Child Optimized Financial Education

MOVING FAMILIES FROM VULNERABLE TO THRIVING

BOOKLET 4: BORROWING

USAID FROM THE AMERICAN PEOPLE

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COFE toolkit contents

Using this booklet

Different text you will see in this toolkit

You will see three styles of text in this document.

- Text like this—in black with a sans-serif font—is for you, the facilitator, only. Instructions, overview, set-up, tips and other guidance is given in this text.
- *Text like this—in black italics with a serif font—is meant to be read out loud. Instructions to participants, explanations of concepts, and the story text appears this way.*
- *Text like this—blue italics with a sans-serif font—are the answers you are listening for as a facilitator during the "ask + listen" sections.*

Icons used throughout this toolkit

DISCUSS	These are questions for leading a discussion. The answers will vary by session and participants. That is okay. The value is in discussing the issues.
SAY	This refers to instructions you say out loud to participants and small bits of content.
EXPLAIN	This is used for more complex concepts that require a longer explanation that you may need to read word-for-word. It also marks places where you may need to pause and check for understanding.
ASK + LISTEN	You will have a question to read out loud, and then the answer is provided for you. The answer is not read, but it is the content you are listening for from your participants.

How to use the images in Booklet 5

You will see 2 different icons within the sessions.

IMAGE OPTION	An image is available for you to use that will support and enhance the facilitation. It is not necessary for facilitating the activity or discussion.
USE IMAGE	This image or activity tool is necessary in order to facilitate the activity or discussion. Without using these, it will be difficult to complete the task.

Facilitator instructions and facilitator tips

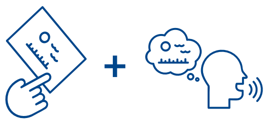
Instructions to the facilitator during specific activities and discussions are in a box like this one.

TIP There are facilitator tips throughout the toolkit. These are not instructions but can help you facilitate well.

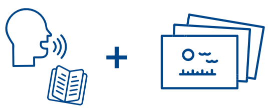
Sharing stories

There are many ways to facilitate a story. You will need to find the way that works best for you. You have pictures to support and help tell the story. Here are some ways you could do it:

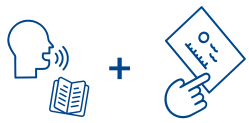
You can show the pictures and ask the participants to tell you a story and then fill in or correct.



You can read and show, read and show....



You can read the whole story and show the pictures afterward.



Within each chapter

Within each chapter there are 2 sections: lesson and field exercise.

Lesson

The ***overview*** section gives you an idea of the concepts you need to learn.

Detailed lesson ***concepts*** and supporting images are meant to be read completely, at least once. This section then serves as reference during the field exercise sessions.

You can use the ***quiz*** at the end to check your understanding of the concepts.

Field exercise

The ***overview page*** lets you know how much time you will need, what activities you will be leading and highlights the key messages and skills you are teaching.

The ***preparation page*** lists the image and activity tool supports from Booklet 5 that are needed or recommended and any additional materials you may need to bring to your session.

The ***local language*** page lists the key terms you will need to use during the session. Write in the local words you will use when teaching this session.

The ***field exercises*** are all organized in the same way.

- A ***warm-up*** with a brief discussion of the content you taught last session (except Chapter 1).
- A short ***introduction*** of the content you will teach this session.
- A series of ***activities and discussions***, each with its own objective(s), a brief description, facilitator instructions and the script for facilitating.
- A ***finishing*** section that has some or all of the following:
  - A ***conclusion***
  - A ***take-home*** assignment for participants
  - A reminder to the facilitator of the ***key messages***

Booklet 4: Borrowing

This set of 4 chapters focuses on loans as a financial tool for achieving goals.

Loans can be risky and can also be very helpful. Protecting yourself and carefully using loans as a part of your budget, takes skill.

9

Chapter 9—Borrowing money

Loans are a way to use someone else's money instead of your own. When you do this, there are some important concepts and terms to understand. Knowing the basics about loans will help you make good decisions about how and when to use a loan.

10

Chapter 10—Calculating interest rates

An interest rate is the key concept to know about taking a loan. Lenders use interest rates to make money. Interest rates can be complicated. Protect yourself from a bad decision by learning about them.

11

Chapter 11—Deciding to take out a loan

Deciding if a loan is a good choice for you and your family is a big decision. A loan must fit into your budget with a plan for paying back the money. There are also others costs in addition to the interest. You will learn how to make good decisions about loans.

12

Chapter 12—Understanding different lenders

Lenders also make decisions about whom they will give a loan. You will learn how lenders decide who to give money to and practice making this choice. With this information, you can take action to make yourself a good choice for a lender. This way, you are more likely to be able to use loans as a financial tool for achieving your goals.

Let's get started!

9. Borrowing money

Overview

- A loan is something—either money or another item—that a person borrows for temporary use and promises to repay or give back.
- Some people lend money to friends, but lending money is also a business.
- The extra money you have to pay to borrow money is the interest. It is in addition to the amount of the loan. Interest is how lenders make money.
- There are 3 main reasons people borrow money: investment, emergencies and consumption.
- Investments are the only 1 of these 3 reasons that help you make money to repay your loan. Other reasons for borrowing don't help you earn more income, and they can make your future finances difficult, since you need to pay back the loan.

What is a loan?

A ***loan*** is an item or amount of money that is borrowed from someone, with the agreement that it will be given back after a certain amount of time.

When people take out loans, the money or item they borrow still belongs to the person they borrowed from. A person who takes out a loan is called a borrower. A person or institution who loans the money is called a lender.

Some people loan things to their friends without asking for anything in return. For example, you might loan your bicycle to a friend for a day so they can get to the doctor. If you loan your bicycle to a friend, you are the ***lender***, because you have loaned your bicycle to your friend, and expect him to give it back to you tomorrow. Your friend is the ***borrower***, because he has borrowed your bicycle and plans to give it back to you tomorrow.

Principal and interest: Paying back a loan

While some loans are as simple as borrowing from a friend, most loans are more complicated and involve paying back what you borrowed, plus interest.

The ***principal*** is the amount of money you borrow from the lender.

Interest is the extra money you have to repay. Interest is usually calculated as a percentage of the principal. This means that the more money you borrow, the more interest you have to pay. Interest as a percentage of the principal is called the interest rate.

Lenders charge interest on loans for a couple of reasons. One reason is that many people and institutions lend money to people as a business, and the interest they charge is how they make a profit. Interest is how you pay for the service of using someone else's money.

Charging interest can also help lenders offset the risks that come from letting people borrow their money. When a lender loans money to someone, there is a chance that the person will not be able to pay the money back. If the lender can charge interest on a loan, it becomes more worthwhile for them to loan money, even if there is some risk involved.

Three reasons to take out a loan

People take loans for several different reasons. In general, these reasons fall into 3 categories: investing, consuming, and responding to unexpected events and emergencies.

Investing

Many people borrow money to grow their own income-generating activities or to help grow someone else's income-generating activities for a share of the profit. A loan can provide you with the resources to respond to a promising business opportunity. A good investment can create a profit, which can be used to repay the loan and the interest.

For example, a farmer might take out a loan to buy better seeds for her vegetables. If the improved seeds will bring increased yields of her vegetables, she can sell more and make more profit. With increased profits, the farmer can repay the loan and its costs.

Responding to an unexpected event or emergency

When an emergency occurs, you may need money quickly. If you don't have enough money in savings or an emergency fund, you may need to borrow money to meet these expenses. While taking out a loan to respond to an emergency won't increase your income to help repay the loan, it might be your only option. If you can, using your emergency fund is better than taking out a loan during an emergency.

Consuming

Some people borrow money to purchase an item today which they do not have the money to purchase through savings or their income. Some people borrow more during the lean season to purchase items while they have less income during that period. Sometimes it makes good business sense to make these purchases. A loan could help you buy something that costs less today, and which could be more expensive later, such as certain products right after the harvest. If a purchase will not help you make more income, however, it may still be harder to pay back the loan.

Of these 3 reasons to take out a loan, only loans for investment can help you earn income that will help you repay the loan. Whenever you take out a loan, it is important to consider how you will repay the loan. This is why borrowing money for a good investment is one of the safest reasons to take out a loan.

9
LESSON

Quiz yourself

1. The principal of a loan is:

- ☐ a. The entire amount you have to pay back.
- ☐ b. The amount you borrowed.
- ☐ c. The fee charged by the lender.

2. Lenders charge interest because *(tick all that apply)*:

- ☐ a. They want to punish borrowers
- ☐ b. Lending money is a business; this is how lenders earn a profit
- ☐ c. Lending money is a risk, and interest makes it worth taking the risk
- ☐ d. It is the law

3. Which of the following is an example of taking a loan for consumption?

- ☐ a. Buying goods to sell at your shop
- ☐ b. Paying for a repair to your roof from a big storm
- ☐ c. Buying extra food during the holidays to celebrate with visiting family
- ☐ d. Buying a new sewing machine for your tailoring business

4. The best reason to take out a loan is:

- ☐ a. To pay for unexpected expenses
- ☐ b. To pay for school fees
- ☐ c. To pay for an investment that will help you earn more money
- ☐ d. To give to the mosque or church

The quiz answers can be found on page 100

Session overview

Time

60 to 75 minutes

Objective

Introduce the concept of loans, helping participants understand when they are a useful financial tool.

New skills to teach

- Can identify the reason for taking out a loan

TIP

This page provides an overview of the session so you can easily organize your thoughts and focus on what you need to accomplish.

Key messages

1. A loan costs money because you are using someone else's money.
2. Using a loan for an investment purpose makes it easier to pay back.
3. When thinking about borrowing money, you should think about:
   - Your ability to pay back the loan
   - How much the loan will cost, including interest
   - How loan payments will affect your family, including your children

In this session

1. Warm-up and review
2. Introduction
3. Discussion: Loan basics
4. Role play: Taking a loan and saving
5. Discussion: Reasons for borrowing
6. Story-telling: Practice making decisions about loans
7. True or false?
8. Finishing

9
FIELD EXERCISE

Preparation

Images

Image cards for use during the activities:

- Principal + interest
- Moneylender
- Person saving
- Person receiving a loan disbursement
- Mobile phone (2)
- Loan for investment
- Loan for consumption
- Unexpected expenses, emergencies
- Bank
- SACCO
- SILC group
- Microfinance Institution
- Family or friends

Materials

- Savings
- Loan
- Moneylender
- Mobile phone activity tool (2)
- Miriam and Joshua's story cards (3) 
- 30 items that can be used as counters:
    - 12 counters for Sarah
    - 10 counters for Ruth
    - 8 counters for the moneylender

TIP

Things to use as counters are beans, bottle caps, maize, buttons or small stones.

Local language

You will use the following terms many times in this lesson. Before you begin, please carefully think of the words you will use in the local language for each term. Write them below.

1. Loan
2. Borrow
3. Principal
4. Interest
5. Debt
6. Investment
7. Consumption
8. Emergency
9. Default
10. Moneylender
11. Interest rate
12. Profit (refer to definition in Booklet 1)
13. Borrowing for an emergency
14. Lean season
15. Viral load (refer to definition in Booklet 1)

9
FIELD EXERCISE

1 Warm-up and review

Last time, we talked all about succession planning.

Turn to the person next to you. Share the most important idea you learned from your accountability buddy during the previous session and why.

2 Introduction

During the remaining sessions together, we will be talking about borrowing money.

Just like having a budget or saving money, taking a loan can be a useful financial tool.

Today we will learn more about borrowing money as a tool to help us reach our goals.

3 Discussion: Loan basics

OBJECTIVE Define key terms

DESCRIPTION Large-group discussion

FACILITATOR INSTRUCTIONS

Begin discussion by asking the group about their previous experiences with loans. Build on and refer to their experiences throughout the session.

TIP After you read the first question, ask for a volunteer. Then have her or him answer each of the 4 questions. Pause after each answer and ask the other participants if they have had a similar experience. After finishing the four questions, thank the volunteer and move to the next section.

DISCUSS

- *Can someone who has borrowed money before tell us how you used the money you borrowed?*
- *What did you like or dislike about the loan you took?*
- *How did you repay the person you borrowed from?*
- *What would you do differently?*

SAY

People might borrow money from another person, a group of people or an institution—like a bank. Wherever you borrow money, it is called taking out a loan.

A loan is something—either money or another item—that you borrow for a little while and then have to repay or give back.

SAY

The person who takes a loan is called a borrower. The person who gives the loan is called a lender.

IMAGE OPTION


Loan disbursement

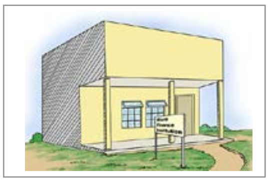
ASK + LISTEN

Can you think of some examples of lenders, or people who give out loans?

Show images as they are named.

Bank


SILC group


Microfinance institution


Mobile money


Family or friend


Moneylender

SACCO

ASK + LISTEN

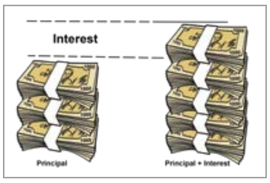
Why do you think a lender would let someone borrow their money?

- *They get more money back in return*
- *They are paid interest*

SAY

Lending money is a business. Lenders make a profit by charging interest.

When you borrow money, you have to pay back what you borrowed, plus an additional amount for the use of the loan. This extra money is called interest. Interest is how the lender makes money.



Principal + interest

9
FIELD EXERCISE

EXPLAIN

Every loan has 2 important parts. The first is the ***principal****. The* ***principal*** *is the amount of money you borrow from the lender.*

The second part is the ***interest****.* ***Interest*** *is the extra money you have to repay. Interest is usually calculated as a percentage of the principal. This means the more money you borrow, the more interest you have to pay. Interest as a percentage of the principal is called the interest rate.*

- *When you take out a loan, you go into debt. The more loans you have, the more debt you owe.*
- *You must be careful how much debt you take on.*
- *If you never borrow, you might not make much progress toward your goals.*
- *If you borrow too much, you might not be able to repay your debt or have enough money to save.*

4 Roll play: Taking a loan and saving

OBJECTIVES

1. Compare and contrast taking a loan and saving
2. Understand that a loan is someone else's money

DESCRIPTION

Two participants volunteer and act out a scenario month-by-month with counters

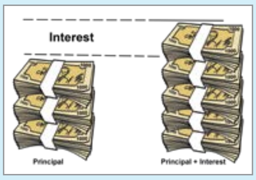
FACILITATOR INSTRUCTIONS

USE IMAGE

Role play set-up

For this role play you will need three volunteers from among the participants. One volunteer will play the role of Sarah, who has a savings account at a local bank. The second volunteer will play the role of Ruth, who will take out a loan from a moneylender. The third will be the moneylender, who will give the loan to Moses. You can give whatever name you choose to the moneylender, female or male. You will also need 30 counters for the role play.

Here is how the roll play will be done. You will need these images: 1) Sarah saving, 2) moneylender, 3) principal + interest, 4) Ruth's loan disbursement, 5 and 6) two separate images of a single mobile phone. The detailed step-by-step instructions will be in the sections where there is the icon: SAY. Please note that each counter is equal to 1 000 for this exercise.

Week	 Saving	 Moneylender  Principal + interest	 Loan disbursement	 Mobile phone  Mobile phone
1	Saves 2 000 Puts 2 counters on image Total = 2 000	Moneylender Lends Ruth 8 000 <u>Repayment:</u> Principal: 8 000 Interest: 2 000 Total: 10 000	Ruth receives 8 counters = 8 000 from moneylender and buys mobile phone for 8 counters = 8 000	Show first mobile phone image with 8 counters on it from Ruth = 8 000
2	Saves 2 000 Puts 2 more counters on image Total = 4 000	Receives 2 000 from Ruth. Puts 2 counters on image Total = 2 000	Ruth pays money lender 2 counters = 2 000 Still owes 8 000	
3	Saves 2 000 Puts 2 more counters on image Total = 6 000	Receives 2 000 from Ruth. Puts 2 counters on image Total = 4 000	Ruth pays money lender 2 counters = 2 000 Still owes 6 000	
4	Saves 2 000 Puts 2 more counters on image Total = 8 000 Sarah takes out 8 000 from her savings and buys mobile phone. Sarah hands 8 000 to mobile phone dealer	Receives 2 000 from Ruth. Puts 2 counters on image Total = 6 000	Ruth pays money lender 2 counters = 2 000 Still owes 4 000	Show second mobile phone image with 8 counters on it from Sarah = 8 000
5	Saves 2 000 Puts 2 counters on image Total = 2 000 in savings	Receives 2 000 from Ruth. Puts 2 counters on image Total = 8 000	Ruth pays money lender 2 counters = 2 000 Still owes 2 000	
6	Saves 2 000 Puts 2 more counters on image Total = 4 000 in savings	Receives 2 000 from Ruth. Puts 2 counters on image Total = 10 000	Ruth pays money lender 2 counters = 2 000 Now owes 0 But has no savings	

9

FIELD EXERCISE

Role Play

Sarah and Ruth each want to purchase a mobile phone. The mobile phone costs 8 000. Sarah has decided to save money to buy the mobile phone. Ruth has decided to take out a loan to buy the mobile phone.

You will read a week-by-week "story" and the 4 volunteers will act it out, by placing counters on the images of: 1) Sarah savings, 2) principal + interest (for Ruth repaying the loan to the moneylender) which is under the moneylender image.

At the end of the story, you will lead a discussion about the differences between saving and taking a loan.

SAY

1 *Today we are going to compare saving to buy a mobile phone to taking a loan to buy a mobile phone.*

I would like to have 4 volunteers. I need someone to play Sarah, someone to play Ruth, someone to be the moneylender and someone to be the mobile phone seller.

Identify the four volunteers. Take them aside and explain their roles. Give the person who volunteered to play Sarah 12 counters. Give the person who volunteered to play Ruth 10 counters. Give the person who volunteered to play the moneylender 8 counters. Don't let the rest of the participants see the number of counters you are giving the volunteers.

Now place the images on the ground as follows, starting at the participants left side to right side: 1) Sarah saving, 2) moneylender, 3) principal + interest (placed below moneylender), 4) Ruth getting a loan disbursement, and 5 and 6) two separate images of a single mobile phone. Ask Sarah to stand behind the first image, the moneylender to stand behind the two images, Ruth to stand behind the image of a loan disbursement, and the last person to hold both images of the mobile phones.

SAY

2 *Sarah and Ruth each have a short-term goal of buying a mobile phone.*

The mobile phone costs 8 000.

***Sarah** has a savings account at her local bank.*

TIP

Encourage the participants to cheer for Sarah or for Ruth.

Sarah is confident she can save 2 000 each month. She calculates it will take her 4 weeks to save enough to buy the mobile phone she wants.

***Ruth** is a borrower.*

Ruth wants her mobile phone today. She thinks she can find 2 000 each week for a loan payment.

Let's see how this turns out. Are you ready?

SAY

3 *I'm going to read what happens. Sarah, Ruth, moneylender and mobile phone seller, if I call your "name," I want you use your counters to do what the story says.*

*Our story begins in **January**.*

***Sarah!** In the first week of January, you save **2 000** and deposit it into your savings account.*

Sarah places 2 counters on the picture representing saving. Remind everyone that each counter is equal to 1 000 so 2 counters is equal to 2 000.

USE IMAGE

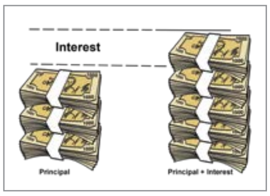

Saving

***Ruth!** In the first week of January, you go to a moneylender and take out a loan of **8 000**. The loan has a flat interest amount of 2 000 on the 8 000 borrowed. This is equal to 25%. The loan must be repaid in 5 weeks.*

Have the moneylender give Ruth 8 counters. Make sure both the moneylender and Ruth count out loud and say the number of counters. Tell the group that 8 counters are equal to 8 000.

USE IMAGE


Moneylender



Principal + interest


Mobile phone

Ruth takes 8 000 from the moneylender and gives the 8 000 to the mobile phone seller. Ruth is very happy to have her mobile phone. Put the 8 counters on the image of the first mobile phone.

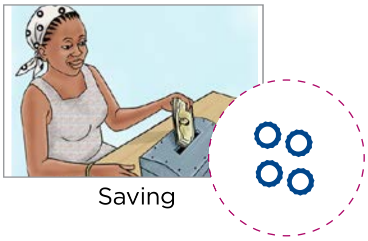
SAY

4

*Time passes, it is now the **second week in January.***

***Sarah!** You save another **2 000** and deposit it into your account. You now have saved 4 000.*

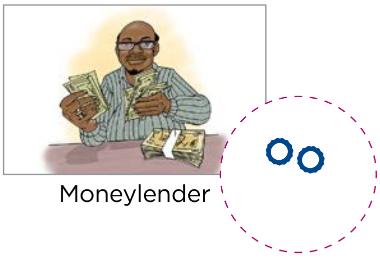
Sarah places another 2 counters on the picture representing saving.



Saving

***Ruth!** You must begin **paying** back your loan. You owe **2 000** for your first payment to the moneylender. You still owe 6 000 for the mobile phone loan and 2 000 more for the interest on the loan, for a total of 8 000.*

Ruth places 2 counters on the picture of the moneylender.



Moneylender

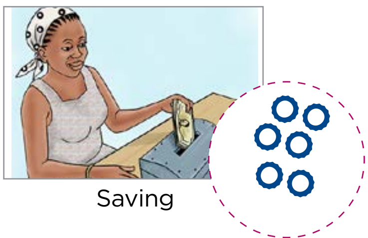
SAY

5

*It is now the **third week of January.***

***Sarah!** You save another **2 000** and deposit it into your account. You now have saved 6 000.*

Sarah places 2 counters on the picture representing saving.



Saving

SAY

Ruth! *You must keep paying back your loan. You pay* ***2 000*** *for your second payment. You have now paid 4 000. You still owe another 4 000 for the mobile phone loan and 2 000 for the interest on the loan, for a total of 6 000.*

Ruth places another 2 counters on the picture of the moneylender.

USE IMAGE

Moneylender

6

SAY

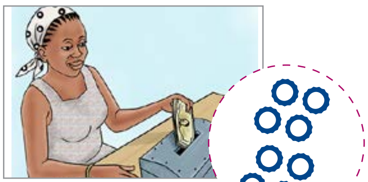
Time keeps going, now it is the ***fourth week in January.***

Sarah! *You stick to your plan; you are determined to buy a mobile phone. You save 2 000 again this week. You have now saved a total of 8 000 and have enough money to buy the mobile phone. You withdraw the 8 000 from your savings account and give the 8 000 to the mobile phone seller. The mobile phone seller gives you the mobile phone. You are now very happy.*

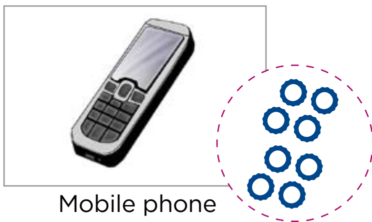
Sarah places another 2 counters on the picture, representing saving.

Lead cheers and applause for Sarah. Sarah gives 8 counters representing 8 000 to the mobile phone seller who in turn gives her the second image of the mobile phone. Have Sarah place the image of the second mobile phone on the ground. Then have the mobile phone seller place the 8 counters on that second mobile phone image.

USE IMAGE



Saving



Mobile phone

Ruth! *You must keep paying back your loan. You pay* ***2 000*** *for your third payment. You have now paid 6 000. You still owe 2 000 for the mobile phone loan principal and 2 000 more for the interest on the loan, for a total of 4 000.*

Ruth places another 2 counters on the picture of the moneylender.

USE IMAGE

Moneylender

9

FIELD EXERCISE

SAY

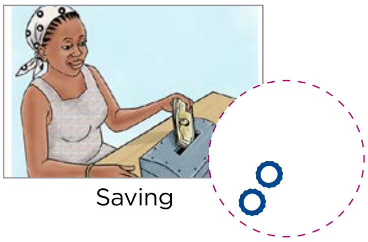
7

*It is now the **first week of February.***

***Sarah!** You now have a habit of saving **2 000** each week and continue to save. You make a deposit of 2 000 in your account. Since you withdrew 8 000 last week to buy the mobile phone, with this week's deposit of 2 000, your total saved is now 2 000.*

Sarah places 2 counters on the picture representing saving.

USE IMAGE

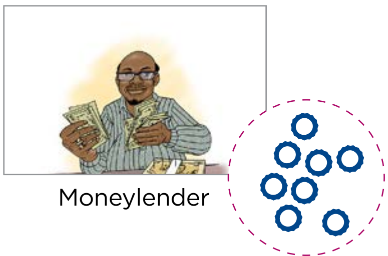


Saving

***Ruth!** You must keep paying back your loan. You pay **2 000** for your fourth payment. You have now paid a total of 8 000 for the cost of the mobile phone.*

Ruth places another 2 counters on the picture of the moneylender.

USE IMAGE



Moneylender

Great! Ruth has now paid back the principal on her loan. Is Ruth done repaying her loan to the moneylender?

Everyone should answer NO.

*No, Ruth, you are not done repaying your loan from the moneylender. You must still pay the moneylender the 2 000 in interest on the loan for **8 000**. This interest of **2 000** is the fee for using the moneylender's money to buy the mobile phone. You will pay this next week.*

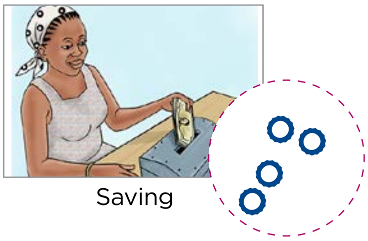
8

*Finally, it is the **second week in February.***

*Sarah continues to save **2 000** this week. She now has **4 000** in saving.*

Sarah places another 2 counters on the picture representing savings.

USE IMAGE

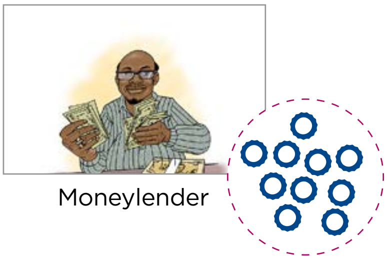


Saving

***Ruth!** You will now pay **2 000** for the interest to the moneylender. You have paid a total of **10 000** for your loan of **8 000**. Your loan is now paid off.*

Ruth places 2 additional counters on the image of the moneylender. There are now 10 counters (10 000) on the image of the moneylender.

USE IMAGE



Moneylender

ASK + LISTEN

9 *What is the difference between Sarah's 4 000 in savings after 6 weeks and Ruth's payment of 10 000 on the loan of 8 000 from the moneylender?*

Sarah's savings

- *The money always belongs to Sarah for the entire time.*
- *It took time to save the 8 000 to buy the mobile phone. It took 4 weeks.*
- *By using her savings there was no extra cost to buy the mobile phone.*
- *Sarah chose to purchase the mobile phone with her savings.*

Ruth's loan repayment

- *The money from Ruth now belongs to the moneylender.*
- *Ruth has paid 10 000 for a mobile phone that cost 8 000 to buy.*
- *The money from the moneylender was fast since Ruth got it the first week.*

9

FIELD EXERCISE

ASK + LISTEN

- *The money from the moneylender had a cost for the interest on the loan.*
- *While Ruth has her mobile phone, she paid the moneylender 2 000 more to cover the interest.*
- *It took her longer to pay off the loan.*
- *It took her six weeks, including the week the loan was received, to repay the moneylender.*

Based on what happened, who do you think made the best choice? If someone else wanted to buy a mobile phone, would you recommend using savings like Sarah did, or using borrowing like Ruth did?

- *Saving, because it was less expensive even though Sarah had to wait a little bit longer.*
- *Saving also allowed Sarah to change her mind if she had decided she didn't need a phone or if an emergency had come up.*

SAY

What if someone needed the mobile phone to run her business and earn more money? Would you recommend saving or borrowing?

- *Borrowing, because she needs the phone right away.*
- *Borrowing, because the phone will help her earn income to pay back the loan.*
- *Since she needs the mobile phone for her business, it will help her earn income to repay the loan.*

Yes. Remember, loans and savings are both good tools to use for different things. It is important to evaluate if the loan is the best way or if waiting to save the same amount is better. Always make sure that you can repay a loan, including interest, and that in repaying you will not harm your family, especially your children, before deciding to take out a loan.

5 Discussion: Reasons for borrowing

OBJECTIVES

1. Define key borrowing terms
2. Give framework for thinking about taking a loan

DESCRIPTION

Large-group discussion

FACILITATOR INSTRUCTIONS

Explain to the participant that they are going to start with a brainstorming exercise around the main ways that people use loans. Ask them for examples that will show each use is different.

Remember: As you cover key definitions, be sure to use images to support concepts. Asking someone to hold the image is a way to increase participation.

EXPLAIN

In general, people use loans when they need more money than they have in their savings, or if it would take too long to save all the money they need.

Can anyone tell me why people borrow money?

ASK + LISTEN

Write down the answers that are given and make sure they recognize the differences between the types of use. Keep asking the question until all three uses are provided by the participants.

- To invest (in a business)
- To respond to an unexpected event or emergency
- To buy something, either for a need or a want (this is called consumption)

Once they have mentioned examples to all three types say the following:

EXPLAIN

Yes, you are all correct. There are 3 main reasons why people borrow money. They are:

1. *To invest in a business activity*
2. *To pay for an unexpected event or emergency*
3. *To buy something, whether it is a need or a want, for consumption*

Lets' look at each of these in more detail.

I'm going to start with investment.

Many people borrow money to invest in a business.

Investing is using resources to respond to a business opportunity that you think will be successful. A good investment can create a profit. The profit can be used to repay the loan.

9
FIELD EXERCISE

Investment

USE IMAGE

Loan for investment

ASK + LISTEN

What does this image show?

- *A woman purchasing chicks now to raise to sell eggs later. Her income from selling eggs can be used to repay the loan and its costs. Once the loan is paid off, she will have increased income for her family.*

What other examples of investing in businesses can you think of?

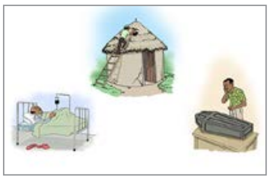
- *A farmer buying better seeds for his vegetables. He expects that these improved seeds will bring increased yields. He will have more vegetables to sell and thus more profit. With increased profits, the farmer can repay the loan and its costs.*

SAY

There are many other examples.

Unexpected events or emergencies

USE IMAGE



Unexpected expenses, emergencies

ASK + LISTEN

What is shown in this image?

- *Medical expenses—due to illness or accident*
- *Home repair—due to weather or age*
- *Funeral expenses*

SAY

Some people borrow money to respond to an unexpected event. When an emergency occurs, we need money quickly. Unexpected events often require money to respond and to keep our family safe and well.

ASK + LISTEN

Apart from borrowing, where else can you find money to respond to an unexpected event or emergency?

- *Using your emergency-fund savings*
- *Selling things*
- *Asking family for help*

Consumption

Loan for consumption

ASK + LISTEN

What do you see in this image?

- *A woman buying cloth*

SAY

Some people borrow money to purchase an item today which they do not have the money to purchase through savings or income. This is the reason Ruth got a loan in our role play. She wanted to buy a mobile phone, but didn't have money in savings.

People often take loans for consumption during the lean season. Remember that the "lean season" is the time of the year between when the past harvest food is finished, and the new harvest food is ready to eat. People use money from a loan to help make up for the decreases in income during that period.

Alternatives to borrowing

ASK + LISTEN

People borrow for three reasons: investment, emergencies and consumption—only one of them helps us to earn money to repay the loan. Which is it? Why?

Best reasons

- *Loans for investing*
- *A good investment earns more money than it costs. With the increase in income you can repay the loan*
- *Loans for consumption and emergencies do not bring in new income. They must be paid back from another source*

If someone mentions that another way to have money is to increase income, ask them, "How would you increase your income?"

What are the other ways to get money for something you need or want?

Alternatives to loans

- *Increase income*
- *Increase savings*
- *Decrease amount of spending on other wants*
- *Put your saved money in a place where you can't get to it easily, so you do not spend it on something else*

EXPLAIN

Remember, when taking out any loan, it is important to think about how you will repay it.

A loan for investment is the only loan that can help make extra money to pay back the principal and the interest.

Loans are not a good tool to respond to an emergency, to meet regular expenses or to buy something extra that you want. These things don't help you make more money, so it can be hard to pay back your debt.

If you cannot pay back a loan, you are said to be in default. If you default on a loan, it can hurt your children by making them feel pressure to work in ways that are unsafe. Children should never be responsible for repaying money borrowed by adults.

Take into consideration that the burden of loan repayments may make it hard for you. It could mean that you wouldn't have enough money to pay for your children's education and health costs, or to buy the nutritious food they need.

When thinking about borrowing money, you should ask yourself the following questions:

1. *Am I able to pay back the loan?*
2. *How much will the loan cost me, including interest and fees?*
3. *How will the repayment of the loan affect my family, including my children, both positively and negatively?*

Remember, if you find that the loan repayment will have important negative effects on your family—especially your children—then the loan is not a good idea. You will need to consider other ways, as we have discussed previously, to get the money needed.

6 Storytelling

OBJECTIVE

Practice making a decision about taking a loan

DESCRIPTION

Storytelling and discussion questions to explore the ideas of the session

FACILITATOR INSTRUCTIONS

Remember: there are many ways to facilitate a story to teach. You will need to find the way that works best for you. You have pictures to support and help tell the story.

SHARE THE STORY

Miriam

Miriam is facing a problem where she may have to borrow money. Listen and see what you think she should do.

Miriam needs to pay school fees for Joshua. And she needs to pay for transport to take him to the health clinic for a medical visit for a HIV viral-load blood test to make sure he is staying healthy. The viral-load test will let him know if the amount of HIV in his blood sample remains low. Miriam does not have enough money saved right now to pay for both needs.

Miriam is thinking of selling her hand cart to cover both costs—school fees and medical tests.

She uses her cart to transport her vegetables to the market. It allows her to sell more vegetables than if she carried them by hand.

Just before she must decide if she will sell her hand cart, Miriam thinks of another option. She recently joined a savings group. She thinks about asking for a loan from her group to pay for school fees and take Joshua to the clinic.

Taking out a loan would allow her to continue to use her hand cart to take her vegetables to the market to sell. This way she would not lose any income.

With a loan from her savings group she would be able to repay the amount, the loan principal and interest, over time. Since the school fees will not be due again until the next term, she will have time to repay the loan from the sale of her vegetables.

USE IMAGE

ASK + LISTEN

Advise Miriam

What should Miriam do?

Should she use a loan to pay for Joshua's school fees or should she sell her hand cart to pay the fees? Why?

- *While the loan is not for investing, Miriam has a plan to repay the loan.*
- *Taking the loan would allow her to maintain the amount of money she earns from selling her vegetables and still have her hand cart for transporting vegetables and water.*
- *If she sold the hand cart now, she would lose more in profits than she would pay in interest on a loan.*
- *As long as she can save enough to repay the loan with interest, borrowing the money is a smart choice.*

ASK + LISTEN

What might happen to Joshua if Miriam doesn't take the loan and sells her hand cart? Which choice is better for Joshua's well-being?

Best for Joshua?

- *If Miriam loses income, she may not have enough money for transportation to the clinic and the HIV viral-load test.*
- *She would also not have money to pay for his school fees the next time they are due.*
- *Taking the loan is a better choice for Joshua, because it allows Miriam to meet his needs. It does not put him at risk, because she has a plan to repay the loan. She does not expect Joshua to help her pay back the money.*

DISCUSS

Turn to the person next to you and discuss this question.

Think about the times you have borrowed money before. With the information you have now, would you borrow money again for the same reason?

Give 5 minutes for discussion in pairs. Then ask for 1 or 2 pairs to share what they discussed.

Is anyone willing to share what they talked about?

7 True or false?

OBJECTIVE

Have participants use new ideas to make judgements

DESCRIPTION

Read aloud statements, and have people decide if they are true or false

FACILITATOR INSTRUCTIONS

You will read a statement. After each statement, stop. Have participants decide if they think what you said is true or if it is false.

If they think it is ***true***, have them ***keep their hand down.***

If they think it is ***false***, have them ***raise their hand.***

For some statements, everyone may agree. For some statements, some participants might not agree. Some will raise their hands and others will keep their hands down. When this happens, make sure to ask a participant who has their hand up why they think it is false and ask a participant who has their hand down why they kept their hand down. Be sure to lead a discussion after each statement even if everyone agrees on the answer and it is correct.

SAY

We will do a quick activity. This activity involves raising or lowering your hand depending on your answer.

I will read some statements about loans.

If you think what I say is ***true****, and you agree,* then ***keep your hand down.***

If you think what I say is ***false****, and you do not agree, then* **raise your hand.**

- *Using borrowed money to pay for something is more expensive than using your own savings to pay for it.*
  (This statement is true.)
- *There is no penalty if you miss a loan payment.*
  (This statement is false.)
- *A loan can help you invest in your business.*
  (This statement is true.)
- *Loans can only be taken for investment.*
  (This statement is false.)
- *Taking a loan can affect the well-being—positively or negatively—of your children.*
  (This statement is true.)

8 Finishing

Key messages

Below are the key messages for this session. Your participants should have learned these key messages during this session.

SAY

Remember:

1. A loan costs money because you are using someone else's money.
2. Using a loan for an investment purpose makes it easier to pay back.
3. When thinking about borrowing money, you should think about:
   - Your ability to pay back the loan
   - How much the loan will cost, including interest
   - How loan payments will affect your family, including your children

Take-home

SAY

This week, think about how you earn income and any business ideas you have.

Are there ways a loan could help you grow your income and not negatively affect your family or children?

Talk about your ideas with your accountability buddy. What do they think?

Be ready to share your ideas about borrowing to grow your income at the next training session.

10. Calculating interest rates

Overview

- To understand the cost of a loan, you need to know the loan-principal amount, the interest rate and the loan term.
- The lowest interest rate is not always the least expensive. The cost also depends on how many interest payments you have to make.
- It is important to calculate the total cost of interest yourself, so you know and understand the cost of a loan, and can choose the best loan.
- Some loans can be difficult to understand. It is important to ask for help if you can't understand the terms of a loan.

10
LESSON

What you need to know to calculate the cost of a loan

When you take out a loan, you will make an agreement with the lender about the amount of money you will have to pay back. The amount of money that you will have to pay can be calculated before you agree to the loan, so it is important you understand the important details of the loan.

You need to understand principal, interest and fees to calculate the amount you will need to repay.

Principle

The loan **principal** is the amount of money that you have borrowed.

You will always have to pay back the loan principal.

Loan disbursement

Loan disbursement is when the lender gives you the principal of the loan.

Interest

Interest is the fee you pay the borrower for using the money. The interest rate is usually stated as a percentage of the principal. The amount of interest is calculated for your loan on a time interval: each day, week, month, year or over the total loan period.

Almost all loans also charge some amount of interest.

Loan term

The ***loan term*** is the length of time you have to repay the principal and interest.

Before choosing to take the loan, it is very important to know the length of time for the loan term in order to calculate the total cost of the interest.

Fees

Some lenders might charge additional fees for your loan.

Fees are charged by financial institutions for various activities. These activities can include the loan application, early repayment of a loan, transferring funds from a savings account to the loan account, making late payments and others.

Costs of the loan

The principal, interest and fees are called direct ***costs*** of a loan. They are monetary costs paid directly to the lender. In the next lesson, you will learn about the indirect costs of taking a loan.

Grace period

Some loans will also include a grace period.

A ***grace period*** is when there is time between when the loan is disbursed and when the borrower must start repaying the loan.

A grace period can be helpful for investments that take time to earn money. For example, a farmer needs money to plant, but he or she will not earn income to repay the loan until he sells the crops after harvest. In most cases, interest must be paid during the grace period.

Calculating the interest on a loan

Flat interest rate

Lenders will explain interest as a percentage of the principal. They will say:

"This loan has an interest rate of 2% per week."

OR

"This loan has an interest rate of 5% per month."

These are examples of a flat interest rate. These are the most common, and are also shown in the examples that are used in the field session you will facilitate.

A ***flat interest rate*** means the interest is calculated as a percentage of the entire principal for the length of the loan term. Each interest amount for every payment, whether weekly or monthly, will be the same.

Calculating a flat interest rate is not too difficult, but it is helpful to use a calculator. You can calculate the costs of a flat interest rate by multiplying the principal amount by the Interest rate. For example:

A principal of 50 000 that has a 2% flat interest rate per week would be entered into a calculator as 50 000 × 0.02 = 1 000. You would pay 1 000 in interest each week when you make a repayment. Remember, 1 000 is just the interest amount; it will also be added to the amount of the principal due.

Declining balance interest rate

Another type of interest rate is called a declining balance interest rate, or reducing balance interest rate.

With a ***declining balance interest rate,*** the interest amount decreases as the loan principal is paid off. The interest amount is recalculated each month based on the amount of principal you have left to pay.

The borrower can pay less interest overall on a declining balance loan than on a flat interest rate loan of the same rate. However, declining balance loans are more complicated to calculate because the amount of interest to be paid, and therefore the total loan payment, changes every payment. Declining interest rates may not be offered by a lender.

When calculating your loan payment, make sure to determine whether you are paying a flat interest rate or a declining balance interest rate. A loan with a higher declining balance interest rate might be less expensive than a loan that has a lower flat interest rate. This is why it is important to do all of the calculations.

It can be difficult to calculate the costs of a loan. It is often smart to ask for help if you have difficulty calculating the costs. It is also a good idea to use a calculator and to check your work 3 times.

Here is an example of loans with different interest rates. If you only look at the interest rate, you might believe a loan with a low interest rate is the least expensive. However, often those loans are actually more expensive:

Loan Amount (Principal)	*Interest Rate*	*Loan Term (10 Months)*	*Fees*	*Indirect Costs*	*Total Cost of Loan*
10 000	0%	Monthly	Monthly fee of 600	Nearby bank (very few indirect costs)	Principal = 10 000 Monthly Fees = 6 000 Total Cost = **16 000**
10 000	2% per week flat rate	Weekly (40 weeks)	No Fee	Nearby bank (very few indirect costs)	Principal = 10 000 Interest = 8 000 Total Cost = **18 000**
10 000	4% monthly flat rate	Monthly	No fee	Far-away bank (100 for trips every month) Missing work to go to bank (lose 300 of income every month)	Principal = 10 000 Interest = 4 000 Indirect Cost = 4 000 Total Cost = **18 000**
10 000	5% monthly flat rate	Monthly	No fee	Nearby bank (very few indirect costs)	Principal = 10 000 Interest = 5 000 Total Cost = **15 000**

- The loan above with no (0%) interest has a high monthly fee; that makes it expensive. The total cost is 16 000.
- The loan that charges 2% flat interest rate might appear to be the least expensive, but because interest is charged and paid weekly, it is more expensive than the 5% monthly flat interest rate loan. The total cost is 18 000.

- The loan that charges 4% monthly flat interest rate might appear to be the least expensive, but because of the indirect costs; 100 per month x 10 months = 1 000 for transportation costs; and 300 per month x 10 months = 3 000 in lost income when going to the bank to repay the loan. This adds 4 000 to the 4 000 in interest for a total of 8 000. With the loan principal the total is now 18 000.
- After calculating the final example of 5% flat interest rate per month and no fee or indirect costs over the 10 months, the total cost is 15 000, which is the least expensive option even though 5% sounds like it should more expensive.

Make sure to calculate the costs on your own; it can save you money by making sure you select the best borrowing option when you need to get a loan. Loan terms can be confusing, so make sure you ask for help in understanding them from someone else.

Don't do this alone!

Remember, lenders are trying to make a profit. Some lenders might be trustworthy, but there are some who are not. People all over the world have been tricked into taking out loans with high interest. They end up paying lots of fees and never repaying the principal amount of money they borrowed.

Calculating the costs of a loan can be difficult for anyone. Understanding the amount of money you will have to pay, adding in the extra fees, and comparing the prices of loans is often difficult. Do not be shy about asking for help from someone you trust. Calculating the costs of loans is important because you need to know the true cost of a loan in order to determine whether or not your family can afford to borrow money.

Calculating a loan with your family

Including your family, especially your children, when you calculate loan offers can be helpful. Your family can provide feedback on your ideas and the different options. Including them will also help them learn important skills for the future. Review the terms of the loans together, and make sure the terms are helpful to your family, not risky.

10
LESSON

Quiz yourself

1. Which of the following is the correct definition of a grace period?

   - ☐ a. The period between when a loan is disbursed and when the borrower must start repaying the loan
   - ☐ b. The period between when the loan is disbursed and when the borrower completes repayment
   - ☐ c. The period between when the loan is disbursed and when the borrower pays off half of the loan

2. A loan disbursement is the length of time the borrower has to use the loan.

   - ☐ True
   - ☐ False

3. Loans with the lowest interest rate are always the least expensive.

   - ☐ True
   - ☐ False

4. The loan term on a loan is:

   - ☐ a. The length of time you have to repay the loan in full, including interest
   - ☐ b. All the details of the agreement
   - ☐ c. Something you can choose

5. A flat interest rate and a declining balance interest rate cost the same amount; they are just calculated differently.

   - ☐ True
   - ☐ False

The quiz answers can be found on page 100

Session overview

Time

60 minutes

Objective

Give participants the skills they need to decide between different lending options.

New skills to teach

- Use a calculator
- Calculate the costs of interest when borrowing money

TIP

This page provides an overview of the session so you can easily organize your thoughts and focus on what you need to accomplish.

Key messages

1. To understand the cost of a loan, you need to know 3 things: the loan principal amount, the interest rate and the loan term.
2. Be careful! The lowest interest rate is not always the least expensive.
3. It is important to calculate the cost of interest yourself, so you can choose the best loan.

In this session

1 Warm-up

2 Introduction

3 Discussion: Loan interest payment

4 Calculating interest

5 Finding the best deal

6 Finishing

10

FIELD EXERCISE

Preparation

Images

Optional image cards for use during the activities:

- ☐ Loan disbursement
- ☐ Loan term
- ☐ Grace period
- ☐ Principal + interest
- ☐ Loan payment

Materials

- ☐ One calculator for every 2 participants; they will work in pairs with a calculator
- ☐ The 3 loan scenarios activity tool

TIP

All mobile phones have a calculator function. If participants bring a mobile phone, you will have calculators.

You will need to have some blank A4 or letter standard papers to make mathematical symbols, one per page for the field exercise calculations:

• multiplication symbol	(×)
• division symbol	(÷)
• addition symbol	(+)
• subtraction symbol	(-)
• equal symbol	(=)

You will also need additional blank papers for all the different calculations per the examples in the field exercise.

Local language

You will use the following terms many times in this lesson. Before you begin, please carefully think of the words you will use in the local language for each term. Write them below.

1. Loan

2. Loan disbursement

3. Loan term

4. Loan principal

5. Loan repayment

6. Grace period

7. Interest

8. Interest rate

9. Flat interest rate

10. Declining balance interest rate

11. Indirect cost

12. Debt

10
FIELD EXERCISE

1 Warm-up

DISCUSS

Last week, I asked you to talk about investment ideas with your accountability buddy.

Is anyone willing to share their ideas with the group? Would anyone like help from the group?

2 Introduction

SAY

Loans can be a useful tool. But borrowing money and going into debt is also risky. It is important to understand the different costs included in taking a loan. This way, you can make sure the loan fits into your budget. You can also know that you are getting a fair deal from the lender and compare different loans to choose one that is good for you.

3 Discussion: Loan payment

OBJECTIVE Define key terms

DESCRIPTION Large-group discussion

FACILITATOR INSTRUCTIONS

Begin discussion by asking the group about their previous experiences with loans. Build on and refer to their experiences throughout the session.

As you cover key definitions, be sure to use images to support concepts. Hand each image to a participant to display.

SAY

To figure out how much loans cost, there are a few words we have to understand.

***Disburse** means to give out. **Loan disbursement** is when the lender gives out the loan amount to the borrower.*

IMAGE OPTION

Loan disbursement

SAY

*The **loan term** is the length of time that you, the borrower, have to use the loan and repay it. It is the number of weeks or months you have to repay. Interest is calculated over the entire period of the **loan term**.*

IMAGE OPTION

Loan term

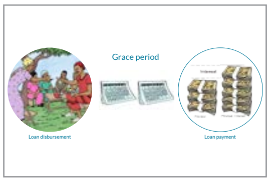
SAY

*Sometimes, the borrower doesn't have to start repaying a loan right away. The time between when a borrower receives the loan (loan disbursement) and when she must start paying back the loan is called a **grace period**.*

For a loan with weekly payments, it is the number of extra weeks between the loan disbursement and the first weekly payment. For a loan with a monthly payment, it is the number of extra months between the loan disbursement and the first monthly payment. A grace period is most common for agricultural production loans, since it takes time for the crop to grow and for the farmer to earn any income from its sale after harvest.

For weekly and monthly loans, if the loan payment begins the week or month immediately following loan disbursement, then there is no grace period.

IMAGE OPTION

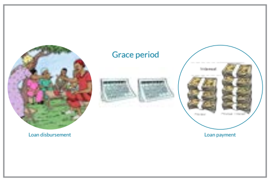


Grace period

SAY

*Every time the borrower makes a payment toward the loan it is part of the **loan repayment**. This is also referred to as a "loan payment."*

IMAGE OPTION



Loan repayment

10

FIELD EXERCISE

4 Calculating interest

OBJECTIVES

1. Help participants understand loan terms
2. Practice calculating the cost of a loan, including the interest

DESCRIPTION

Large-group discussion and practice calculation with scenarios

FACILITATOR INSTRUCTIONS

Go slowly and explain each term. Listen to the participants to be sure they understand each before introducing the next term. It is helpful have participants get into pairs or small groups of three so that at least one person has either a calculator or a mobile phone with a calculator function. Be realistic that it might not be possible.

For the small groups/pairs that have a calculator or a mobile phone, explain to them the instructions for what buttons to push on the calculator, moving around to help participants when they get stuck.

While the task of using calculators is very technical, the overall concepts are what is most important. Keep reminding and repeating the meaning of what participants are putting into the calculator. Understanding the concepts is more important than calculator skills.

EXPLAIN

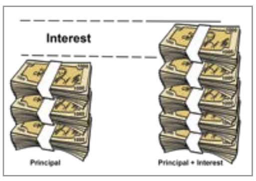
The main cost of using a loan is the interest the lender charges. It is important to calculate the total interest you will pay, so that you can compare loans and make a good decision.

Some lenders will tell you a specific amount of money that must be paid in addition to the loan principal. This makes it easy to know how much their service is costing you. This is rare.

Most lenders will only explain interest as a percentage of the principal. They will say, "this loan has an interest rate of 2% per week." Or "this loan has an interest rate of 5% per month."

This information allows you to find out how much the loan costs. But you still have to personally make some calculations.

IMAGE OPTION



Principal + interest

SAY

Let's do an example together. Let's calculate the cost of a loan.

Sarah wants to take out a loan of 20 000. She is told the interest rate is 2% per week. The loan term is 4 weeks.

SAY

Together, let's figure out how much Sarah will pay in interest each repayment.

Let's also see how much Sarah will pay in total interest for the loan.

Remember, we are only talking about the amount of interest. This is in addition to the repayment of the principal.

ASK + LISTEN

Needed information

What information does Sarah need in order to calculate the amount of interest she will pay?

- *Loan-principal amount*
- *Interest rate*
- *Loan term*

EXPLAIN

The fastest and most accurate way to calculate the interest amount is to use a calculator. You can purchase a calculator at the market. However, most mobile phones also have a calculator function.

If you are using a mobile phone, note that each mobile phone is a bit different. First go to your mobile phone's calculator mode. Don't hesitate to ask for someone else's help if you haven't used it before—it's easy to learn!

When you do a calculation, do each calculation 3 times to make sure that your answer is correct. Involve other members of your household, such as your husband, wife or older children. If you and they get the same answer each time, then you likely have the right answer.

To find the cost of interest, we need 3 pieces of information. We need to know:

1. The loan-principal amount

2. The interest rate

3. The loan term

ASK + LISTEN

Define terms

Do you remember what these terms mean? Let's define them again.

- *Loan principal is the amount of money you borrow.*
- *Loan term is the amount of time you have to pay back the loan.*
- *Interest is the extra money you have to pay to borrow the money. The interest rate is a percent of the loan amount.*

SAY

Please get into small groups of 2 or 3, making sure at least one person in your group has a calculator or a mobile phone. If this is not possible, then you may need to get into groups of 4. Please let me know which person in your group has a calculator or mobile phone. Together, you will use a calculator and follow along as I lead us through calculating interest. Take turns using the calculator and check each other's work.

TIP

As you read through the example, walk around and help participants with the calculator entry. If there are very few members with either a calculator or a mobile phone you may need to do this exercise in plenary, with all of the calculations on blank pieces of paper.

SAY

Sarah wants to take out a loan of 20 000. This is the principal.

She is told the interest rate is 2% per week.

The loan term is 4 weeks.

The first thing we do is multiply the loan principal (20 000) by the interest rate (2%). This will give us how much interest Sarah needs to pay each week.

SAY

Remember, she was told "the interest rate is 2% per week." Remember that 2% is the same as 2 ÷ 100.

One important thing to know is that 2% on a calculator is "point zero two" (.02).

Using your calculator type in:

- *Two, zero, zero, zero, zero. This is 20 000.*
- *Times (this is the symbol that looks like the letter "x").*
- *Point zero two (.02). This is the same as 20 ÷ 100."*
- *Press the equals symbol. It looks like two straight lines on top of each other (=).*

ASK + LISTEN

What answer do you get?

- *The correct answer is 400*

SAY

Sarah will pay 400 in interest each week. This amount will be in addition to a portion of the principal she must pay back. 400 is only the interest, or cost of the loan, she will pay each week.

ASK + LISTEN

How many weeks does she have to repay the loan?

- The correct answer is 4 weeks
- This is the loan term

EXPLAIN

To know how much interest Sarah will pay for the whole loan, we have a second step. We need to multiply the weekly amount by the total number of weeks of the loan (4).

Using your calculator type in:

- *Four, zero, zero (400)—the amount of interest she will pay each week.*
- *Times (this is the symbol that looks like the letter "x").*
- *Four—the loan term, the number of weeks she has to pay.*
- *Press the equals symbol. It looks like two straight lines on top of each other (=).*

ASK + LISTEN

What answer do you get?

- The correct answer is 1 600

SAY

If Sarah takes this loan, she will pay back 20 000 in loan principal and an additional 1 600 in interest. She will need a plan for paying back a total of 21 600 in four weeks if she wants to take this loan.

SAY

Remember, if you are using a mobile phone, note that each mobile phone is a bit different. First go to your mobile phone's calculator mode. Don't hesitate to ask for someone else's help if you haven't used it before—it's easy to learn!

ASK + LISTEN

What if the interest rate on Sarah's loan was 5% per week flat interest rate?

How much would Sarah pay each repayment with a 5% interest rate on a loan for 20 000? Remember 5% is the same as 5 ÷ 100.

And how much total interest?

5% interest

- Sarah would pay 1 000 in interest each payment (20 000 x .05 = 1 000)
- The loan would costs Sarah a total of 4 000 in interest (1 000 x 4 = 4 000)

What if the interest rate was 10% per week flat interest rate?

10% interest

- Sarah would pay 2 000 in interest each payment (20 000. Remember 10% is the same as 10 ÷ 100.
- The loan would costs Sarah a total of 8 000 in interest (2 000 x 4 = 8 000)

Which of these interest rates would be better for Sarah?

Best rate?

- *The first one, 2% interest rate*
- *The lowest interest rate is the least expensive of the examples*

Why is it a good idea for you to calculate the interest before taking a loan?

Calculate interest before taking a loan

- *To make sure the interest amount that the lender provides is correct*
- *To know if you can afford the loan and will be able to pay it back*
- *To understand the costs of the loan before taking the loan; this way, you can make an informed decision about using a loan or using savings*
- *To compare the costs of different loan options*

5 Finding the best deal

OBJECTIVES

1. Help participants understand loan terms
2. Practice calculating the cost of a loan, including the interest

DESCRIPTION

Practice calculations with scenarios, more independently than the last activity

FACILITATOR INSTRUCTIONS

Split the participants into 3 groups and give each group one set of loan terms to calculate. Have each group calculate both the amount of interest for each loan payment, the total amount of interest paid over the loan term (all loan payments), and the total amount repaid including principal + interest. Then you will ask all participants which one of the three options is the least expensive loan.

SAY

Ester is considering a loan to begin a business she can do at home. She has a few choices of lenders for her loan. They are all offering different terms.

We are going to help her decide which loan option is best for her.

I have 3 loan options from three different lenders. Let's get into 3 groups. Each group will use a calculator and be responsible for making calculations on one of the options.

Wait for the groups to form. Then give the instructions to each of the three groups one-at-a-time in their groups.

DISCUSS

In each group, I want you to calculate 3 things:

1. The amount of interest Ester would pay with each loan payment.

2. The total amount of interest Ester will pay for the entire loan term.

3. The total amount that Ester will repay, including loan principal and interest.

Go to each of the three groups, one-at-a-time and explain the activity and lender terms they will use to calculate the interest amounts. Make sure that each group knows which scenario they are working on to make the calculations. There are "Activity Tool" cards in Booklet 5 on pages 163-164 for lender 1, pages 165-166 for lender 2, and pages 167-168 for lender 3. Remind the groups not to look at the answers on the back of the "Activity Tool" cards. Each group must make their own calculation.

Lender 1 loan terms:

Ester will take out a loan for 20 000. The lender says the interest rate is 5% per month flat rate. And the loan term is 1 month.

- *20 000 x .05 = 1 000 in monthly interest*
- *1 000 x 1 = 1 000 in total interest paid*
- *20 000 + 1 000 = 21 000 total for principal and interest paid*

Lender 2 loan terms:

Ester will take out a loan for 20 000. The lender says the interest rate is 3% flat rate paid bi-weekly (every other week). The loan term is 1 month.

- *20 000 x .03 = 600 interest payment per month*
- *600 x 2 = 1 200 in total interest paid*
- *20 000 + 1 200 = 21 200 total for principal and interest paid*

SAY

Lender 3 loan terms:

Ester will take out a loan for 20 000. The lender says the interest rate is 8% per month. The loan term is 1 month.

- *20 000 x .08 = 1 600 in interest per month*
- *1 600 x 1 = 1 600 in total interest paid*
- *20 000 + 1 600 = 21 600 total for principal and interest paid*

DISCUSS

Give each group 3-5 minutes to do calculations; help when needed. When the groups are finished, ask them to present their findings. Read aloud the loan terms and ask for their answers.

ASK + LISTEN

Which loan?

Which loan should Ester take? Why?

- *Group 1—5% interest rate paid monthly. She will only pay a total of 1 000 in interest. It is the least expensive.*

But which loan has the lowest interest rate?

- *Group 2—3% interest rate. But it was paid every 2 weeks, so it costs more overall.*

Does this surprise you?

What do you need to ask about interest rates when taking out a loan?

- *The frequency and over what time-period the payments will be made.*

What does this lesson teach you about interest rates?

- *A low interest rate may not always be the least expensive loan. It depends on the frequency of payments.*

EXPLAIN

Many lenders can say the same thing in different ways.

For example, paying an 8% monthly interest rate and paying a 2% weekly interest rate over 1 month (4 weeks) are the same thing! But they sure sound different.

Lenders do this to make one option seem better. Remember, lenders are trying to make a profit. Some lenders might be trustworthy, but there are some who are not. People all over the world have been tricked into taking bad loans because the terms and conditions were confusing or difficult to understand. Make sure this does not happen to you.

6 Finishing

Conclusion

EXPLAIN

Knowing how to calculate interest is one way to protect yourself from bad lenders.

We covered one way to calculate interest today. We looked at what is called a flat interest rate. There are also declining interest rates, which are more complicated.

If you have the choice to take out a loan with a declining balance interest rate, you can ask someone you trust for help.

You will still want to understand how much you need to pay each week, as well as how much total you will pay in interest.

In general, when deciding to take out a loan, it is always good to ask for help to make sure you are getting the best deal and that the lender is trustworthy.

Key messages

Below are the key messages for this session. Your participants should have learned these key messages during this session.

SAY

Remember:

1. To understand the cost of a loan, you need to know 3 things: the loan principal amount, the interest rate and the loan term.
2. Be careful! The lowest interest rate is not always the least expensive.
3. It is important to calculate the cost of interest yourself, so you can choose the best loan.

Take-home

SAY

This week, when you meet with your accountability buddy, talk about the amount of money you would need for your investing idea, and how quickly you would be able to pay back that amount.

Would your investment help you make money to repay the loan? With interest? What kind of loan terms would you need? How would loan repayment effect your ability to provide for the needs of your children?

Be prepared to discuss at our next session.

11. Deciding to take out a loan

Overview

- You should always have a plan to repay a loan before borrowing money.
- When people cannot pay back a loan, it is called a loan default. Loan defaults put your family at risk and make it difficult to get loans in the future.
- In order to repay a loan, you will need a surplus in your budget. Your income will have to be more than your expenses to take on loan payments.
- It can be difficult to pay off loans that are too large. It is smart to consider the 20% rule when you choose the size of a loan. This rule states that you should never take out a loan that has payments that are more than 20% of your income.
- There are other costs to taking a loan, including collateral, fees and time. You should consider all these costs when deciding if you want to take out a loan.
- When choosing your best loan option, you should think about how the terms affect your family and children, including the time payments are due, how much is due at once, and the interest rate. These can all have effects on your family and children.
- Children are never responsible for repaying money borrowed by adults.

Important details about loans

There are several different types of people or institutions that will loan you money. Often, friends and family will be willing to lend you small amounts of money for a short time. If you need a larger amount of money, you might need to go to a bank, savings group or microfinance institution to get a loan. Each lender has different rules and ways of doing business. Different lenders may ask for different things before you get a loan.

Collateral

Some lenders might only give you a loan if you have collateral.

> ***Collateral*** is something that you promise to give to the lender if you default on your loan.

Collateral can come in many forms. Some lenders might ask for an ownership title for a plot of land, which you could use as collateral. If you are unable to pay back your loan, the lender would then take some or all of your land. Other lenders might be willing to accept a receipt that proves you have a specific good or item as collateral. Offering land or any of your important assets as collateral can be risky for your family. If you default on your loan, these things can be taken away. This can affect your family and children's well-being.

Remember, children and children's labor should never be used as collateral for a loan. Any lender who asks for this is an unsafe, predatory lender and very risky to your family and children.

Savings can also be used as collateral. Many savings groups allow members to borrow up to a certain percentage, maybe 2 or 3 times the amount of their total savings. If the member who borrows does not repay the loan, the group will use the savings to repay part of the loan. Banks also use savings as collateral; they might stop your access to your savings until your loan is repaid. If you secure a loan with collateral, the value of the collateral should be similar to the value of the loan.

Guarantee

If you don't have any forms of collateral, some lenders are willing to accept a guarantee.

> Having a ***guarantee*** involves adding another person (usually a family member) to the loan, who promises to pay it back if you are unable. This person is called the ***guarantor***.

Sometimes a formal lender will accept a group guarantee from a savings group.

> A ***group guarantee*** is when the savings group agrees to pay back a loan if one of their member defaults and cannot pay back the loan.

Collaterals and guarantees are all made in order to prove to the lender that you will pay back your loan.

Indirect costs

It is also important to consider the indirect costs of a loan.

Indirect costs are not charged directly by the lender to the borrower, but still cost the borrower money. These costs might include transportation costs or time away from work.

For example, transportation costs may be necessary to travel to make payments to the lender. If the lender is far away, you may need to take time away from working or selling your goods to manage your loan. If the loan is a group loan, the time spent in loan meetings is a cost, as is the amount you have to pay if another member of your group defaults.

Loan default

If you cannot pay back a loan, it is called a ***loan default***.

A loan default is bad for both the lender and the borrower. It can put your finances and goals at risk. Taking on too much debt can put your family and children at risk, too. The more debt you have, the more likely it is you could go into loan default. When people are in loan default, they can be forced into very risky situations.

They or their children may feel pressured into doing dangerous work, such as domestic servitude or sex work, which can increase their chance of getting HIV. They may feel forced to accept gifts from unsafe people who may expect special favors in return. Parents may need to send their children elsewhere to be cared for or pull them out of school, which can have long-term consequences for the children. Heavy debt is very risky for children and needs to be avoided.

Most lenders will know that you have defaulted on a loan in the past, which will make it difficult to get a loan in the future.

The best way to avoid a loan default is to pay your loan on time and not take out unnecessary loans that you will have a hard time paying back.

Can you afford a loan?

Loans are powerful tools, but often they can be misused. Loans might only fit into your budget at certain times. During a lean season or after an emergency, you might not have enough of a surplus to be able to repay a loan. If you want to use the loan to buy something right away, you might not be able to get the loan disbursement in time. A good loan will fit into your budget at the right time.

To decide if you can take out a loan, you need to calculate the amount of debt you can afford. You need to know ahead of time that you will have enough money in your budget to make the payments on time and in full. There are 2 ways to do this. The first is by ***looking at your budget***. The second is using ***the 20% rule.***

Fitting a loan into your budget

The first step is to examine your budget. You want to know that your average monthly income and your average monthly expenses leave a surplus that is large enough to make the loan payments, which includes both principal and interest.

Through tracking, you should know how much you typically earn each month. If you have seasonal income, you can add up all 12 months of income and divide by 12 to find your average monthly income.

Once you have an estimate of your income, use your budget tracking to calculate your average monthly expenses. Remember to use a month where you pay for the expenses of everyone in your household. If you have seasonal expenses, use division again to add a share of the cost to your monthly budget. For example, if you pay 120 in school fees each year, divide this number by 12 months. This will give you 10 per month. Add that to your average monthly expenses.

Once you take your average income minus your average expenses, check to see if you have money left over. If so, it is called a surplus. This is the money that you could use to repay your loan, without making any changes to your current budget plan. In general, a loan payment should be less than or equal to your surplus.

If the loan payment would be monthly, calculate a monthly surplus. If it is weekly, find your weekly surplus.

The 20% rule

The 20% rule means that your loan repayment each month should not be more than 20% of your income each month. If you have more than one loan, the total of all your required payments in a month should not be more than 20% of your income. Loans that take up more than 20% of your income can be very difficult to repay.

To find 20% of your income on a calculator, multiply your income by .20.

> *For example:*
>
> *Odhiabo makes 60 000 every month. He should not take out a loan that has a monthly payment of more than 12 000.*
>
> *60 000 x .20 = 12 000*

Loans and your family

Loans can be powerful tools for your family and your business; when used correctly, they can help you achieve your financial and family goals in a shorter period of time than saving to do the same thing. However, if you use loans inappropriately—to get money quickly even though you are unable to pay it back—they can put your family and children at risk.

If you take out a loan but need to repay it by not spending appropriate money on healthy food, school fees or health-related expenses (such as a mosquito net or HIV treatment), then you should not take out the loan.

If your children will be responsible if you cannot pay, you should not take out the loan.

Children are never responsible for repaying money borrowed by adults. Some bad lenders do not respect this, and you should be very careful not to borrow from them.

It is important to talk with your family before taking out a loan, and always make a plan to pay back a loan before borrowing. Here are some questions to talk about before deciding to take out a loan:

- Is a large payment due at the same time school fees are due?
- Will the amount of interest make it hard to pay back the loan?
- What are the consequences if you are late on a payment?
- If you take out a large loan, will you be stressed? How will that affect your family?
- Is the lender a trusted source? Are you sure they will not use unfair practices against you or your children to recover the money you owe?

All these factors could have a big effect on your family and your children's well-being.

Avoid taking on too much debt, because the more debt you have, the easier it is to default. Any time you default, this becomes very risky for you and your children.

Where to record a loan on your budget

In order to keep track of your loans, it is important to record it in your budget. There are two places that a loan will go into your budget.

1. The loan disbursement should be recorded as income. It is money that comes into your household or business.
2. The payments you must make on your loan are recorded as expenses.

If you only record the loan disbursement, it would look like you are much wealthier than you are. That is why the required repayments must also be put into your budget.

Keeping a detailed record of your loan payments in your budget can make it easier for you to see your financial situation clearly.

Quiz yourself

1. Collateral is *(tick all that apply)*:

   - ☐ a. What you buy with the money received from a loan
   - ☐ b. An asset that the borrower provides to the lender that can be used if the loan is not repaid
   - ☐ c. The guarantee of another person to repay the loan if the borrower cannot
   - ☐ d. A warehouse receipt

2. What factors of a loan can affect your family *(tick all that apply)*?

   - ☐ a. When the payments are due
   - ☐ b. How much you will pay in interest
   - ☐ c. How long it will take you to pay off the loan
   - ☐ d. The type of collateral required
   - ☐ e. The terms if a payment is missed

3. What is one thing that should never be used as collateral for a loan?

   - ☐ a. Cash
   - ☐ b. Your children or your children's labor
   - ☐ c. Your house
   - ☐ d. Your plots

4. To help you decide if you can afford a loan, the 20% rule says:

   - ☐ a. You need at least 20% of the loan amount in savings
   - ☐ b. Loan payments should not be more than 20% of your income
   - ☐ c. Loan principal should not be more than 20% of your expenses

5. A loan default, when you cannot repay your loan on time, is not good because:

   - ☐ a. It will make it difficult to get another loan in the future
   - ☐ b. You or your children may be pressured into unsafe work
   - ☐ c. Your harvest will be small
   - ☐ d. Both a and b

6. A predatory or bad lender is someone who:
   - ☐ a. Asks for child labor as collateral or child guarantee
   - ☐ b. Charges very high interest rates
   - ☐ c. Use confusing loan terms to try and trap borrowers into loan agreements
   - ☐ d. All the above

7. When deciding to take out a loan, you should look at your average income and average expenses and:
   - ☐ a. Make sure they match
   - ☐ b. Have a deficit that means you need the loan
   - ☐ c. Have a surplus—enough income left over to make loan repayments

8. A guarantor is someone who:
   - ☐ a. Agrees to pay back the loan if you cannot
   - ☐ b. Helps you work hard to earn money for loan payments
   - ☐ c. Works for the lenders and collects loan payments

The quiz answers can be found on page 100

Deciding to take out a loan

11
FIELD EXERCISE

Session overview

Time

60 minutes

Objective

Give participants the skills they need to make smart borrowing decisions for their family.

New skills to teach

- Calculate the level of debt they can afford
- Determine if and when a loan is a good choice for them, and why

TIP

This page provides an overview of the session so you can easily organize your thoughts and focus on what you need to accomplish.

Key messages

1. Taking out a loan has costs in addition to the interest due. It is important to remember these costs, too.
2. The monthly loan repayment should always be less than 20% of your income.
3. You should consider how the loan will affect different members of your household, including children. Children are never responsible for repaying money borrowed by adults.

In this session

1. Warm-up and review
2. Introduction
3. Discussion: Loan costs
4. Budgeting for a loan
5. Deciding to take out a loan
6. Finishing

11

FIELD EXERCISE

Preparation

Images

Optional image cards for use during the activities:

- ☐ Loan collateral
- ☐ Loan guarantor
- ☐ Group guarantee
- ☐ Surplus
- ☐ Budget images
- ☐ Blank papers for showing the calculations

Materials

- ☐ One calculator for every 2 participants, they will work in pairs with a calculator.
- ☐ Miriam and Joshua story card 1 (family)
- ☐ Business expenses (scenario 1)
- ☐ Collateral (scenario 2)
- ☐ Ester's business loan (scenario 3)
- ☐ Miriam sells vegetables (scenario 4)

TIP

All mobile phones have a calculator function; if participants bring a mobile phone, you will have calculators.

Local language

You will use the following terms many times in this lesson. Before you begin, please carefully think of the words you will use in the local language for each term. Write them below.

1. Collateral

2. Guarantor/co-signer

3. Group guarantee

4. Indirect cost

5. Opportunity cost

6. Twenty percent (20%) rule

7. Good loan

8. Bad loan

11
FIELD EXERCISE

1 Warm-up and review

DISCUSS

Last time we talked about interest rates and how to calculate loan offers from lenders.

Turn to your accountability buddy. Share the most important idea you learned during the previous session and why.

2 *Introduction*

EXPLAIN

Investments are a good reason to take out a loan, because they can help you increase your income. But not all investments are good, and even if you have a good investment, not all loans are good, either. To understand when to take out a loan, you need to know how a loan fits into your budget and life.

Today we will practice making decisions about using a loan as a financial tool for our family.

3 *Discussion: Loan costs*

OBJECTIVES

1. Help participants think through all the costs of a loan
2. Practice identifying non-monetary costs of a loan

DESCRIPTION

Large-group definitions discussion and using a story to identify all the costs of a loan

FACILITATOR INSTRUCTIONS

Cover definitions with the large group.

Remember: As you cover key definitions, be sure to use images to support concepts. Ask someone to hold up the appropriate image to increase participation.

Next split the participants into 3 groups and assign each group 1 thing to listen for as you read the story. Then read the story word-for-word. You may need to read it slowly twice; there are many important details included.

Ask each group to report back on what they were assigned. Refer to the story when necessary to help the group.

SAY

Interest is the main cost associated with taking out a loan, but sometimes there are other risks and expenses as well.

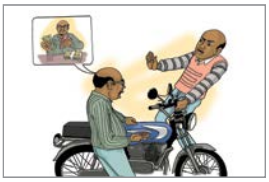
Some lenders make borrowers give them an item of value, such as livestock, a bicycle or savings. This is called collateral.

Collateral

SAY

In case you cannot repay the loan, the lender will sell or use your collateral to recover the loan amount. While that makes the loan less risky for the lender, it is riskier to the borrower, because you can lose your collateral if you don't repay the loan.

IMAGE OPTION



Collateral

Guarantor

SAY

Other lenders may make another person co-sign the loan agreement with the borrower. Such a person is called a guarantor or a co-signer. He or she agrees to repay the loan if the borrower cannot repay.

IMAGE OPTION

Loan guarantor

Group guarantee

SAY

Just like co-signers, sometimes savings groups will have group-guarantees. This is when the group promises together to repay any default loans from their group.

Sometimes this can help a group get lower interest rates. However, the group might lose some savings if a member of your group cannot repay their loan.

IMAGE OPTION

Group guarantee

ASK + LISTEN

Can anyone think of other costs of taking out a loan?

- *You might have to pay a fee to apply for a loan*
- *Many lenders require you have a certain amount of money saved as collateral before getting a loan*
- *Transportation costs—to see a banker, to attend SILC group meetings*
- *Time away from your business or work—to see a banker, to attend SILC group meetings*
- *Finding care for your children while you see a banker or attend SILC group meetings*

Can anyone think of other risks of taking out a loan?

- Risk of losing your collateral
- Risk to a relationship if you default and you had a co-signer

SAY

Let's use Miriam as an example to look at all of the costs of a loan. We need to help her determine all the costs of taking a loan, so she can make a knowledgeable decision.

IMAGE OPTION

Miriam and Joshua

SAY

Let's divide into 3 groups. I'm going to read about a loan Miriam is thinking about. I will read slowly so you can hear all the details. I am going to assign each group 1 thing to listen for as I read.

Wait for participants to get into groups.

- *Group 1: I want you to listen and identify all the non-cash costs related to the weekly meetings.*
- *Group 2: I want you to listen and identify all the cash costs required for the loan.*
- *Group 3: I want you to listen and identify all the costs related to the collateral.*

It is important that the details of the story are shared accurately so the groups can answer the questions. It is best to read this story exactly as it is written. After reading each part of the story pause and ask if everyone understood. If some did not understand, repeat that part of the story before reading the next part of the story.

It is important that you prepare the calculations for each group on blank paper in very large characters to show the groups when they report back their findings.

SAY

Part 1:

The microfinance institution, "We Give Loans," just opened a branch close to Miriam's house.

Miriam wants to take out a loan for 20 000, which has a 2% per week flat interest rate.

Miriam must save 20% of the loan principal she wants before the microfinance institution "We Give Loans" will give her the loan.

The loan has an application fee of 1 000.

The loan is disbursed on week 1 of the loan cycle. Miriam has 4 weeks to repay it in equal weekly installments for principal and interest.

SAY

Part 2:

A loan officer has recently come to the market to see if people are interested in starting a solidarity group to qualify for group loans. This solidarity group meets weekly.

Before receiving a loan, each person must attend 3 weekly meetings. During those meetings, they will save some money and learn more about the loan process.

The solidarity group meetings are held about 2 kilometers from Miriam's home. It takes her 15 minutes to walk each way. Each solidarity group meeting lasts 1 hour.

SAY

Part 3

The solidarity group members must jointly guarantee all loans that the group members receive.

If one or more members do not pay their weekly installments, then the other members of the solidarity group must pay for them.

If, at the end of the loan term, there is still principal and interest outstanding, then "We Give Loans" can take the members savings that they put up to get the loans.

After all loans are repaid—principal and interest—Miriam will get back the 20% of the loan principal amount she saved to get her loan. Or she can leave it with "We Give Loans" for the next loan she will request.

DISCUSS

Let's go group-by-group and have each group explain all the costs each heard and what risk each cost may have to children.

Group 1—weekly meetings

- *Miriam will attend 3 meetings*
- *Each meeting is 1 hour plus total travel time of 30 minutes (15-minute walk to and from each meeting)*
- *This will cost Miriam a total of 4.5 hours of her time to participate in the 3 meetings*
- *Miriam might miss work during that time and lose income*
- *There is a risk that her child, Joshua, may not be supervised during Miriam's time at the weekly meetings*

Group 2—loan costs

- *Total interest to pay 1 600 with 2% per week times 4 weeks (20 000 x .02 = 400; 400 x 4 = 1 600)*
- *Application fee of 1 000*
- *Cost of not being able to use savings for something else during the time period of the loan*
- *There is a risk that she would not have money for treatment if Joshua has a health emergency*

Group 3—collateral

- *Miriam must save 20% of the loan amount requested (20 000 x .02 = 4 000)*
- *While it is used as collateral, Miriam cannot use that money for something else*
- *If another member of the solidarity group does not repay, Miriam may lose the 4 000, or even more if the amount to be repaid by the remaining members is higher than their obligatory savings*
- *If Miriam saves more than 4 000 then she could lose the extra savings, too, if one or more members do not repay their loans*
- *If Miriam loses her savings because another member did not repay her or his loan this might affect her ability to pay for Joshua's food, medicine or school fees*

4 Budgeting for a loan

OBJECTIVE | Help participants assess their own budget for a loan using the 20% rule

DESCRIPTION | Large-group discussion

FACILITATOR INSTRUCTIONS

Introduce the topic of the 20% rule, then lead participants through thinking personally about their own budget and financial situation. You will use the budget images and layout from sessions 3 and 4 to talk through income and expenses.

As you go, pause, and ask questions. Let 3-4 volunteers respond and share personal details. Help the participants learn from one another's situations.

There are 2 methods you will cover for assessing if you can afford a loan:

- Use a budget to determine if you have enough of a surplus to take out a loan.
- Use the 20% rule to calculate how large a loan would be and the maximum you can afford.

SAY

We've talked about the reasons for taking a loan.

We've talked about interest rates and loan terms.

We've talked about other costs of taking a loan.

The last thing to discuss is how a loan fits into your budget.

Before taking out a loan, you always need a plan for how you will repay.

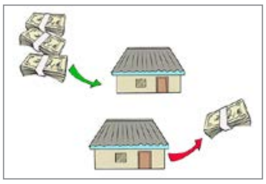
There are 2 ways to assess whether you can afford a loan. The first is to consider your monthly budget and surplus you may have. The second is to follow the 20% rule.

EXPLAIN

With your income and expenses (including savings), you can calculate whether you have a surplus.

You can use this surplus to pay back your loans.

IMAGE OPTION



Surplus

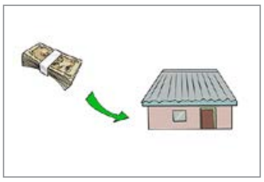
11
FIELD EXERCISE

Sources of income

ASK + LISTEN

Who remembers the different types of income? What are they?

USE IMAGE


Income


Providing services


Providing services


Selling goods


Loans (disbursement)


Gifts and remittances

SAY

Think about all your sources of income. What is your average monthly income?

If you track your income weekly, add together 4 weeks. This is how much you earn each month.

If you earn a lot more income in one season, consider the average amount across the year. Add up how much you earn in the entire season and divide it by 12 months. This is your average monthly income.

Do you have other family members who contribute to the household income? If so, how much do they earn?

Do you receive gifts or remittances regularly enough to plan on them as part of your income?

Remember, if children are earning money, parents should know where the money comes from, and that their earning activity is safe and will not put them at risk.

Even if they are earning money, their earnings should not be considered as part of the money that will be used to repay a loan.

Expenses

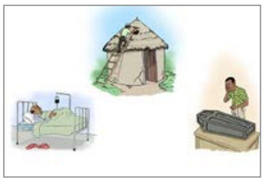
ASK + LISTEN

Next. Think about your expenses.

What are some examples?

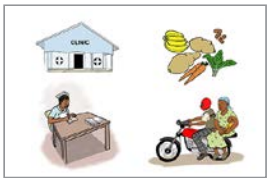
Household expenses
- Nutritious food
- Healthcare
- Unexpected or emergency
- Education
- Other like housing, clothes, etc.

Business expenses

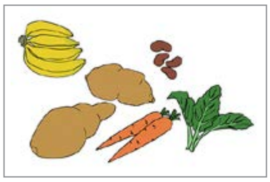


Unexpected expenses, emergencies

USE IMAGE



Health expenses



Nutritious food

SAY

During an entire month, how much do you spend every day for household expenses?

Which expenses are one-time expenses? One-time expenses are expenses that do not happen every week or every month, for example, school fees, health fees or money for an emergency.

Remember to include expenses for all the children in your care. In an entire month, how much do you spend on your business or businesses?

Which expenses are every month, and which are one-time expenses?

Savings

SAY

Now, think about your savings and saving goals.

USE IMAGE

Saving

SAY

These are the questions you need to ask about your savings goals for the next year:

- *How much do you plan to save each week or each month?*
- *What about your savings goals for your children?*
- *Are you saving anything for their education or health costs?*
- *How much do you plan to save weekly or monthly in your emergency fund?*

11
FIELD EXERCISE

Surplus

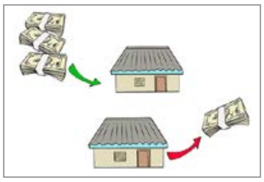
SAY

Using your income and expenses (including both ordinary savings and savings for your emergency fund), you can calculate whether you will have a surplus.

First, calculate your average monthly income; then subtract your average monthly expenses for both household and business expenses. Make sure that savings is part your expenses.

Once you subtract expenses from income, if you have any money left, this is your surplus.

USE IMAGE



Surplus

SAY

If you have a surplus and decide to take out a loan, you will add the loan into your budget.

When you get the loan disbursement it will count as income.

Point to loan image in the income area.

And, when you create a plan for your next month or weekly budget, you will include the amount of the loan payment in your expenses.

You should include the amount of the loan repayment each week or each month until the loan term is over.

Remember, when you repay your loan in installments you must pay both principal and interest.

The 20% rule

EXPLAIN

Making sure your surplus is more than your loan payment is one way to see if you can afford a loan. Another is called the 20% rule.

The 20% rule says that your payment each month should never be more than 20% of your average monthly income.

ASK + LISTEN

Do you know how to find 20% of your income on a calculator?

- *Multiply your average monthly income by .20 or you can multiply by 20 and divide by 100*

Let's do a quick example. If your total monthly income is 80 000, what is the most you would want a monthly loan repayment amount to be?

- *Multiply 80 000 x .20 = 16 000*

OR

- *Multiply (80 000 x 20) ÷100 = 16 000*

5 Deciding to take out a loan

OBJECTIVE Help participants assess whether specific loans are good or bad.

DESCRIPTION Large-group discussion of many scenarios.

FACILITATOR INSTRUCTIONS Lead the participants through several scenarios. Ask questions to help them assess whether the loan was a good decision or bad decision.

SAY

Let's practice.

I will read some short scenarios. I want you to discuss and answer some questions. Then tell me if you think the person made a good choice in taking the loan.

Miriam sells vegetables

Scenario 1

Miriam wants to buy seeds for her garden. Her savings group has just started, and there is not yet enough money to take out a loan. Planting season will have already passed by the time there are sufficient funds in the group.

11

FIELD EXERCISE

ASK + LISTEN

Will the savings group loan be too early or too late for Miriam's business investment?

- *It will be too late*

Should Miriam take out a loan from her savings group?

Take the loan?

- *No. Miriam should not ask for a loan from her savings group because the loan will come too late to buy and plant seeds in her garden.*

Would this be a good loan or a bad loan?

- *This would be a bad loan for Miriam if she took it.*
- *She would have trouble repaying it because it would be too late for growing vegetables in her garden.*

SAY

Let's do another scenario.

Scenario 2

Sarah has asked to borrow 20 000 from her savings group to buy goods to sell in her market stall. When Sarah took out her loan, she was told that she must pay 10% flat interest rate per month for 1 month. She was told she would need to make weekly payments for the next 4 weeks to repay the loan.

With 20 000, Sarah is sure she can make 31 000 each week in total sales for a total of 124 000 over 4 weeks. Using the 20% rule, her monthly payment cannot be more than 24 800.

After getting the 20 000 loan, she bought goods for her market stall. By the end of the first week, she sold all the goods she had bought for 31 000. She then made a loan payment of 5 500 (principal of 5 000 and weekly interest of 500) and used 5 500 for her household expenses.

She used the remaining 20 000 to buy more goods for her market stall and again sold them the following week for 31 000. After she made her weekly loan repayment she used 5 500 for household expenses.

She repeated the same for weeks 3 and 4. So, when she made the final loan repayment and used some money for household expenses, she still had 20 000 left.

IMAGE OPTION

Business expenses

ASK + LISTEN

Can someone remind us how much Sarah borrowed?

- *20 000*

What was the interest rate on Sarah's loan?

- *10% per month flat rate*

How much interest did Sarah have to pay on the loan?

- *2 000*

What was the frequency of repayments?

- *Weekly payments for both principal and interest*

How much was the weekly principal payment?

- *5 000*

What was the weekly interest payment?

- *2000 divided by 4 weeks = 500*

How much in total did Sarah repay?

- *5000 + 500 = 5 500; 5 500 x 4 weeks = 22 000*

What was the source of income Sarah used to repay her loans?

- *The sale of the goods in her shop purchased by the loan*

Remember, she used the surplus from her sales each week, after repayment of the installment, to buy more goods to sell the following week. She also used some of the money from sales to pay for household expenses.

Take the loan?

Should Sarah have taken the loan from her savings group? Why or why not?

- *Yes, because she was able to repay the loan—principal and interest—from sales*
- *She will still have money for household expenses and savings*
- *The loan repayments fit into her budget*

How does taking this loan affect Sarah's children?

Affect children?

- *Her children will have healthy food to eat*
- *They will not have to worry about the family's income*
- *She can build up an emergency fund to protect them in case of emergencies*
- *Her children do not have to help her repay the loan*

Would you say this is a good loan or a bad loan for Sarah?

Good choice?

- *Yes, this is good loan for Sarah*

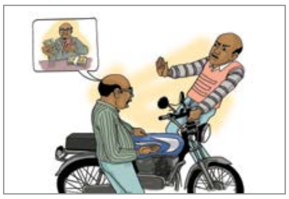
SAY

Now we are going to look at a "bad" loan, one in which the borrower will have trouble repaying.

Let's do a last scenario.

IMAGE OPTION


Moneylender


Collateral

Scenario 3

Moses is out of the hospital and able to work again. He decides to borrow 200 000 from the local moneylender at a flat interest rate of 10% per month to repair his motorcycle and to pay the school fees they owe for the children to return to school.

The loan term is 1 month but Moses thinks he can earn enough money to repay the loan and interest if he has a full month to work as a boda-boda. He is sure he can earn an average 8 000 per day, after fuel expenses. With 30 days he estimates he can earn 240 000. The lender has Moses pledge his motorcycle as collateral.

Unfortunately, it takes the motorcycle mechanic 2 weeks to finish the repairs. Thus, Moses only has 16 days to earn enough to repay the loan.

While Moses does earn more than he estimated, it is still only an average of 10 000 per day. His earnings for 16 days are 160 000.

After 1 month, Moses does not have the entire loan repayment amount. With 160 000 he still has 40 000 less than the loan principal of 200 000, which does not include the 20 000 in interest he must also pay.

When he cannot repay the full amount, the moneylender collects the 160 000 and the motorcycle used as collateral, to be sold to cover the rest of the loan.

Now Moses is without the motorcycle and has no way to earn more income.

ASK + LISTEN

What is the total interest to be paid by Moses?

- *His total interest to be paid is 200 000 times 10 percent x 1 month: 200 000 x .10 x 1 = 20 000*

Did Moses give any collateral for the loan?

- *Yes, he gave his motorcycle as collateral for the loan*

What was the consequence when Moses failed to repay the loan?

- *He had to give his motorcycle to the moneylender because he could not pay the full amount including interest at the end of the month—the loan term*

What was the total cost for Moses' loan?

Cost of loan?

- *The total cost was 200 000 plus 20 000, which equals 220 000*

What was Moses' monthly income?

- *It was 160 000 because it took 2 weeks to repair the motorcycle, which Moses had forgotten to consider when he took the loan*

Was Moses able to repay his loan?

- *No, Moses was not able to repay loan in full because he owed more money than he made; Moses therefore had to give his motorcycle to the moneylender*

Was this a good loan or a bad loan for Moses? Explain.

Good choice?

- *This was a bad loan for Moses because he did not earn enough money to repay the loan principal and interest as agreed with the moneylender*
- *He did not consider the amount of time needed to repair his motorcycle when he estimated his monthly income*

How did taking this loan affect Moses' children either positively or negatively?

Affect children?

- *Moses' children were able to go to school this term*
- *However, Moses had to give up his motorcycle; without his motorcycle, it will be difficult for Moses to earn money in the future*
- *If he cannot earn money, it will be difficult for Moses and Ester to pay for their children's education, health and nutritious food, or respond to emergencies*

6 Finishing

Key messages

Below are the key messages for this session. Your participants should have learned these key messages during this session.

SAY

Remember:

1. You should always make sure you can repay a loan even if the income used to repay is less than expected.
2. Taking a loan has costs in addition to the interest due. It's important to remember these costs, too.
3. The monthly loan repayment should always be less than 20% of your average monthly income using the 20% rule.
4. You should consider how the loan will affect different members of your household, including both potential negative and positive effects on your children.
5. Children are never responsible for repaying money borrowed by adults.

Take-home

DISCUSS

You have been tracking your weekly income. With your accountability buddy, I would like each of you to use a calculator to multiply your weekly income by four. Be sure to use an average week. Then use your calculator and multiply by .20, or 20%, which is the same as 20 divided by 100.

With your accountability buddy, discuss the stories of Miriam, Sarah and Moses. Who among them made the best decision? Think about their ability to repay, the total cost of the loan, the effect on their family and children, and the 20% rule. We will discuss your ideas when we return for the next training session.

In addition, discuss with your accountability buddy how much of a weekly or monthly payment you could afford to repay if you had a loan.

Compare that amount to your previous investment needs. Have a discussion. Are you ready for a loan? Is this a good financial tool for you and your family right now?

12. Understanding different lenders

Overview

- Every loan and each financial-service provider is different. When deciding where to get a loan, make sure to compare your options carefully.
- Some lenders are not as good as others. Lenders that are bad and take advantage of borrowers are called predatory lenders. Asking for help understanding the terms of a loan can help you avoid bad lenders.
- Lenders don't give loans to anyone; they carefully choose to whom they give money. Lenders make loan decisions based on the ***4 Cs***:
    - ***Capacity to repay:*** Can you repay the loan?
    - ***Character:*** What is your history in repaying previous loans?
    - ***Capital:*** What do you currently own and owe?
    - ***Collateral:*** What property or assets can the lender take if you cannot repay the loan?

Types of lenders

There are different types of lenders to choose from. The options you have for your lender and the loan they will offer you can depend on your location, your credit history and the collateral you can offer, among other things. In general, there are 2 main types of financial services: informal and formal.

Informal financial lenders

Informal financial transactions are all the loans and deposits that take place outside government regulation or supervision. These services are generally more accessible to people living in rural areas.

Borrowing from family members or friends is sometimes an option for a loan, and you may have low or no interest. However, the amount your family will give you might be very low. Borrowing from a friend or family member is an informal loan.

Moneylenders are individuals who offer small loans at very high interest rates. Moneylenders allow you to get money immediately, and may require some form of collateral. They are usually from a community or neighborhood, and they are easy to access. Moneylenders might seem like an easy option, but because of the high interest rates they can be both risky and expensive.

Input supplier or customer loans are loans that you can get from vendors of stores so that you can make purchases without paying immediately. In many areas, the person must repay at the end of the day, or after a set amount of time. Usually, the borrower must pay back the amount they borrowed to buy items with interest, and this interest can be compiled daily. This is also an example of an expensive, informal loan.

Rotating Savings and Credit Associations (ROSCA) are often called “merry-go-rounds” or “susu.” These are groups that get together regularly for saving and lending. Usually, these groups will meet weekly or monthly, and one member will receive the money that the group has saved during this period. ROSCAs can be good options for saving, but it might be difficult to fit the disbursement of lending into your budget timeline.

Community-managed savings and lending groups are also known as accumulated savings and credit associations (ASCA). They are usually locally managed and informal groups that give small- to medium-size loans that need to be repaid with interest. These groups might be able to give larger loans if they have many members and have been around for a long period of time.

Formal financial service providers

Formal financial institutions provide a wide variety of financial services: loans, checking, savings and insurance services. They are usually regulated by the government and have to comply with a number of rules.

Commercial banks are formal financial institutions that serve clients with a stable source of income and credit history. Most commercial banks tend to have low interest rates, but they also give out loans that are much larger than what many people could use or repay. Loans at commercial banks usually require a large amount of collateral. Commercial banks are also very strict about the rules of the loan; applying for a loan might take a long time. However, commercial banks are trustworthy and they can give you a large loan with a low interest rate and a long loan-term.

Microfinance institutions (MFI) are designed to work with households that have little or no collateral and are looking for smaller loans. Many microfinance institutions give out loans to groups of people who all agree to be guarantors for the loan. If you receive a group loan, you are responsible for paying not only your portion of the loan, but also the portions of members who are unable to pay. Some microfinance institutions will offer individual loans but may ask for collateral or proof of your credit history. Microfinance institutions can help you build your credit history, and they might be close to where you live. However, if you are taking a group loan, you are responsible for other people repaying their parts of the loan. You will also likely need some amount of savings to access a microfinance loan.

Agricultural banks are banks that specialize in providing credit for investments in agriculture or other production. The loans that these banks give out are usually designed to be useful for smallholder farmers and other producers. Some countries have many agricultural banks, while others have only a few.

Savings and credit cooperatives (often called SACCOs) are member-owned and member-controlled savings and credit institutions that were designed to allow poor communities to manage their own financial resources. Becoming a member of a SACCO can provide you with another option for getting a loan. SACCOs make decisions about loans quickly and openly, and they will often give you support to stay on track with your loan. However, most SACCOs only give out small loans.

Input credit is a short-term form of finance designed for farmers who want to buy agricultural product—like seeds or fertilizer—but who can't pay immediately. The farmer would request for an "advance" of the farming materials and agree to pay at a later date. Farmers will usually be asked to repay during the crop harvest, and repayment is usually greater than the initial price of the materials they got on loan.

Watch out for bad lenders

Unfortunately, not all lenders are trustworthy. Loans can be complicated, and some lenders take advantage of people who do not understand how interest works. They charge them lots of money. This is called predatory lending. Bad lenders prey on people who need a loan but don't ask all of the right questions first.

The best way to avoid bad lenders is to ask lots of questions. If you don't understand parts of a loan, ask people you know for help. You should never agree to the terms of a loan if you don't understand them. Having family members or friends look over a loan and double-check your understanding can be very helpful.

Other ways to check on a lender are:

- Ask other people who have gotten loans from that lender before.
- Make sure the lender has rules in place about when and how it loans money. Predatory lenders are often eager to give money to anyone.
- Compare interest rates to other lenders. Interest might vary a little bit, but not by a lot. Very high interest rates can be a sign that a lender is trying to take advantage of you.
- Loans usually take some time. If a lender is very eager to give you money right away, it might be a bad loan. Be cautious about anyone who says you can have money today!
- Compare other fees as well. Make sure the lender tells you all the costs of the loan beforehand. Watch out if you start getting different information about what you will have to pay.

How lenders decide who to lend to

Just like we make a careful decision about which lender to use, lenders also carefully select which borrowers they want as customers. Not everyone who wants to get a loan would be willing or able to pay back the loan. Lenders are careful about who they choose to give loans to so they don't lose their money. Lenders lose money and eventually go out of business if they give out too many loans to borrowers who can't repay.

Lenders look at different traits to decide whether someone should get a loan. Often, they use traits called the ***4 Cs: Capacity***, ***Character***, ***Capital*** and ***Collateral***.

Capacity

A person's ***capacity*** is their ability to repay a loan.

Lenders want to be sure you will be able to make monthly loan payments. A person with capacity to pay back a loan would be one who has a stable source of income that is greater than their expenses. Lenders will likely look at your income, expenses and outstanding loan payments, and compare those to your requested loan amount. They might also ask about your future income and expenses. By creating a budget and tracking your income and expenses, you can accurately show your capacity to pay back a loan.

Character

A person's ***character*** is portrayed by their ***credit history***, which is the record of all their previous debts.

Some countries require all formal financial institutions to report all loans they make. When you request a loan, the financial institution will be able to look at your credit history to determine if you have a history of paying back your loans. If you have a history of defaulting on loans, the lender will be unlikely to offer a loan. If you don't have any credit history—meaning you have not taken loans before—a financial institution might offer a group loan, expect more collateral, charge a higher interest rate or give you a smaller loan. As you repay your first loans, your credit history will improve and you can manage better and bigger loans.

Capital

Lenders are more likely to give you a loan if you have ***capital***.

Your capital is all the things that you own, including money and other things that have monetary value. One way to know how much capital you have is to calculate your ***net worth***. Your net worth is the difference between your assets (what you own) and your debts (what you owe). It can be helpful to evaluate your own net worth before you attempt to get a loan. If you can show that you have a large amount of capital or a high net worth, lenders will realize that you have many ways to repay a loan. However, if you have a low or negative net worth, lenders might choose not to give you a loan.

Collateral

Finally, ***collateral*** is the property and assets that a lender can take from you if you cannot repay the loan.

As we stated in the previous chapters, collateral could be property, buildings, vehicles or savings. If a lender is asking for collateral, you will usually have to prove that you own these things, through a property title or a bank-deposit balance. The larger the loan you take out, the greater the value of the collateral you will have to provide, in order to secure the loan.

Quiz yourself

1. Which of the following are formal financial services *(tick all that apply)*?

   - ☐ a. Moneylenders
   - ☐ b. Financial services that are regulated by the government
   - ☐ c. Commercial banks, microfinance institutions, SACCOs
   - ☐ d. Financial services that are not regulated by the government

2. Which of the following are informal financial ervices *(tick all that apply)*?

   - ☐ a. Moneylenders
   - ☐ b. Financial services that are regulated by the government
   - ☐ c. Commercial banks, microfinance institutions, SACCOs
   - ☐ d. Financial services that are not regulated by the government

3. Match the 4 Cs with the proper definition.

1. Capacity	a. Property or assets that a lender can take if you cannot repay a loan
2. Character	b. The ability to repay a loan
3. Capital	c. What you currently own and owe
4. Collateral	d. Your history in repaying previous loans

The quiz answers can be found on page 100.

Session overview

Time

60 minutes for the field exercise and an extra 15-20 minutes to complete the oral evaluation

- If the members decide to hold an end-of-training celebration, this would require additional time

Objective

Help participants understand how to become credit-worthy in the eyes of lenders.

New skills to teach

- Assess a borrower
- Identify the warning signs of predatory lending

TIP

This page provides an overview of the session so you can easily organize your thoughts and focus on what you need to accomplish.

Key messages

1. Not all lenders or loans are the same. It is important to find the right one for your situation.
2. Lenders carefully choose who they give money to. You can take action to make yourself more likely to be approved by a lender.

In this session

1. Warm-up and review
2. Introduction
3. Discussion: Advantages, disadvantages, challenges
4. Be a lender
5. Finishing and end of COFE training evaluation

Following the conclusion of this final session, there is a participatory exercise for evaluating this financial education curriculum.

12
FIELD EXERCISE

Preparation

Images

Optional image cards for use during the activities:

- ☐ Family or friends
- ☐ SILC group
- ☐ Microfinance Institution
- ☐ Bank
- ☐ SACCO
- ☐ Moneylender
- ☐ Blank paper to show calculations

Materials

No materials are needed for this session.

TIP

Encourage celebration at this final session. Bringing food and allowing extra time to party are great ways to build community.

Local language

You will use the following terms many times in this lesson. Before you begin, please carefully think of the words you will use in the local language for each term. Write them below.

1. Collateral

2. Capacity to repay

3. Character

4. Capital

5. Predatory lender (also sometimes called a "bad lender")

12

FIELD EXERCISE

1 Warm-up and review

DISCUSS

Last time, we talked about all the things to consider before taking a loan.

Can anyone tell me what you and your accountability buddy discussed after the last training session?

Ask 2 or 3 people what they discussed. Make sure at least 1 person mentions which of Sarah, Moses and Miriam made the best decision and why. Make sure that at least 1 person talks about what they decided would be the biggest weekly or monthly payment they could make if they took a loan. After they have spoken, thank them, and encourage them to continue to discuss loans with their accountability buddy after the training is completed.

2 *Introduction*

SAY

Today, we will talk about different lenders, and where to find a loan.

Different lenders have different kinds of loans. We will learn about them so you can choose the one that works for you. It might be different each time you take out a loan.

3 Discussion: Advantages, disadvantages, challenges

OBJECTIVES Compare and contrast different lenders

DESCRIPTION Large-group discussion

FACILITATOR INSTRUCTIONS

List all the different kinds of lenders. Then go through each lender, asking the group to identify the benefits of the lender and the disadvantages or challenges.

TIP Using images to support the discussion will help keep participants focused.

ASK + LISTEN

If you want a loan, where can you get it?

- Family and friends
- Moneylender
- SILC (savings group)
- MFI
- SACCO
- Bank

SAY

Good. Some of these lenders are formal institutions. Others are just people in your community. We can already see some ways they are different.

Let's look at them one-at-a-time.

Family and friends

SAY

Let's start with family and friends.

IMAGE OPTION

Family and friends

ASK + LISTEN

What are some of the advantages of borrowing from family and friends?

- *There is generally no interest or set date for repayment*
- *You can get the money fast if they agree to lend it to you*
- *This might be a good place to borrow money for an emergency, if you don't have enough in your emergency fund*

What are the disadvantages of borrowing from family or friends?

- *Can only borrow small amounts*
- *No guarantee family or friends will have money you can borrow*
- *If you are unable to pay it back, it may harm your relationship*

12
FIELD EXERCISE

Moneylenders

SAY

Now, let's look at moneylenders.

IMAGE OPTION

Moneylender

ASK + LISTEN

What are some advantages of borrowing from a moneylender?

- *Easy accessibility because they live close to you*
- *You know them and they know you*
- *A moneylender has money available for a loan right away*

What are the disadvantages of borrowing from a moneylender?

- *They may require collateral*
- *Can take your collateral if you don't repay on time*
- *Some have daily interest rates and big fees if you do not repay; it is expensive*

SILC (savings group)

SAY

Let's look at borrowing from a savings group.

IMAGE OPTION

SILC (saving group)

ASK + LISTEN

What are some advantages of borrowing from a savings group?

- *Interest rate charged on loans is set by the members*
- *Loan decisions are made quickly and openly*
- *You can earn profit on your savings from others taking loans*
- *You get support from the other group members as you repay your loan; they will help you stay on track to meet your budget and your goals*
- *Sometimes are closer to your home than other lenders*

What are the disadvantages of borrowing from a savings group?

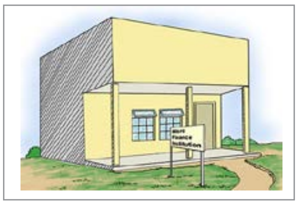
- *Loan may be less than requested because not enough funds available*
- *Timing of loan may be a problem if too many members want to take loans at the same time*
- *Can only borrow up to maximum allowed in the group constitution*
- *Can only borrow for short terms, generally 1, 2 or 3 months depending on the group constitution*

Microfinance institution or SACCO

SAY

What about borrowing from a microfinance institution or a SACCO? Let's look at both institutions at the same time since they are similar.

IMAGE OPTION


Microfinance institution

SACCO

ASK + LISTEN

What are some advantages of borrowing from a microfinance institution or from a SACCO?

- *Can connect savings group to a larger loan*
- *Might be closer to rural areas*
- *Can start to build credit history, if they are willing to take new borrowers*

What are the disadvantages of borrowing from a microfinance institution or a SACCO?

- *If you take a group loan, you are responsible if a group member cannot repay their part of the loan*
- *Need savings before you can take the loan; depending on the amount, this might be a barrier*

12
FIELD EXERCISE

Bank

SAY

Finally, let's look at borrowing from a bank.

IMAGE OPTION

Bank

ASK + LISTEN

What are some advantages of borrowing from a bank?

- *Get a bigger loan*
- *Trustworthy*
- *Longer time to repay the loan*

What are the disadvantages of borrowing from a bank?

- *Harder to get to and takes more time*
- *Takes longer. Money might not be available when you need it*
- *Might have stricter rules about who can get a loan*
- *Requires formal collateral or co-signers/guarantors*

Summary

SAY

Before you take out a loan, no matter who is the lender, you should ask and get answers to the following questions.

EXPLAIN

- *What are all the costs?*
- *Are there fees and if so, how much are they?*
- *Do you need to provide collateral?*
- *What is the interest rate and is it a flat rate or a declining balance rate?*
- *What are the loan terms?*
- *How much (amount) can you get?*
- *How far away is the lender?*
- *What are the risks if you cannot repay the loan on time to you and your family, especially your children?*

These are all good questions to ask before deciding where to take out a loan.

Untrustworthy lenders

Although most of the lenders we have talked about are safe to use, there are lenders that are not trustworthy.

Loans can be complicated, and some lenders take advantage of people who do not understand how interest works. They charge them a lot of money. This is called predatory lending. Predatory (or bad) lenders prey on people who need a loan, but don't know to ask all of the right questions first.

If you are ever in a situation where you do not understand all the parts of a loan, be sure and ask someone you trust for help. You should never feel embarrassed to ask for help. It is a good idea for everyone to have a friend or family member double-check that they understand the loan terms in the same way as you. If the lender does not seem to be honest or if the conditions seem too good to be true, you are probably correct that this is a loan from an untrustworthy lender.

Trustworthy lenders

ASK + LISTEN

How do you know if a lender is trustworthy?

- *Ask other people who have previously gotten loans from that lender.*
- *Make sure the lender has rules in place about when and how it lends money.*
- *Compare interest rates to other lenders. Interest might vary a little bit from different lenders, but not by a lot. Very high interest rates are a bad sign.*
- *Loans usually take some time. If a lender is very eager to give you money right away, it might be a predatory or bad loan.*
- *Compare other fees as well. Make sure the lender tells you all the costs of the loan beforehand. If you start getting different information about what you must pay, this is a warning sign.*

4 Be a lender

OBJECTIVES

1. Show how lenders make decisions about giving loans.
2. Help participants see how they can become ready for a loan.

DESCRIPTION

Large-group discussion and judging scenarios.

FACILITATOR INSTRUCTIONS

Take time to explain the 4 Cs that a lender thinks about.

Then read each scenario. After reading each scenario, ask participants to comment on each of the 4 Cs that were part of the story.

Finally, have participants raise their hands, ***if they would approve*** this borrower for a loan and keep their hands down, **if they would not approve** the borrower for this loan.

During the discussion, there is no right answer. Participants just need to be able to give a reason for their decision-making.

EXPLAIN

Just like we make a careful decision about which lender to use, lenders also carefully select which borrowers they want as customers. They want to lend money to people who can repay a loan.

There are 4 key criteria that lenders look at before making a loan. You can think of them as the 4 Cs. The 4 Cs are Capacity, Character, Capital, and Collateral. Let's see how we can define each of them.

Capacity

ASK + LISTEN

The first of the 4 Cs is the Capacity of the borrower to repay. Can anyone tell me what a lender is looking for in a borrower's capacity?

- *Want to know your current income and expenses*
- *Want to know if you have a surplus or a deficit*
- *Want to look at your budget to make sure you have sufficient surplus to repay the loan principal and interest*

When you are evaluating your own capacity to repay a loan, remember to use the 20% rule to be sure the amount of the weekly or monthly loan payment will not cause difficulties for repayment.

Character

ASK + LISTEN

The second of the 4 Cs is Character. Let's discus what the lender is looking for with respect to the borrower's character.

- *If the borrower always pays her or his loans*
- *If the borrower's payments were on time*
- *If the borrower is trustworthy because she or he always does what they promise*

Capital

ASK + LISTEN

The third of the 4 Cs is Capital. Lets discuss what the lender is looking for when he asks about a borrower's capital.

- *Know what is the net worth of the business, if for a business loan*
- *The net worth of a business is the value of all it owns like goods, building, equipment; it must be greater than all it owes, its debts*

Collateral

ASK + LISTEN

The fourth and final of the 4 Cs is Collateral. When a lender tells a borrower they must pledge collateral, what exactly does this mean?

- *Assets that could be sold to repay the loan if the borrower does not repay on time*
- *Collateral can be the compulsory savings the borrower must provide in order to get the loan*
- *It can be title to land, a house, a vehicle or some other item of value*

SAY

Let's pretend we are a lender.

I'm going to read you a scenario. Together you need to decide if the borrower should receive the loan or not.

Remember to use the 4 Cs—Capacity, Character, Capital and Collateral—to help you decide.

If you think the borrower should be approved for a loan, raise your hand.

If you think the borrower is too risky and should not be approved, keep your hand down.

Each time you finish reading a scenario, remind the participants that if they agree the borrower should get the loan, they should raise their hand. If they think the lender should reject the borrower's loan request; they should keep their hand down. Then ask if all who agree have raised their hands.

SAY

Capacity and Character

Scenario 1

You are a member of a savings group. During one of your weekly savings group meetings, your neighbor Bintou asks for a loan for 30 000.

Bintou wants to purchase inputs for her business. Bintou says that she plans to repay her loan from the increased yields she will receive from the investment of these inputs.

Bintou is your neighbor. She is always asking to borrow from you because she is struggling to repay her current debts. When it is time for Bintou to repay you, she is always late in paying.

DISCUSS

Lead the group through a discussion of the four criteria. Go through each "C." Remember, there is no right answer.

The group should consider that Bintou:

- May have a limited capacity to repay because she always has a lot of debts and struggles to repay
- May not have the best character for a borrower since she is known for not making her loan repayments on time.

SAY

I'm going to read you another scenario. Remember, we are pretending to be the lender. We have to decide if the borrower should receive the loan or not.

Remember to use the 4 Cs—Capacity, Character, Capital, and Collateral—to help you decide.

If you think the borrower should be approved for a loan, raise your hand.

If you think the borrower is too risky and should not be approved, keep your hand down.

SAY

Capital and Collateral

Scenario 2

A savings group with 20 members is in its third cycle. Its members need more capital to grow their business. The savings group is requesting a loan from the microfinance institution. They recently joined the microfinance institution as group members and have been saving regularly since they joined. They want to borrow enough so that each member can get a loan for 50 000 at the same time for a total amount of 1 000 000 for their savings group.

They have saved 10% (100 000) of the loan amount request as required.

It is a group loan, which requires a solidarity guarantee where each of the savings group members agrees to jointly repay any late or missing repayments by other members.

The savings group wants to help its members significantly grow their individual businesses. It has developed individual business plans for each member that show how each will grow.

DISCUSS

Lead the group in a discussion of the 4 criteria—Capacity, Character, Capital and Collateral—to see if the group would meet the criteria to qualify for the loan.

Make sure they highlight at least 1 idea for each of the 4 Cs:

- The savings group has saved the required 10%
- The savings group has made regular savings deposits since it joined the microfinance institution
- The members already have businesses and are looking to grow them, so there is already capital invested by the business owners
- As a solidarity group loan, all the members are jointly responsible for any members who do not make a payment on time

SAY

Yes, you are correct.

- *Capacity: Even though the savings group just recently joined the microfinance institution, their members saved the required 10% for the loan.*
- *Character: The savings groups achieved the 10% in savings by making regular savings deposits ever since it joined.*
- *Capital: Since the members already have businesses, there is already capital invested by the business owners.*
- *Collateral: As a solidarity group loan, all the members are jointly responsible for any members who do not make a payment on time.*

5 Finishing and end of COFE training evaluation

5.1 Key messages

Below are the key messages for this session. Your participants should have learned these key messages during this session.

SAY

Remember:

1. Not all lenders or loans are the same.
2. It is important to find the right one for your situation, each time you need a loan.
3. Talk to your accountability buddy and your family before you make a loan decision.
4. Make sure any borrowing will not negatively affect your family, especially your children.
5. Lenders carefully choose who they give money to. You can take action to make yourself more likely to be approved by a lender.

12

FIELD EXERCISE

5.2 End of COFE training evaluation

OBJECTIVES

1. Gather information to understand the participant attitudinal and behavioral changes that have occurred
2. Gather feedback to keep improving the content and delivery of the COFE curriculum

DESCRIPTION

Ask questions and listen to the responses from each person

FACILITATOR INSTRUCTIONS

Have participants sit in a circle. You will ask a question and then go around in a circle and each person will have a chance to give an answer. A participant may always say "pass," and then it is the next person's turn to give an answer, if they would like.

Do not comment on participant's responses. Simply thank them for their thoughts and make note of what they said. It is very important to take notes on responses to each question and share those notes later with the supervisory staff.

SAY

Let's sit in a circle. I have just a few questions to ask. I'd like to go around in a circle so that every person's voice can be heard. When it is your turn you can give an answer that is true for you, or just say "pass" and the question will go to the next person.

Everyone ready?

1. *What have you appreciated most about the COFE training and why?*
2. *What practices have been easy for you to apply?*
3. *What practices have been difficult for you to apply?*
4. *How have your practices at home helped your children?*
5. *Do you have any suggestions to improve the training for other groups?*

Thank you so much for your hard work and great attitude. I hope that you have learned things that are useful to you and your family.

5.3 Conclusion at the end of the COFE training

SAY

This is the last of our COFE financial education training sessions, which is now finished. First, I would like to thank you for all your hard work in learning these concepts, as these are not easy topics to discuss or understand. I want us all to celebrate each of your success in completing the training. I am proud of all of you. This is something important to celebrate.

I hope you continue working with your accountability buddy to remind each other of the different concepts and decisions we have discussed in the COFE training. Please think about your short-term, medium-term and long-term S.M.A.R.T. financial goals and how each might affect your family—positive and negative—especially your children. Make sure you continue to monitor your weekly or monthly budget. You and your accountability buddy can help each other improve your financial skills and practices.

Managing finances and making big decisions—like which lender to use—are always easier with a friend to talk things over.

Lesson 9 quiz answers

1. b | 2. b, c | 3. d | 4. c

Lesson 10 quiz answers

1. a | 2. False | 3. False | 4. a | 5. False

Lesson 11 quiz answers

1. b, d | 2. a, b, c, d, e | 3. b | 4. b | 5. d | 6. d | 7. c | 8. a

Lesson 12 quiz answers

1. b, c | 2. a, d | 3. 1-b, 2-d, 3-c, 4-a

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