth empowerment.
3. Develop and strengthen youth ministries/departments, national youth policies, and legislative and constitutional provisions impacting on youth affairs.
4. Promote positive national role models and self-images for young people, and foster their sense of responsibility and self-esteem.
5. Promote the full participation of young people in decision-making at all levels, including communities and local, provincial and national governments.
6. Take affirmative and direct action to establish gender equity for all young people, and equality of treatment and outcomes for youth in special circumstances.
7. Promote a democratic, stable and peaceful environment in which the human rights of young people as defined in international covenants are fully implemented and in which they can fully accept their responsibilities.
8. Encourage action for the development and maintenance of human resource and intellectual capital.
9. Promote measures to improve access to information and communications technology (ICT) and to provide young people with the skills to make use of it.
10. Advocate measures to broaden youth participation in sporting and cultural activities as a means of promoting positive values and advancing human development.

Mission, Scope Goal and Objectives of the CYCI

Mission: to assist in providing young entrepreneurs with an integrated package of low-cost, easily accessible credit and enterprise training and development, so as to assist them in becoming economically self-sufficient, participating in economic activity and contributing to national economic and development goals.

Scope: The CYCI is sufficiently flexible to meet the varying development needs of countries throughout the Commonwealth. It comprises inter-linked components which provide the opportunity for countries to select and combine the components most appropriate to their own needs and circumstances. The CYCI was conceived, developed and implemented for young people aged 15 to 29, but it can be adapted for any social group or stratum that a lead agency may wish to assist. It is particularly suited to those entering into entrepreneurial activity for the first time.

Goal: to contribute to national, regional and international efforts to reduce youth unemployment and alleviate poverty in Commonwealth countries.

Specific objectives:

- to promote the development of sustainable micro-enterprises employing young people
- to promote economic growth and national development
- to demonstrate a model of good practice in micro-credit for young people
- to attract the interest of donors, governments and development agencies.

Institutional Arrangements and Enabling Environment

Institutional arrangements

- Lead agency and point of contact
- Management Advisory Board
- Implementing agency.

Enabling environment

- Peace, democracy and political stability
- Political Will
- Adequate Financial and Human Resources
- Supportive Policy, Legal and Administrative Frameworks
- Culture of Entrepreneurship and Co-operation
- Supportive Infrastructure

Questions for Stakeholder Analysis

1. What does this stakeholder want from and expect of the CYCI?
2. What will constitute success for the initiative, in the eyes of this stakeholder?
3. What other goals and interests does the stakeholder have which may
(1) complement (2) conflict with the goals and interests of the CYCI?
4. What is the relationship between this stakeholder and the others?

Action Points for Lead Agency

Set-up

- developing a Plan of Action
- setting up institutional arrangements
- strengthening the enabling environment
- obtaining funding

Staff and institutional training

- training government. staff
- training NGO staff
- training of trainers

CYCI programme implementation

- Approval of business plan
- Funds delivered to NGO
- MAB meetings

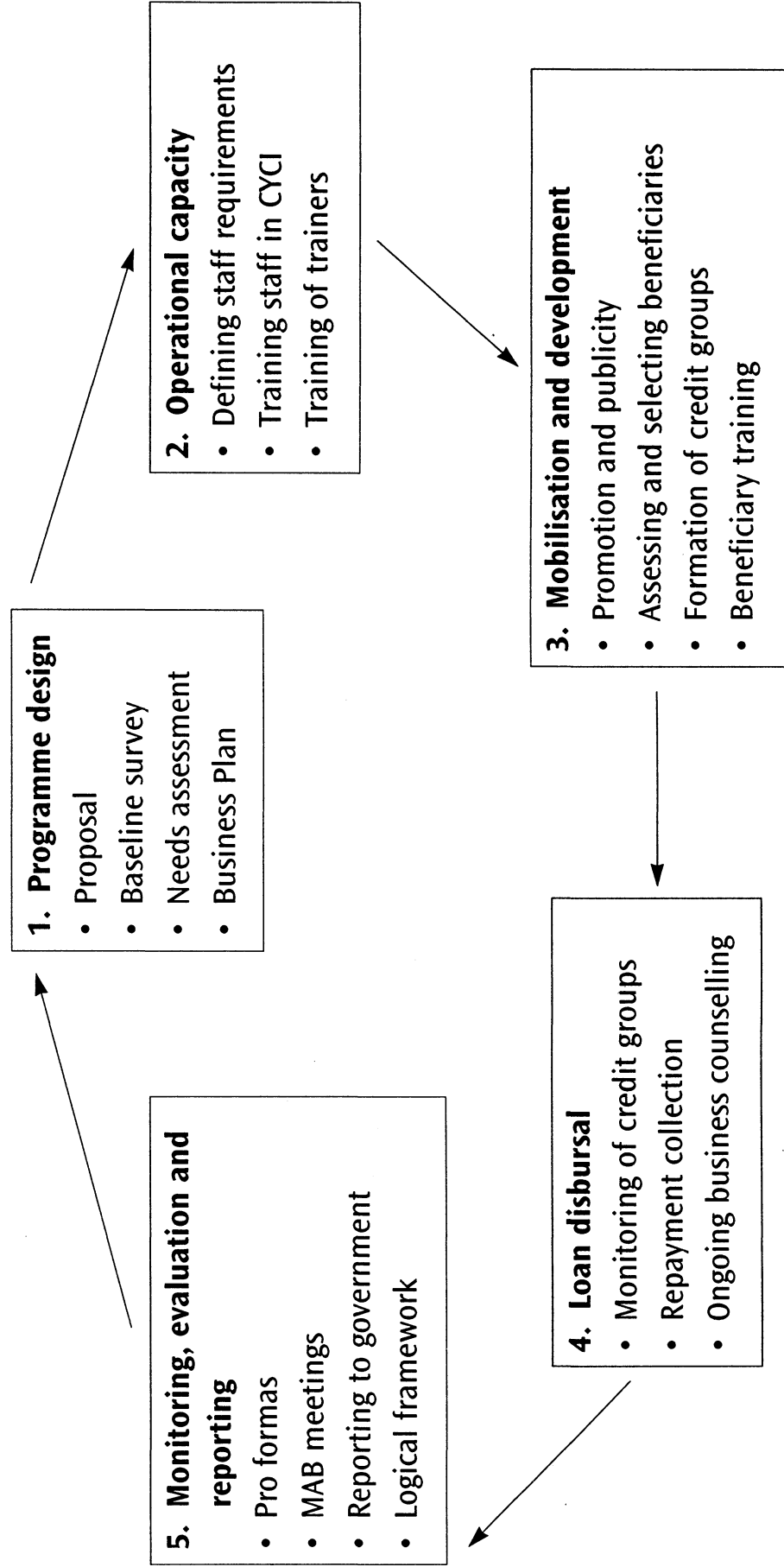
Selecting the partner agency

- sending out request for proposals
- selecting an agency based on proposals received
- signing a legal and financial agreement with the selected agency

Monitoring and evaluation

- monthly report
- quarterly report
- annual report
- logical framework

Overview of CYCI Programme Cycle



Overview of Implementation Course

- Unit 1. Introduction
- Unit 2: Programme Design
- Unit 3: Building Operational Capacity
- Unit 4. Mobilisation and Development
- Unit 5. Loan Disbursal and Management
- Unit 6: Monitoring and Evaluation

Participatory Rural Appraisal

Techniques

- open-ended interviews
- transect walk
- facilitating investigation, analysis and presentation by local people
- participatory modelling and diagramming
- social mapping
- timelines and trend analysis
- seasonal analysis
- comparisons and ranking
- use of secondary sources

Good practice

- establish a relaxed, friendly rapport
- have patience, humility, willingness to learn, respect for local knowledge
- identify potential key informants
- get involved - do local tasks and activities
- use visual techniques to share information
- combine various participatory methods
- use local indicators to establish priorities
- share information widely

Designing the loan and savings package

Types of loans

- working capital loans
- fixed asset loans

Key issues

- size of loans
- number of loans
- period of loan cycle
- calculating sustainable interest rates
 - covering costs
 - flat rate and declining balance methods
- savings

Staff roles and responsibilities

Programme manager

- providing overall leadership and guidance
- hiring and supervising programme staff
- overseeing finances and programme administration
- establishing linkages with donors, banks, etc.
- supervising programme development
- sitting on CYCI Management Advisory Board

Loan supervisor

- designing and implementing field activities
- hiring and supervising field officers
- reviewing loan applications and approving loans
- managing loan disbursement and repayment collection
- meeting regularly with other programme staff.

Support staff

- assisting in communications between the loan supervisor and the field officers
- general administrative duties

Field officers

- promoting and developing the programme
- assisting in the formation and training of credit groups
- assisting beneficiaries in making loan applications
- collecting loan repayments and following up on late payments/defaulters
- business counselling, motivation and support

Trainers

- training programme staff, field officers and programme beneficiaries in the workings of the CYCI
- training field officers in entrepreneurship development, business counselling, and motivation
- training beneficiaries in financial management, entrepreneurship, business skills, marketing, personal development and self-esteem

Source: UNDP, 1997

Promoting and publicising the programme

Preparation

- familiarisation of staff
- communications plan
 - dates times and locations of planned field visits
 - names of community leaders, representatives of youth groups and others to be contacted
 - promotional materials to be developed
 - local media that can be of use in promotional activities
- preparation of brochures, posters, and visual aids

Field visits

- Initial contact visit
- Information workshop

Sensitisation of other agencies

- commercial banks
- other NGOs working in the area
- other agencies and organisation

Criteria for assessing applications

To what extent:

- does the applicant have a genuine need for the full package of services that the CYCI offers?
- does the applicant have a clear understanding of the principles and practicalities of the programme?
- is the applicant fully aware of the responsibilities of beneficiaries?
- is the applicant highly motivated?
- does the applicant have a clear idea of what use s/he would make of the loan?

What is the applicant's social, economic, cultural profile?

Beneficiary training programme: Essential areas to be covered

- Overview of CYCI methodology
- Motivation, awareness, leadership skills, communications skills, personal development and growth
- Development of a business idea - including identification of business opportunities, product selection, feasibility study, setting goals and targets
- Marketing
- Credit, savings and financial management skills, including bookkeeping and reporting to the implementing agency
- Formation of savings and credit groups
- Preparation of a business plan and loan application

Credit Group Formation

Good practice guidelines for group formation

- Groups should normally be of 5-10 members.
- Groups may be all-women, all-men or mixed.
- Members should all be from the same community.
- Members should not be from the same household.
- Democratic procedures: group members should elect their own officers and draw up their own rules and regulations.
- All group members contribute to a savings fund from which payments can be made in case of defaults.
- Group formation should be voluntary and where possible based on natural or already existing groups.

Establishing rules and regulations on:

- eligibility criteria for joining the group
- criteria and procedure for expulsion from the group
- criteria and procedures for approving loan applications
- maximum number of members
- procedures for electing group officers, length of term, removal from office
- attendance at meetings
- collection of loan payments
- group savings

Roles and functions of group officers

- Group leader
- Group treasurer

Rights of group members

- to peer support and encouragement, courtesy and respect
- to have their business plans and loan applications considered by the group
- to a fair and impartial decision regarding group approval of their application

Responsibilities of group members

- to make prompt loan repayments
- to contribute to a savings fund which can be used to make loan repayments if any group member defaults
- to treat their fellow members with courtesy and respect, and provide moral support and encouragement.

General Management of the Programme

- Governance
 - Management Advisory Board
- Record-Keeping and Accountancy
 - The accounting system
 - The portfolio tracking system
- Computer software for record-keeping

The accounting system

Key elements

- chart of accounts
- general journal
- general ledger
- subsidiary ledgers (accounts receivable, inventory, fixed assets)
- transaction reports
- financial statements

Good practice

- identify information needs clearly
- build in flexibility
- provide the right amount of information
- use descriptive account numbers

Selecting computer software

Ease of use

- interface and screen design
- manuals and documentation
- hands-on tutorials
- help menus
- automatic error detection

Compatibility and system requirements

- operating system
- system requirements (memory, hard disk space, processor speed)
- local and wide area networks?
- Compatibility with existing systems

Support

- technical support by telephone
- technical support through the Internet
- technical support through site visits
- user training

Features

- linked accounting and portfolio tracking
- interest rate calculation
- repayment methods and schedules
- different loan and savings products
- calculation of key indicators
- adaptable to local languages
- data disaggregated by gender
- customised to specific needs
- report issuing capabilities

Security

- passwords and levels of authorisation
- data protection
- back-up systems
- documents tracking

Costs

- basic purchase price
- installation fees
- additional user charges
- additional charges for use on different sites
- training costs
- technical support costs

Source: adapted from Ledgerwood (1999)

Processing loans

Processing of Loan Applications

- loan application
- assessment
- approval

Repayment collection

- passbook
- transfer report
- beneficiary record

Issuing the loan

- promissory note
- beneficiary passbook
- compulsory savings

Dealing with defaulters

- prompt action
- peer pressure
- sanctions

Providing ongoing business counselling and support

- motivation and personal growth
- leadership skills
- business administration and management
- general problem-solving
- delinquency advice
- product development
- marketing advice

Types of indicators

Implementation indicators

- **Portfolio performance indicators**
 - portfolio at risk
 - loan write-off ratio
 - current repayment rate
- **Productivity and efficiency indicators**
 - field officer productivity
 - office staff productivity
 - programme staff productivity
 - operating cost ratio
 - cost per unit of currency
- **Financial sustainability indicators**
 - operational self-sufficiency
 - financial self-sufficiency

Impact indicators

- **At the enterprise level**
 - output
 - asset accumulation
 - technology
 - employment
 - income
 - market
- **At the household level**
 - income
 - asset accumulation
 - savings
 - consumption
 - empowerment
- **At the community level**
 - employment
 - income
 - health & well-being
 - education

Portfolio performance indicators

Portfolio at risk = $\frac{\text{unpaid balance of loans with payment past due}}{\text{total of unpaid balance of loans (including past due)}}$

Loan write-off ratio = $\frac{\text{amount written off over the period}}{\text{average outstanding portfolio over the period}}$

Current repayment rate = $\frac{\text{number of payments received during the period}}{\text{number of payments falling due during the period}}$

Productivity and efficiency indicators

Field officer productivity	=	$\frac{\text{number of loans outstanding}}{\text{number of field officers}}$
Office staff productivity	=	$\frac{\text{number of loans outstanding}}{\text{number of office staff members}}$
Programme staff productivity	=	$\frac{\text{number of loans outstanding}}{\text{total number of programme staff members}}$
Operating cost ratio	=	$\frac{\text{operating costs over a given period}}{\text{average outstanding portfolio over the same period}}$
Cost per unit of currency	=	$\frac{\text{operating costs over a given period}}{\text{total amount lent over the same period}}$

Financial sustainability indicators

$$\begin{aligned}\text{Operational self-sufficiency} &= \frac{\text{operating income}}{\text{operating costs} + \text{loan loss provisions}} \\ \text{Financial self-sufficiency} &= \frac{\text{operating income}}{\text{operating costs} + \text{financing costs} + \text{loan loss provisions} + \text{cost of capital}}\end{aligned}$$

$$\begin{aligned}\text{Adjusted cost of capital} &= [\text{inflation rate} \times (\text{average equity} - \text{average fixed assets})] \\ &+ [(\text{average funding liabilities} \times \text{market rate of debt}) - \text{actual financing costs}]\end{aligned}$$

Tools for monitoring and evaluation

- *Monthly Report*
- *Quarterly Statement*
- *Annual Report*
- *Logical Framework*
- Minutes of meetings, e.g. Management Advisory Board, others
- Evaluation reports (mid-term and terminal)

Logical Framework

	Narrative summary	Objectively verifiable indicators	Sources of verification	Assumptions and risks
Goal				
Purpose				
Inputs				
Outputs				
Budget				

THE COMMONWEALTH YOUTH CREDIT INITIATIVE TOOLKIT

Lack of credit is a considerable constraint in the development of small-scale enterprises. Most lack access to traditional lending institutions. Micro-credit fills this gap by offering low-cost loans for sustainable enterprises that provide self-employment.

The Commonwealth Youth Credit Initiative (CYCI) is a micro-credit and enterprise development initiative set up to promote youth employment and alleviate poverty among young people. Its holistic approach is based on the premise that running a successful business requires not only access to credit but also to skills which first-time entrepreneurs may not have. It offers an integrated package that combines loans, marketing and management training and business counselling.

This Toolkit, essentially a synthesis of current good practices and lessons learned from CYCI pilot schemes, is a hands-on, step-by-step guide to the implementation of a micro-credit package and is structured to be sufficiently flexible to meet the differing needs of a range of users.

Designed for policy makers, development agencies and NGOs planning to implement a micro-credit programme, it will be of particular use in helping those entering into entrepreneurial activity for the first time. It will also be of considerable value as a training resource for implementing staff.

This toolkit will be of practical use to government agencies and other stakeholders in implementing micro-credit schemes.



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