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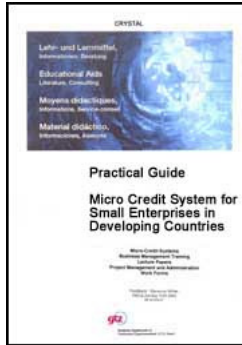
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Practical Guide

**Micro Credit System for Small
Enterprises in Developing Countries**

**Micro-Credit-System
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**Lecture Papers
Project Management and Administration
Work Forms**

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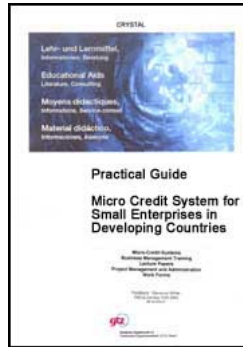
**Deutsche Gesellschaft fr
Technische Zusammenarbeit (GTZ) GmbH**

Thank you to the "Young Women's Christian Association" (YWCA), the "Protestant Association for Co-operation in Development" (EZE), the "German Development Service" (ded), the "Loans Committee" and the "Staff Members" of the "Kabwe Enterprise Support Project" (KESP) without all of them the KES Project would have never been real.

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1. Introduction

This practical guide is based on the "Kabwe Enterprise Support Project" (KESP) in Zambia. KESP was started as a pilot project in January 1996. The pilot phase ended in February 1999. It was running under the umbrella of "Young Women's Christian Association" (YWCA) Council of Zambia in Partnership with "Protestant Association for Cooperation in Development" (EZE - Evangelische Zentralstelle fuer Entwicklungshilfe) and "German Development Service" (ded - Deutscher Entwicklungsdienst) Germany.

In the 3 years pilot phase it has been shown, that a micro enterprise support project can

be successful in such a poor developing country like Zambia, despite extreme economic, social and political problems. KESP empowered micro enterprises to improve, diversify or develop sustainable income generating activities among some of the most vulnerable groups in Zambian society, mainly women and youth. The project assisted in re-establishing, developing and sustaining the economic situation of socially disadvantaged groups. All this was being done through business management training, business consultancy and by providing loans for businesses. In the 3 years pilot phase nearly 200 small scale businesses were assisted. Two thirds of them have improved their businesses and their standards of living significantly. For example a lot of them have been able to send a child to school and to improve the quality of their diet. The beneficiaries learned about business management and have stabilised, expanded and diversified their businesses. The loan repayment was highly efficient; for example in 1997 all of the participating groups in the urban and suburb areas paid their loans completely back including interest and administration fee. At the same period the loan repayment in rural areas was over 70 %. The expansion of businesses, the improvement in standards of living and the repayment of loans were more than satisfying.

The clients were micro entrepreneurs involved in petty production, trading and service activities. The target groups belonged to the vulnerable people of the society. For these groups the informal sector activities were among the main sources of income. A lot of micro enterprises did not have fixed business premises, instead they operated from homes or in the streets. Most of these businesses were operated by one person and only a few of them employed additional paid staff. The following lists show examples of supported micro enterprises:

Trade with:

- **Fish**
- **Fruits and vegetables**

- **Second hand clothes and shoes**
- **Animals**
- **All goods typically sold in a grocery shop**
- **Material for sewing**
- **Kitchenware**

- **Service with:**
 - **Hair salon**
 - **Restaurant**
 - **Shoe repair**
 - **Bicycle or car repair**
 - **Miller**
 - **Offer of training for: Running a business, chicken rearing, ornament making etc.**

Production:

- **Pot maker**
- **Gardener**
- **Farmer**
- **Seed and small fruit trees**
- **Fisher**
- **Brick maker**
- **Potter**
- **Baker**
- **Shoemaker**
- **Tailor (Traditional clothes, school clothes, repair of clothes etc.)**
- **Chicken, pig or cattle rearing**
- **Knitting and crocheting**

- **Tye and dye**
- **Making flower pots and growing of flowers**
- **Basket and mat maker**
- **Ornament maker**
- **Oil maker**
- **Cotton processor**
- **Carpenter**

This reader is a guide to support similar projects in other development countries. It shall give suggestions and tested tools for the implementation of such projects. Of course, every project is somehow unique and there are special situations in the various countries, traditional circumstances, economy, culture, society and mentalities have to be taken into consideration. It is not possible to transfer exactly the same system from one country to the other. Each project has to be seen in a dynamic and flexible way.

The reader will probably realise that in this booklet only the masculine form has been used. This was done only for reasons of practicability. Obviously, entrepreneurs and staff members can be female and male in any position.



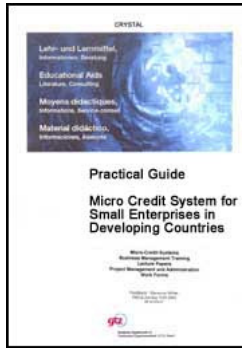
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  **2. Micro credit system**

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2. Micro credit system

A micro credit system shall empower micro enterprises to improve, diversify and develop sustainable income generating activities among some of the most vulnerable groups of the society. Any project dealing with micro credit systems should assist to restore, develop and sustain the economic situation of disadvantaged social groups. All this can be done through business management training, business consultation and by providing adequate loans for businesses.

2.0.1 Small loan amounts

The loans are meant to finance working capital, equipment and tools. The Kabwe Enterprise Support Project for example disbursed loans ranging between¹ \$100 - \$500. Of course each project has to find out which loan amount is suitable for the actual business situation but in any case the loan amounts should be small since the enterprises are very small. The loan amount must be in relation to the existing business or to reliable business opportunities. It is necessary that the amount can be paid back in less than one year. Larger loans would create more problems for the entrepreneurs because they are not used

to deal with large credit amounts. They must learn step by step to deal with more money for the business. A huge amount of money is easily misused as for example in case of emergencies. A large number of entrepreneurs can not imagine that their business can expand in a step by step process. They have to make the experience that the profit can be increased by small loans. Furthermore, in case of default only a small amount is lost so that there is still the chance to restart.

¹ All \$ amounts in this booklet are related to US \$.

2.0.2 Two loans per entrepreneur

The micro credit system described here is based on two loan payments per person. The first loan should be smaller than the second one since the entrepreneur is still in a learning process. In case of mistakes made and of any difficulties he will not lose a lot of money. Furthermore, the borrower is not well known at the time of the first loan payment. The first loan period must prove if he is really credit-worthy. The risk of the project to lose a lot of money due to bad loans is reduced by the smaller first loan amount.

Some entrepreneurs realise that they do not even need a second loan as they were able to stabilise and increase their business already with the first loan.

2.0.3 Appropriate interest rates

The interest rate should be similar to the one which the banks in the respective country would charge for small business loans of this kind. The interest rates are subject to change depending on the prevailing economic situation of the country. In the case that this interest rate is so high that the small entrepreneurs can not afford it, the interest rate for the first loan should be lower. But it has to be at least as high as the countries' inflation rate. But the interest rate on the second loan should be close to the one charged

by the bank for a small loan. This prepares the entrepreneur to apply for a loan from a bank in the future.

If one provides loans with a fixed interest rate related to the interest rates charged by the bank as well as the inflation rate, one has to take into consideration that the inflation rate could fluctuate dramatically during the term of the loan.

The interest rate charged by the pilot project described here is a recurring charge which is fixed at 30 % per annum on the total principal amount. This means that each repayment period the interest paid is the same (i.e. 30 % of the principal (total loan) amount even though the borrower liquidates a bit more of his debt each period). The installments have to be paid accordingly to the term(s) of the loan. Examples of interest calculation can be found under topic 2.5.2 "Calculation steps".

In contrast to this simple concept of charging interest usually a bank would charge each payment period the interest rate on the amount of the outstanding debt. The first interest payment would therefore be on the principle amount but then the following ones would decrease from repayment period to repayment period. One should therefore be aware that unless the project's interest rate is much lower than the one of the bank (using the projects simple concept), the project participants would be charged more interest than they would be charged by the bank.

The simple concept for charging interest was chosen for the project as it is much easier to explain to the borrowers. Furthermore it needs much less administration work. Of course at the beginning of the project one has to determine carefully a realistic and fair interest rate for the simple concept.

When the pilot project was started the bank interest rate was 65 % per annum. It was decided to charge a fixed interest rate of 30 % per annum for the first loan. The difference looks quite amazing, but in reality the interest earned by the project is not so much less

than the interest earned by a bank due to the different types of calculation. However the interest rate should have increased for the second loan. But before the second loan could be paid the interest rate charged by the banks had dropped from 65 % to 32 %. Therefore, at that time the fixed interest rate of the pilot project was higher than the one charged by the banks. It was decided to keep the interest rate of the first loan also for the second loan. This decision was made because from an economic point of view the interest rate charged for small loans should be higher than the one for large loans. The administrative work for both of them is the same, but the income from interest of the small loan is much lower. This is a major reason why small enterprises very rarely get a loan from a bank as the loan amount they need is too small. The bank would make a loss charging the same interest rate for these small loans as they request from their customers with medium sized or large businesses loans.

In order to find the appropriate interest rate:

- **One has to fix the total loan amount which can be disbursed by the project.**
- **One has to decide the way how the interest rate should be calculated (simple concept or a bank's concept).**
- **One has to calculate how much income shall be generated out of the interest to cover the running costs of the whole project and to increase the loan capital.**
- **One has to estimate the repayment quota.**
- **One has to decide whether it should be the same, higher or lower than the interest rate charged by the banks in the respective country. In any case, one has to keep in mind that the target group must be able to repay the charged interest. In the running of the project the interest rates have to be adjusted accordingly.**

2.0.4 Administration fee

The administration fee for small loans must be quite high since the administration work for a small loan are the same as for a large loan. But the earned administration fee by the same percentage on a small loan is less. The project described here was a social project which received financial support. Therefore, it was possible to charge the same administration fee which would usually be charged for a big loan by a bank.

The rate for the administration fee of the credit system described here is 2 % of the principal amount. It is a one time fee. For example, if a borrower who is in a production enterprise received \$200 he must pay \$4 as administration fee which is distributed over the repayment period.

2.0.5 Revolving fund

Loan distributions according to the credit rules will be done through the revolving fund. Loans are disbursed to entrepreneurs in groups. Each entrepreneur of the group has to repay his loan including the interest rate and administration fee to the project which can then lend the money again to other groups. The fund will be managed by the project. The revolving fund is a certain amount from the budget of the project which is assigned to be paid out as loans. This money has to be put on a separate project bank account. It must never be mixed with the running project costs. Loan repayment amounts including the interest rate and the administration fee have to be deposited in the bank account of the revolving fund. If a group repaid the loan, they can get a second loan or the next group will get a loan. At first, start with a few groups to get some experience on how the credit system works. If it works, more and more groups can benefit. If the loan repayment is bad one should work on the system to improve the repayment quota. Otherwise, the revolving fund will diminish more and more and the project will fail. The groups, and in particular each entrepreneur who received a loan are responsible for the following groups, their

neighbours and thereby even for their society. If they do not repay their loan, others can not benefit from a loan, as they did.

The reasons why the project described organised the loan payment through it's own managed revolving fund instead of through the bank are as follows:

- **Banks do not want to pay out small loans, because it is not profitable for them.**
- **The target group has no acceptable securities for the bank.**
- **Banks do not have the staff to give business consultancy.**
- **Banks are not able to finance business management training.**
- **In a social project one can chose their own interest rate, so that it is suitable for the target group.**
- **Many banks have made bad experiences with micro enterprises.**
- **Banks in development countries often do not offer a loan to women and to youth groups.**
- **Normally banks can not accept micro entrepreneurs since most of them do not have accounting books or balance sheets.**

2.1. Determination of the project area and selection procedure of participants

In order to identify an appropriate project area the following has to be considered:

- **The project area must have a realistic distance to the operating project office so that neither time nor money is wasted for travelling from the office to the meeting**

places and the participant's businesses.

- **A group must be located in a distinguished, not too large area; for example a certain compound, village or market place.**
- **The area should be the business location of many micro entrepreneurs.**
- **The enterprises should have small shops or market stands. Thereby, they have a business address and new customers can find them easily. Furthermore, they must not go to their customers from door to door.**
- **It must be possible to set up four different groups in this area so that one Extension Worker can work with 4 groups simultaneously.**

Entrepreneurs who are living in the identified project area have to write informal applications which include a description of their business as well as their financial situation and a request for training and financial assistance. In the first interview the Extension Worker completes the questionnaire for the business checks² figuring out if the entrepreneur fulfills the following basic conditions:

² See Appendix I: "Business Check Form".

- **He is a country resident who has stayed in the area for at least two years.**
- **He has no criminal record.**
- **He has no outstanding debt.**
- **He has been running a business for at least the last 6 months. (Point 4)**
- **He has started investing in tools or equipment for the business. (Point 5)**
- **His income generating activities are viable.**
- **His business idea is profitable.**

- **His interest in training seems to be honest.**
- **He has basic knowledge about how to read, write and calculate.**
- **His loan request is in the offered range.**
- **He is between 21 and 50 years old.**

Young people between 16 and 21 years old have to fulfil all of the above basic conditions except conditions four and five.

2.1.1 Checking, consulting and monitoring of the businesses

The Extension Worker is doing a physical business check of each interested enterprise which fulfills the basic conditions. The Extension Worker starts to open a separate file for each client including all important information and forms about the entrepreneur and his enterprise. The business persons have to be advised on an ongoing basis. Whenever it is necessary, another business check and a business consultancy should be performed. Business consultancy can also be done during the business management training. In these training sessions many questions and business problems are brought to a point. Together with the Extension Worker the group members discuss them and search for solutions.

When the Project Director and the Extension Worker of the area have checked the basic conditions and the business check forms of the entrepreneurs, they decide who will be invited to the "promotion and orientation meeting"³, which is the next step in the loan application procedure. Participants should not be from the same family. If there are various members from the same family it has to be decided who can join the project. Furthermore, the Project Director and the Extension Worker decide about the maximum loan amount for each entrepreneur. The loan amount must be realistic for each business depending on its size, the applicable business knowledge of the entrepreneur and the eagerness of the entrepreneur to work hard. At the promotion and orientation meeting the entrepreneurs have to be informed about their maximum loan amount.

3 See Chapter 3.1: "Promotion and orientation meeting".

2.2 Group formation and tasks - Cooperative concept

After identifying potential participants in a specific area they are invited to the promotion and orientation meeting' where the whole credit system will be explained and the group as well as sub-groups have to be formed. The entrepreneurs form a group which consists of 15 to 30 members. In the beginning it is better if the group is not too small because usually some entrepreneurs do not want to join the group after they became familiar with the credit scheme concept and in addition some other entrepreneurs will finally not be accepted.

2.2.1 Group responsibilities

The tasks of the group are as follows:

- **Each group has to elect a chairperson⁴, treasurer and secretary.**

⁴ Chairperson in the meaning of a chairman, chairwoman or a president.

- **The group members have to check individual participants, their businesses and loan requests.**
- **They decide together if somebody is allowed to join them.**
- **They have to make sure that all members attend the orientation and training meetings.**
- **They have to assist each other in difficulties and problems.**
- **They have to control and organize the loan repayments.**
- **They are responsible that all members repay their loans.**

The group can not get a second loan unless each participant has completely paid off his debt. The group has to learn that their loan is from a revolving fund. This means that, only if they repay their loan, other groups can get a loan. They must understand that they had the chance to get a loan and so they are responsible that other entrepreneurs can get the same assistance.

2.2.2 Sub-group formation and responsibilities

Groups will be further divided into sub-groups of 5, 6 or 7 participants. This will be done on a self-selecting basis because they have to be responsible for each other. The self-selection even enhances understanding and co-operation among the group participants. The criteria for a sub-group formation are based on the:

- **Loan amounts**
- **Kind of the businesses**
- **Size of the businesses**

The requested loan amounts of each entrepreneur in a sub-group must be the same and the size and the kind of the businesses should be similar. Members of one subgroup must be either in trading or service. Those who are in production business must form a separate sub-group. This is because the entrepreneurs who are in trading and service have to start to repay their loan after one week, meanwhile the people in production get a grace period of 10 weeks before they start to repay⁵. At least three entrepreneurs from each sub-group must be based at a permanent location, preferably in a market place or shop. The home address must be permanent for each business person.

⁵ See Chapter 2.5: "Loan repayment".

The sub-group members must be from the same locality and should know each other's

character well. Participants must be trustworthy. They have to check the businesses from all of their sub-group participants and they have to assist each other. Each subgroup participant is a guarantor⁶ for all of the other sub-group members. Therefore they should be interested that the businesses of the other participants are running well so that they are all able to pay back their loan. Furthermore sub-groups draw up their own constitution for their own control and safety. All this strengthens the sub-group members among each another and their team work.

⁶ See Chapter 2.3.2: "Sub-group co-guarantee"

2.2.3 Constitutional aspects

The following aspects should be clarified and rules should be laid down in a subgroup's constitution:

- **Name, address and "Identity Card" number of each participant**
- **Selection of a sub-group chairperson, treasurer and secretary**
- **Objectives**
- **Goals**
- **Meeting day and time**
- **Use of further savings**
- **Loan consent of each participant**
- **Discipline**

Rules to be followed in case of:

- **Death of a participant**
- **Default (alternative ways of recovering the loan)**
- **Move of a participant**

- **Violation against the project rules**
- **Resignation of membership**
- **Signatures**

2.3 Loan Insurance Fund

2.3.1 Sub-group saving

Before the total loan is paid out to the first entrepreneur each participant of the subgroup has to save 10 % of his requested loan amount for the first loan. If he applies already for a second loan, he has to save 15 % of the principal loan amount. This money has to be given to the Extension Worker who deposits it immediately in a separate project bank account. The participants have to save this money in 8 weekly installments, meanwhile they undergo a Business Management Training. The saving starts simultaneously with the initial business management training for the period of 8 weeks. The savings serve as a security for the loan in case of a default. Therefore these savings are called Loan Insurance Fund (LIF). The client does not get any interest on the LIF. This is because the interest for each client is very low. The costs to calculate and pay out the individual interest would be higher than the interest earned on the total LIF. Furthermore, a lot of project services are done without cost covering charges or even for free, for example business checks and trainings. Before starting to save for the LIF each client has to sign an agreement for not receiving any interest on these savings. The LIF has to be deposited in a separate project bank account. The Project Director decides how the bank paid interest on the LIF should be used. Upon repayment of the loans received the LIF will be refunded.

2.3.2 Sub-group co-guarantee

The Loan Insurance Fund serves as a guarantee for non repaid loans. The sub-group members who get the same loan amount have to co-guarantee each other with the

subgroup LIF saving. This will be effective through a loan guarantee form⁷ which must be signed by each sub-group participant. If a sub-group member fails to repay his loan the sub-group will advise the defaulter on how to solve the underlying problem. Each group member is equally responsible for a participant who fails to repay. Groups are encouraged to solve the repayment problem internally and they have to act according to their constitution. The Extension Worker has to be assured that everything possible has been done to overcome the borrower's failure. If all this is not sufficient to repay the missing amount, then the LIF of the sub-group has to be taken to recover the outstanding loan. In the event that the LIF is not enough to cover the outstanding amount of the defaulted loan the main group is required to assist in repaying the remaining balance. The whole group can only go ahead to get a second loan if the loan of each group participant is completely repaid. To write off a loan would be the ultimate step. The reasons why a loan is not recovered must be properly investigated before it can be decided to stop or to go ahead with the group.

⁷ See Appendix II under point 17 to 19: "Individual Loan Application and Approval Form"

The co-operative system allows that group members assist and learn from each other. Furthermore, the LIF system increases the pressure to repay for the whole group. Since, nobody wants to lose his LIF, everybody will prefer to assist and control the other participating entrepreneurs.

On completion of loan repayment by the whole group the LIF will be refunded to each participant according to their savings but without any interest, as described in chapter 2.3.1. In the case that the members apply for a second loan the LIF paid for the first loan can be carried forward to the LIF amount which must be saved for the second loan amount requested. Then the balance between the first and second LIF amount has to be paid.

2.4 Loan range and disbursement system

2.4.1 Loan range

The loan range of the described project was between \$100 and \$300 for the first loan and between \$300 and \$500 for the second loan. There were five loan payment categories for the first loan namely \$100, \$150, \$200, \$250 and \$300. For the second loan payment there were also five categories namely \$300, \$350, \$400, \$450 and \$500. It must be properly checked in which category each entrepreneur fits in.

2.4.2 First loan disbursement system - step by step

All participants must have paid the LIF in full and successfully attended the initial business management training for 8 weeks before they can receive the loan. Loans are paid out to groups of 10 to 28 members sub divided in groups of 5, 6 or 7 participants. Entrepreneurs who are in trading and services can be in the same sub-group but entrepreneurs who are in production can not be in the same group with trading or service enterprises. The credit disbursement system for the first loan applies as follows:

| | Trading and Service | Production |
|----------------------------------|----------------------------|----------------------|
| <i>Column numbers</i> | <i>1. 2. 3. Column</i> | <i>1. 2. Column</i> |
| Disbursement period: | 1. - 4. - 8. Week | 1. - 12. Week |
| Sub-group with 5 members: | 2-1-2 Persons | 2 - 3 Persons |
| Sub-group with 6 members: | 2-2-2 Persons | 3-3 Persons |
| Sub-group with 7 members: | 2-2-3 Persons | 3-4 Persons |

Table 1: Disbursement system for the first loan

Table 1 shows the credit system applied to trading & service and production respectively. The first individual loan payments are disbursed in the 1st week only to the number of members shown in the 1st column of each type of sub-group. For example in trading & service, at the beginning of the 1st loan disbursement week only 2 entrepreneurs of a 5 member sub-group receive their loan. In the 4th week only 1 person will receive his loan, provided that the first 2 persons fulfilled their expected installments.

Those in trading and service who got their loan at first have to start to repay their loan in the 1st week. They have to pay 4 full installments before the next sub-group members in the 4th loan disbursement week, as shown in the 2nd Column, qualify to receive their loan. The last group members receive the loan in the 8th week after the group shown in the 1st column paid 8 full installments and the group in the 2nd column paid 4 full installments. For example in a trading and service sub-group with 7 members the last 3 entrepreneurs get their loan in the 8th loan disbursement week assuming all of the other sub-group members, who received their loans earlier, repaid the expected installments fully.

Those in production are given a grace period of 10 weeks before they have to repay the first installment. After this grace period, those sub-group members who received the loan in the 1st week have to repay 2 installments before loans are disbursed to other sub-group members as shown in the 2nd column. Therefore the sub-group members in the 2nd column receive their loan 12 weeks later than the members in the 1st column. But if the entrepreneurs listed in the 1st column do not repay the two installments, the persons in the 2nd column do not get a loan at all.

This step by step disbursement procedure puts a high pressure onto those members who received the loan in the 1st week to start repaying the loan. Once the start is made it will turn out that it is not so difficult to repay the loan in weekly installments since the amounts are rather low. Therefore the borrowers will continue to repay the loan and the others in the group will follow.

2.4.3 Special requisites for gardener and farmers

Entrepreneurs in plant production have to do agriculture as well as horticulture which means they have to produce crops or fruits and vegetables. By doing so the risk of bad harvests and therefore the risk to default is reduced. For example, through bad weather a crop can be destroyed or worms can destroy the cabbage. Furthermore, it is better to cultivate various plants because they grow at different times and not everything is destroyed if something happens to one kind. The gardener and farmer should cultivate some indigenous plants. They are not so heavily attacked by pests, diseases or insects. So, as long as an entrepreneur does farming and gardening simultaneously, he can apply for a loan.

Gardeners and farmers must be given the loan at the right seasonal time. Therefore, most of them have to get the loan at the same time. This problem can be overcome by allowing only two gardeners and farmers to be in the same sub-group. Obviously, the time table for the whole group has to be managed in such a way that the gardeners and farmers get their loan at the right seasonal time. After the complete loan preparation and the initial business management training is done they have to wait until the right season starts for them. They have to be informed about this from the beginning. It does not make sense to give them the loan at the wrong time. Most probably the money is used for other things before the cultivation season starts. It must be clearly stated in the loan request for what the loan is needed, for example for seed, fertiliser or seedlings so that the proper time for loan disbursement can be fixed.

Some gardeners and farmers are in two or more businesses. For example they rear chickens or trade with cows as well. If this is the case both businesses have to be checked. If they do need a loan for both businesses it has to be done for both businesses. In this case, it is not so important at what time they get the loan.

The gardeners and farmers have to follow the same repayment system as the production group. Sometimes farmers like to repay a larger loan amount after harvesting. It can be accepted that they repay their loan within a shorter period but it must be clear that they have to pay the full repayment amount including the complete calculated interest and administration fee for the first loan as determined in the contract⁸. That is requested because the loan is granted only under these conditions and all the expensive preparation work was done for them in the same way as for any other entrepreneur.

⁸ See Chapter 2.5.1: "Short repayment periods - short tenors".

2.4.4 Loan disbursement by cheque

All loans are paid by cheques. The authorised persons from the project issue cheques of the approved loan amounts to the borrowers. Then the entrepreneurs have to withdraw the money from the bank on their own. If the borrower has his own bank account it is even better just to transfer the money to his bank account. If it is possible borrowers should open their own bank account. This can be done at any bank but it is advisable to open a bank account at the same bank where the project's account exists. In this case the transfer costs will be cheaper. The costs for transferring money or for issuing a cheque have to be paid by the borrowers. If a client does not have an "Identity Card" an authorised person for the project's bank account has to accompany the client to the bank to identify this person. Letting the borrower receive his loan through the bank proves that he really got a loan, it makes it more understandable to him that he got a loan which has to be repaid and not just a grant. Some disadvantaged people in developing countries are only used to receiving a grant from the government or from non-government organisations. Therefore, they have to understand what it means to get a loan. Furthermore, through cheques which have to be cashed at a bank the borrower will learn how a bank is working.

2.4.5 Control of the loan investment

A week after loans have been disbursed the chief of the area and/or the chairperson of the group or sub-group have to visit the enterprises. They have to confirm to the Extension Worker that the borrower really bought the material and items for which he received the loan. Is the money really used for the intended business and for the requested materials? In the event of any problem, as for example the borrower could not buy small chicks at the appropriate time, then controller gives advice and tries to find a solution together with the respective entrepreneur and Extension Worker. In the case that the money is misused the total amount of the loan has to be repaid immediately.

2.4.6 Second loan disbursement system - step by step

The loans of the whole group (not only of the sub-group) must be repaid before members can apply for a second loan. The entrepreneurs who apply for a second loan have to be rechecked. If necessary new sub-groups have to be formed. New formal application forms⁹ have to be filled in. The "Advisory Committee"¹⁰ checks once more the loan ability of each borrower. Then they decide about a second loan.

⁹ See Appendix II: "Individual Loan Application and Approval Form.

¹⁰ See Chapter 3.1.1: "Advisory Committee".

A similar credit system as for the first loan applies to the second loan. But all entrepreneurs get the same grace period of 4 weeks. There is no difference in disbursement and repayment periods between those in trading & service or production. So, for the second loan it is possible to form sub-groups with entrepreneurs who are in trading, service and production. It is better to put similar businesses in one sub-group so that they can share their business experiences. The credit disbursement system for the second loan applies as follows:

| | |
|----------------------------------|--|
| | Trading, Service and Production |
| | <i>1. 2. Columns</i> |
| | 1. - 8. Weeks |
| Sub-group with 5 members: | 2- 3 Persons |
| Sub-group with 6 members: | 3-3 Persons |
| Sub-group with 7 members: | 3-4 Persons |

Table 2: Disbursement system for the second loan

Table 2 shows the credit system for the second loan payment. All entrepreneurs in trading, service or production get a grace period of 4 weeks. In the 1st disbursement week only the sub-group members shown in the 1st column get their individual loan. Then they have a grace period of 4 weeks before they start to repay their loan. After that they have to repay 4 loan installments. Assuming they repaid 4 loan installments in full the entrepreneurs in the 2nd column get their loan amount. Therefore, the persons in the 2nd column get their loan 8 weeks after the participants in the 1st column. For example in a sub-group with 7 members, first the 3 borrowers get a loan. After 4 weeks they start to repay their loans in weekly installments. If they repaid 4 weeks full installments then the 4 borrowers in the 2. column get their loan. Therefore, the remaining 4 sub-group members receive their loan 8 weeks later than the members in the 1st column. But if the entrepreneurs in the 1st column do not fully repay the 4 installments the persons in the 2nd column do not get a loan at all. The "Loan disbursement by cheque" and the "Control of the loan investment" will be done immediately after the second loan disbursement in the same way as after the first loan disbursement, as previously described in chapter 2.4.4 and chapter 2.4.5.

2.5 Loan repayment

2.5.1 Short repayment periods - short tenors

Each loan has to be repaid in weekly installments. Entrepreneurs who are in trading and service do not get a grace period for the first loan. They have to repay their first loan including a fixed interest rate of 30 % per annum and an administration fee of 2 % of the total loan amount in 26 weeks (half a year).

Entrepreneurs who are in production get a grace period of 10 weeks for the first loan. After the grace period they have to repay the total loan amount including a fixed interest rate of 30 % per annum and an administration fee of 2 % of the total loan amount in 26 weeks. They have to pay the interest rate also for the grace period of 10 weeks. Therefore, the interest will be calculated for 36 weeks which has to be repaid in 26 weeks.

All entrepreneurs get a grace period of 4 weeks for the second loan. After the grace period they have to repay the total loan amount including a fixed interest rate of 30 % per annum and an administration fee of 2 % of the total loan amount in 34 weeks. They also have to pay the interest rate for the grace period of 4 weeks. Therefore, the interest will be calculated for 38 weeks which has to be repaid in 34 weeks.

These short and regular weekly repayment periods are important for two reasons: Firstly, the amount to be repaid at a time is not high and secondly, it will be quickly realised if an entrepreneur has problems to repay. In that case the group committee and if necessary the Extension Worker can intervene immediately to tackle any occurring difficulties.

2.5.2 Calculation steps

In the described project the interest and administration fee is fixed to 30 % and 2 % respectively, as laid down in chapter 2.0.3 "Appropriate interest rate." With the help of the following example the calculation steps of the loan repayment are explained:

1. Example:

An entrepreneur who is in trading borrows a loan of \$200 for half a year and he has to start to repay his loan immediately without any grace period. The interest rate is fixed on 30% per annum and the administration fee is 2% of the total loan amount. His weekly and total payments are determined as follows:

1. One has to calculate how many weeks a borrower has to repay:

A year has 52 weeks and 12 month and half a year has 6 month: He has to calculate:

52 weeks : 12 month x 6 month = 26 weeks (y).

Variable "y" = for how many weeks a borrower has to repay

52 : 12 x 6 = y

2. One has to calculate the weekly loan repayment:

\$200 loan amount: 26 weeks = \$7.6924¹¹ weekly loan repayment (a)

¹¹ The amount indicates four figures behind the comma because the sum which has to be paid should be fair. The round up at the end of the payment figures should be very low.

Variable "X" = for the loan amount which a borrower received.

X : y = weekly loan repayment (a)

3. One has to calculate the weekly interest payment:

Since the interest is fixed to 30 % per annum one has to calculate as follows:

30 : 100 = 0.3 and so

\$200 loan amount x 0.3 percentage : 52 weeks = \$1.1539 weekly interest payment b

$X \times 0.3 : 52 = \text{weekly interest payment (b)}$

Note: The interest rate is a recurring charge. Therefore if a borrower has a grace period before he starts to repay the loan, he has to pay the interest for the repayment period as well as for the grace period.

For example an entrepreneur in production gets a first loan of \$200 and a grace period of 10 weeks. After the grace period he has to repay the loan in half a year = 26 weeks. His weekly interest payment is determined as follows:

$\$200 \times 0.3 : 52 \times (10 \text{ grace period} + 26 \text{ repayment term}) : 26 = \$1.60 (b')$

$X \times 0.3 : 52 \times (10 + y) : y = \text{payment for weekly interest including grace period (b')}$

4. One has to calculate the weekly administration fee payment:

$2 : 100 = 0,02$ and so

$\$200 \text{ loan amount} \times 0,02 \text{ percentage} : 26 \text{ weeks} = \$0.1539 \text{ weekly administration fee payment}$

$X \times 0.02 : Y = \text{weekly administration fee payment (c)}$

Note: The administration fee is a one time charge which is distribute over the repayment period. Therefore the administration fee does not increase because of a given grace period. It depends on the principal amount which also does not change if a grace period is given.

5. One has to calculate the total weekly installment:

Weekly loan repayment + weekly interest payment + weekly admin. fee payment

$\$7.6925 + \$1.1539 + \$0.1539 = \$9 \text{ total weekly payment (z)}$

Variable "z" = for the total weekly installment

$$\underline{a + b + c = z}$$

6. One has to calculate the grand total installment:

\$9 total weekly repayment x 26 weeks of repayment = \$234 grand total repayment

$$\underline{z \times y = \text{grand total installment}}$$

The same calculation steps from point 1 to 6 are shown in a table form as follows:

The LIF calculation steps as described under chapter 2.3.1 "Sub-group saving" are also shown in the following table:

Variable X = for the loan amount which a borrower received

Variable y = for how many weeks a borrower has to repay

Variable z = for the total weekly repayment

| 8 weeks LIF payments \$ Week. Total instal. | | Received Loan amount \$ | <u>26 weeks Loan repayments</u> | <u>26 weeks Interest payments</u> | <u>26 weeks Admin fee payments</u> | <u>Weekly Total installments</u> | Grand Total \$ |
|--|--|--------------------------------|--|---|---|--|--|
| 10 % LIF | | 100% | 100% | 20% | 2% | | |
| 200 x 0.1 :8 =2.5 | 2.5 x 8 =20 | =200 | 200 : 26 = 7 6924 | 200 x 0.3 : 52 = 1.1539 | 200 x 0.02 : 26 = 0.1539 | 7.6924 +1.1539 +0.1530 = 9.0002 | 9 x 26 = 234 |
| Form X x 0.1 :8 =we. | Form X x 0.1 =Total | Form: =X | Form: X : y = a | Form: X x 0.3 : 52 = b | Form: 200 x 0.02 : Y = c | Form: a + b + c = z | Form: z x y = Grand |

| | | | | | | | |
|---------------|--|--|--|--|--|--|--------------|
| Insta. | | | | | | | Total |
|---------------|--|--|--|--|--|--|--------------|

Table 3: LIF and loan repayment calculation steps

2. Example

An entrepreneur who is in production borrows a second loan for the amount of \$300. He gets a grace period of 4 weeks. After the grace period he has to repay the total loan amount in 34 weeks including a fixed interest rate of 30% per annum and an administration fee of 2% of the total loan amount. His weekly and total payments are determined as follows:

| 8 weeks LIF payments \$ Week. Total instal. | | Received Loan amount \$ | <u>34 weeks Loan repayments</u> | <u>34 weeks Interest payments</u> | <u>34 weeks Admin. fee payments</u> | <u>Weekly Total installments</u> | Grand Total \$ |
|---|--|--------------------------------|--|--|---|---|---|
| 15 % LIF | | 100% | 100% | 30% | 2% | | |
| 300 x 0.15 : 8 = 5.63 | 5.63 x 8 = 45 | = 300 | 300 : 34 = 8.8236 | 300 x 0.3 : 52 x 38 : 34 = 1.9344 | 300 x 0.02 : 34 = 0.1765 | 8.8236 + 1.9344 + 0.1765 = 10.9345 | 10.9345 x 34 = 371.773 |
| Form X x 0.15 : 8 = We. Insta. | Form X x 0.15 = Total | Form: = X | Form: X : y = a | Form: X x 0.3 : 52 x (4 + y) | Form: 200 x 0.02 : Y = c | Form: a + b' + c = z' | Form: z' x y = Grand Total |

| | | | | | | | |
|--|--|--|--|--------|--|--|--|
| | | | | $: y$ | | | |
| | | | | $= b'$ | | | |

Table 4: LIF and loan repayment calculation steps including grace period

Note: The business management training continues throughout the period of the first and second loan repayments. For most of the entrepreneurs a lot of the training topics are new and often their education level is low. Therefore they need a long time to be trained until they are experienced enough to manage their business without any assistance from the project.

2.6 Micro credit system schedules

The following three micro-credit-system schedules should summarise the important aspects of the credit system. It can be printed as a hand out and should be given to each group. The tables should be written on a large paper and put on the wall during the lessons as lecture paper, it will help to explain the LIF savings, the disbursement of loans and the loan repayment system:

Project Name
Micro Credit System Schedule
First Loan for Micro Entrepreneurs in Trading and Service

LIF (Loan Insurance Fund) saving and initial Business Management Training

The LIF consists of a savings of 10 % of the requested loan amount before the loan is completely received. The LIF has to be paid while undergoing a weekly business management training for the period of 8 weeks. After the loan disbursement the weekly training continues until the loan is repaid. The LIF will be refunded after the completion of the loan repayment. No interest will be paid on LIF.

Loan amount, Interest and Administration fee

Loan amounts range between \$100 and \$300. The total amount of the received loan including interest and administration fees has to be repaid in 26 weeks. No grace period is given. The interest rate is fixed at 30 % per annum. The administration fee is charged at 2 % of the total loan amount.

System 1 : 4 : 8

Loans are disbursed to sub-groups of 5, 6, or 7 members using the system 1:4:8

| | Trading and Service |
|----------------------------------|----------------------------|
| <i>Column numbers:</i> | <i>1. 2. 3. Columns</i> |
| Disbursement period: | 1. - 4. - 8. Week |
| Sub-group with 5 members: | 2 - 1 - 2 Persons |
| Sub-group with 6 members: | 2 - 2 - 2 Persons |
| Sub-group with 7 members: | 2 - 2 - 3 Persons |

Table 5: Disbursement system for the first loan in trading and service

The system 1-4-8 means that in the 1st week loans are only disbursed to the persons shown in the 1st column. If these members have fully repaid their first 4 weekly installments, the borrowers shown in the 2nd column receive a loan. The persons in the last column receive the loan 8 weeks later than the first borrowers assuming that all of the other borrowers who received their loans before having fully paid the expected weekly payments.

Terms of weekly payments

| <u>8 weeks payments \$ week. Total instal.</u> | | <u>Received Loan amount \$</u> | <u>26 weeks Loan repayments</u> | <u>26 weeks Interest payments</u> | <u>26 weeks Admin. fee payments</u> | <u>Weekly Total installments</u> | <u>Sum of Total repayments</u> |
|---|--------------|---------------------------------------|--|--|--|---|---------------------------------------|
| 1.25 | 10.00 | 100.00 | 3.8462 | 0.5770 | 0.0770 | 4.50 | 117.00 |
| 1.88 | 15.00 | 150.00 | 5.7693 | 0.8654 | 0.1154 | 6.75 | 175.50 |
| 2.50 | 20.00 | 200.00 | 7.6924 | 1.1539 | 0.1539 | 9.00 | 234.00 |
| 3.13 | 25.00 | 250.00 | 9.6154 | 1.4424 | 0.1924 | 11.25 | 292.50 |
| 3.75 | 30.00 | 300.00 | 11.5385 | 1.7308 | 0.2308 | 13.50 | 351.00 |

Table 6: Terms of weekly payments for the first loan in trading and service

Project Name
Micro Credit System Schedule
First Loan for Micro Entrepreneurs in Production

LIF (Loan Insurance Fund) saving and initial Business Management Training

The LIF consists of a savings of 10 % of the requested loan amount before the loan is completely received to. The LIF has to be paid while undergoing a weekly business management training for the period of 8 weeks. After the loan disbursement the weekly training continues until the loan is repaid. The LIF must be refunded after the completion of the loan repayment. No interest will be paid on LIF.

Loan amount, Interest and Administration fee and Grace period

Loan amounts range between \$100 and \$300. The grace period is 10 weeks. After the grace period the loan amount has to be repaid in 26 weeks. Therefore, the total loan

amount including a fixed interest rate of 30 % per annum and an administration fees of 2 % of the total loan amount has to be repaid after 36 weeks.

System 1:12

Loans are disbursed to sub-groups of 5, 6, or 7 members using the system 1:12

| | |
|----------------------------------|-----------------------|
| | Production |
| <i>Column numbers:</i> | <i>1. 2. Columns</i> |
| Disbursement period: | 1. - 12. Weeks |
| Sub-group with 5 members: | 2 - 3 Persons |
| Sub-group with 6 members: | 3 - 3 Persons |
| Sub-group with 7 members: | 3 - 4 Persons |

Table 7: Disbursement system for the first loan in production

The system 1-12 means that in the 1st week loans are only disbursed to the persons shown in the 1st column. If these first members have fully repaid their first 2 weekly installments after the grace period of 10 weeks the borrowers as shown in the 2nd column receive a loan. Therefore, the persons shown in the 2nd column receive their loan 12 weeks later than the borrowers in the 1st column assuming that all of the other borrowers who already received their loan before having fully paid the expected weekly payments.

Terms of weekly payments:

| | | | | | | |
|---|--|--|--|--|---|--|
| 8 weeks LIF payments <u>Week.</u> <u>Total instal.</u> | Received Loan amount \$ | <u>26 weeks</u> <u>Loan</u> <u>repayments</u> | <u>26 weeks</u> <u>Interest</u> <u>payments</u> | <u>26 weeks</u> <u>Admin. fee</u> <u>payments</u> | <u>Weekly</u> <u>Total</u> <u>installments</u> | Sum of Total repayments |
|---|--|--|--|--|---|--|

| | | | | | | | |
|-------------|--------------|---------------|---------|--------|--------|--------------|---------------|
| 1.25 | 10.00 | 100.00 | 3.8462 | 0.7989 | 0.0770 | 4.72 | 122.72 |
| 1.88 | 15.00 | 150.00 | 5.7693 | 1.1983 | 0.1154 | 7.08 | 184.08 |
| 2.50 | 20.00 | 200.00 | 7.6924 | 1.5977 | 0.1539 | 9.44 | 245.44 |
| 3.13 | 25.00 | 250.00 | 9.6154 | 1.9971 | 0.1924 | 11.80 | 306.80 |
| 3.75 | 30.00 | 300.00 | 11.5385 | 2.3964 | 0.2308 | 14.17 | 368.42 |

Table 8: Terms of weekly payments for the first loan in production

Project Name
Micro Credit System Schedule
Second Loan for Micro Entrepreneurs in Trading, Service, Production
LIF (Loan Insurance Fund) and initial Business Management Training

The LIF consists of a savings of 15 % of the requested loan amount before the loan is completely received. The LIF has to be paid while undergoing a weekly business management training for the period of 8 weeks. After the loan disbursement the training continues until the loan is repaid. The LIF must be refunded after the completion of the loan repayment. No interest will be paid on LIF.

Loan amount. Interest and Administration fee and grace period

Loan amounts range between \$300 and \$500. For all entrepreneurs the grace period is 4 weeks. After the grace period the loan amount has to be repaid in 34 weeks. Therefore the total loan amount including a fixed interest rate of 30 % per annum and an administration fee of 2 % of the total loan amount has to be repaid after 38 weeks.

System 1 : 8

Loans are disbursed to sub-groups of 5, 6, or 7 members using the system 1 : 8

| | |
|----------------------------------|--|
| | Trading, Service and Production |
| <i>Column numbers:</i> | <i>1. 2. Columns</i> |
| Disbursement period: | 1. - 8. Weeks |
| Sub-group with 5 members: | 2 - 3 Persons |
| Sub-group with 6 members: | 3 - 3 Persons |
| Sub-group with 7 members: | 3 - 4 Persons |

Table 9: Disbursement system for the second loan

The system 1-8 means that In the 1st week loans are only disbursed to the persons shown in the 1st column. If these first members have fully repaid their first 4 weekly installments after the grace period of 4 weeks the borrowers in the 2nd column receive a loan. Therefore, the persons shown in the 2nd column receive their loan 8 weeks later than the borrowers in the 1st column assuming that all of the other borrowers who already received their loan before having fully paid the expected weekly payments.

Terms of weekly payments

| <i>8 weeks LIF payments Week. Total instal.</i> | | Received \$ - Loan amount | <u>34 weeks Loan repayments</u> | <u>34 weeks Interest payments</u> | <u>34 weeks Admin. fee payments</u> | <u>Weekly Total repayments</u> | Sum of Total repayments |
|--|--------------|----------------------------------|--|--|--|---------------------------------------|--------------------------------|
| 5.63 | 45.00 | 300.00 | 8.8236 | 1.9344 | 0.1765 | 10.93 | 371.62 |
| 6.57 | 52.50 | 350.00 | 10.2942 | 2.2568 | 0.2059 | 12.76 | 433.84 |
| 7.50 | 60.00 | 400.00 | 11.7648 | 2.5792 | 0.2353 | 14.58 | 495.72 |
| 8.44 | 67.50 | 450.00 | 13.2353 | 2.9015 | 0.2648 | 16.40 | 557.60 |

| | | | | | | | |
|-------------|--------------|--------|---------|--------|---------------|--------------|---------------|
| 9.38 | 75.00 | 500.00 | 14.7059 | 3.2240 | 0.2942 | 18.22 | 619.48 |
|-------------|--------------|--------|---------|--------|---------------|--------------|---------------|

Table 10: Terms of weekly payments for the second loan

2.7 Loan Insurance Fund and loan collections

The Loan Insurance Fund payments and loan repayments including the interest rate and administration fees have to be collected before the weekly business management training starts. At the begin of each meeting each sub-group treasurer or the group treasurer collects the money. Each borrower receives an individual loan repayment card¹² which the treasurer signs immediately after he has received the money. Furthermore, the treasurer fills the collected amounts into the respective LIF form¹³ and loan repayment form¹⁴. These forms full fill the same purpose as a receipt. The treasurer delivers the money to the Extension Worker who also signs for receiving the money after he checked the repayment forms. The money has to be handed over to the treasurer and to the Extension Worker in the presence of the whole group. The Extension Worker takes the money directly to the bank. Each time one representative of the group should accompany the Extension Worker on this trip. The bank slip together with the duplicate of the LIF payment or loan repayment form have to be brought to the Project Director. The Project Director checks if everything is correct and if the bank slip is attached, then he signs. The Project Director hands the forms over to the Book-Keeper who credits the member accounts respectively¹⁵. At any time the Book-Keeper must know the actual balance (or at least the balance of the week before) of the LIF and loan repayment of each borrower. If his LIF and loan repayment accounts are not up-to-date the Project Director has to warn the Book-Keeper. Hereby, a lot of cash money is involved and if the accounting books are not checked frequently frauds are possible.

¹² See Appendix VII: "Individual Loan Repayment Receipt Card".

13 See Appendix V: "LIF Savings Receipt Form."

14 See Appendix VIII: "Loan Repayment Receipt Form."

15 See Chapter 4.3 under point d "LIF Savings Account Book" and -Appendix IX: "Loan Repayment Account Book".

2.7.1 Importance of signatures

LIF payments and loan repayments have to be done during the group meetings and not in public streets or homes. Money shall never go from one hand to an other without a signature. Everybody has to check extremely carefully that all signatures are given. This has to be stated clearly as the high risk of corruption and fraud has to be taken into consideration at all times. No money can be claimed and no one can be found guilty without his signature on the respective form. The person who gave the last signature has the responsibility for the money and has to bear the consequences.

2.7.2 Importance of books

All forms have to be in books, never ever (!) on lose papers. All books and all pages of the books have to be numbered. Before the books are handed out to the respective persons the Project Director has to sign each book on the cover page. Furthermore the Project Director has to write down who got which book. The respective person has to sign for receiving it.

2.7.3 Importance of control

The Project Director and Book-Keeper should never be involved in any cash transactions in connection with the LIF payment or loan repayment. Therefore, they have to control if all






the collected money is banked. A Project Director has to be aware whenever a LIF payment or loan repayment is expected and has to control if the money is deposited on the bank account. It is important that the Project Director has a list showing which group at which day has to make a repayment. Even at a time in which a person or a group did not pay the weekly LIF or loan repayment, the respective forms have to be filled with a zero and signed by the treasurer and the Extension Worker. Then the Extension Worker shows the loan repayment forms, even when nothing was repaid from the borrowers. The Project Director has to check the LIF payment forms and the loan repayment forms together with the bank slip. That is the only way the Project Director can be sure that no money has been collected without being deposited in the bank. At the beginning of each month the Book-Keeper has to do a bank reconciliation which is checked by the Project Director each time. Each LIF and loan collections have to be filled in the "Cash Book"¹⁶ of the project. This helps in the bank reconciliation to find out if all the loan repayments are banked.

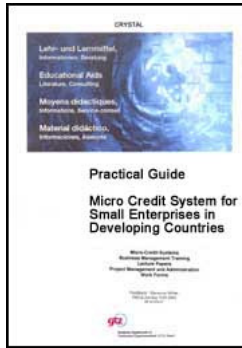
¹⁶ See Chapter 4.2: "General administration work"

Trust is good, control is better! Signatures have to be given immediately! That has nothing to do with friendship. That is good and fair business. Good and fair business keep friendships!



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1 Promotion and orientation meeting (introduction...)

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Micro Credit Systems for Small Enterprises in Developing Countries - Practical guide (GTZ, 66 p.)

3. Business management training

Lack of business management knowledge and lack of working capital are identified as the greatest problems of survival for micro enterprises. Further constraints are lack of transport, lack of professional or technical skills and the economic and social responsibilities for the family in a society without a "social network". For example this means that there does not exist any insurance for accidents, the government does not pay for a stay in the hospital or any kind of medical treatments or school fees. Therefore, loans are easily misused in the event of illness, an accident or a funeral. Too many people live under the existence minimum. Therefore, relatives and friends often request food, money and credits which they have difficulty in paying back. It is quite difficult to run a business in such a poor society.

Existing credit schemes for small entrepreneurs fail due to mismanagement of funds, lack of training and follow-ups, high interest and inflation rates. It must be properly explained what it means to get a loan and what are the consequences if one does not repay the loan. Otherwise, it will be difficult for the people to take full responsibility for a loan.

All of this explains that an intensive business management training and business controls as well as monitoring are absolutely necessary for a successful credit scheme. Business management training is the basic aspect for the success of a micro enterprise support project.

3.1 Promotion and orientation meeting

In the promotion and orientation meeting, the whole credit system has to be explained properly and the sub-groups have to be formed. At the promotion and orientation meeting it is important to inform the participants right from the beginning that the final decision whether they can receive a loan or not will be made after the initial business management training of 8 weeks and their complete payment of the Loan Insurance Fund. It is possible to come into legal problems if the entrepreneur expects a loan for his business in the next weeks but in the end he does not receive a loan. At the end of the initial business management training course and the complete LIF payment the participants can formally apply for a loan (in the amount of 10 x of their LIF savings). They have to fill in the official project application form¹⁷.

¹⁷ See Appendix II: "Individual Loan Application and Approval" form.

3.1.1 Advisory Committee

The Project Director forms a so called "Advisory Committee". This consists of the chief of the area, a director of a bank (if possible), an independent and experienced person, the

Extension Worker for this area and the Project Director. In addition it is desirable to have a lawyer.

The "Advisory Committee" checks all the application forms and the following factors before they decide who can finally receive a loan:

- **Meeting attendance of the initial business management training**
- **Understanding of the trained topics**
- **Maintenance of business books**
- **Viability of the business**
- **Individual character**
- **Business behavior**
- **LIF saving behavior**

At this point in time the group participants know each other much better and can decide once more if a member should receive a loan. Applicants who are not accepted to receive a loan after the initial business management training get their LIF paid immediately but without any interest as explained in chapter 2.3.1 "Sub-group saving".

3.1.2 General business aspects

After the promotion and orientation meeting another meeting for the whole group in the area has to be arranged. The chief of the area and the husband or wife of the chosen entrepreneur shall participate at this meeting. The following issues have to be discussed and explained:

The entrepreneurs have to pay their own salaries:

- **Entrepreneurs have to learn to pay themselves for their labour so that they know how much money they can expect each month for their household.**

- **This salary which is taken out of their own business is coming in on a regular basis.**
- **One can not distinguish business money from household money if one does not pay one's own a salary.**
- **Without a salary payment entrepreneurs use their business money in an uncontrolled manner; every day they will use as much as possible for their household and unforeseen items. Therefore, they are never able to improve their business. Determining together with the entrepreneurs the huge amount of money they used in a month for household purposes, they are often very surprised. Several small entrepreneurs do not know how much they earn from their business because they spend their profit daily for living circumstances.**

Business money and goods have to be strictly divided from household money and goods:

- **In fact, business money and household money has to be divided in different purses or boxes. Most of the people believe that it is enough to differentiate the two categories in their mind. In this way they do not realise that they mix the money. At the end the business is not growing because they use too much for uncontrolled shopping.**
- **Business money can not be used for household money or unforeseen circumstances like funerals or sicknesses. This is very difficult for the micro entrepreneurs. But they have to understand that if they use their business money for their households they will run into even more problems in the future. Their business will never run well and maybe it will even be destroyed. They will not improve their standards of living.**
- **It is not allowed for an entrepreneur to use his business goods like fish or clothes**

for his own private purpose without paying for it.

Household money has to be managed as well:

- **The regular payment of a salary enables the entrepreneurs to calculate the household money.**
- **A plan for the household money makes it possible to spend the money for more items which are really needed and wanted.**
- **It is even possible to buy larger amounts and therefore cheaper packages.**
- **A household plan helps to reserve money for the running costs like payments for electricity or charcoal.**

An entrepreneur should not sell more than 15 % of the stock on credit:

- **Often relatives and friends expect to get a credit if the business of their friend is doing well. Furthermore, traditionally one has to give a credit and gifts to a relative who has less. These are the reasons why too many credits to friends and relatives are provided which are mostly paid back very slowly or not at all. In this case the business starts to stagnant until it is completely destroyed. In the end everybody will suffer more than before. The relatives have to understand that if they all depend on their friend's business and ask for too many credits or goods they will ruin the business. In the described project the entrepreneurs were thankful for the advice not to sell more than 15 % of the stock on credit. This was not a rule, but the entrepreneurs said to their customers that the project does not allow that they sell more than 15 % of the stock on credit. For the entrepreneur it was easier to say that a project rule does not allow this than to say "no" to more credit wishes.**

- **If too many people depend on an entrepreneur he will not profit the business will not grow and he will even not have a better living standard than the people who do not have work. In this case it can happen that the entrepreneur does not see a sense in keeping up the business any longer.**

The extended family has to understand that they have to support a business person:

- **A business can only exist for a long time if the relatives accept that an entrepreneur needs a lot of time for his business.**
- **The relatives have to understand that a business person can not use the business money for other things apart from the business.**
- **The relatives have to support that the profit will be partly reinvested in the business.**
- **The business can only lead to an improvement of the standard of living if it has time to stabilise and to grow slowly.**
- **The relatives have to support the business behaviour of the entrepreneur.**
- **The nearest relatives have to agree with the credit and training program.**

Increasing business and profits:

- **Even small entrepreneurs can increase their business slowly. One does not need large profits to increase the business.**
- **Profit must be invested for necessary reserves and to make provisions for the future.**

- **A portion of the business profit has to be reinvested in the business. For example in a sewing business some of the profit should be used to buy more material or for saving for further business investments like a second sewing-machine. The rest of the profit can be used to do non-business savings for example, for school fees or for unforeseen circumstances.**
- **As soon as the business is stable and is slowly growing the entrepreneurs can increase their salaries step by step. As a consequence their household money and standard of living will increase as well.**

Characteristics of an entrepreneur:

- **The entrepreneurs have to learn that a person who is doing business has not to think only on today but on the future as well.**
- **They have to plan and calculate their business.**
- **They must be able to say "No" for to credit requests.**
- **They have to work hard.**
- **To be a business person is not easy, it is very hard work.**
- **Not everybody can be a business person.**
- **Not everybody has a family who accepts the necessary strict behaviour of a business person.**

Note: It is necessary that not only the supported entrepreneurs understand that a business can increase and what the reasons for the increase are, also the chief and other important persons who live in that area must understand how a business can grow.

Furthermore, the people have to see that the project is for the well being of the whole area and not only for the supported enterprises. Otherwise, it can happen that the people get jealous or they possibly believe that witch craft is involved if a business increases significantly.

3.2 Topics of the business management training

The initial business management training can only start after the "Promotion and orientation meeting" and the "General business aspects" meeting have been held. Furthermore the group and the sub-groups have to be formed finally. The LIF saving starts simultaneously with the initial business management training which lasts 8 weeks.

Only the chosen entrepreneurs are allowed to participate. Otherwise there are too many participants. If the group is too big the Extension Worker who is conducting the business management training will not have enough time for the individual person. Most probably there would be too many disturbances and the quality and atmosphere of the training would suffer.

The teaching has to be done in a very simple way including pictures and practical work examples using experiences of the participating entrepreneurs.

The training topics are:

- **Market Research and Identifying Business Opportunities**
- **Business Planning**
- **Record-Keeping**
- **Costing and Pricing**
- **Budgeting and Cash Management**
- **Buying**
- **Stock Control**

- **Marketing and Public Relations**

There are a lot of good training books about the topics mentioned above. There is no need to produce another one. The book "Improve your business, Basics, Practical management for small businesses, International Labour Organisation (ILO)"¹⁸ can be recommended. These training books are easy to understand and they contain many pictures and examples. Forms about business planning, costing, buying and stock control are included.

¹⁸ International Labor Office (ILO), CH-1211 Geneva 22, Switzerland. Many main towns have an ILO office with a bibliotheque where they sell the training books and offer at the same time training courses about the above mentioned topics.

3.2.1 Connection to the practical work

Each week one topic should be taught. During the week the clients should already apply the new knowledge in their own business. Each client has to go through the whole training program and to put it into practice before he will get a loan. The training combined with the entrepreneur's own experiences and reflections about his business is ongoing during the period of loan repayment.

3.2.2 Business management training as an ongoing course

The training will be two hours per week. It starts with the initial business management training in which the topics mentioned above are trained before the loans are provided. After the participants received their loans the training continues for two hours per week until loan repayment is repayed. Before the training lessons loan collections will be done. This ongoing process of learning and practical application of the training topics is absolutely necessary for the sustainability of the business. The topics mentioned above are strange to the micro entrepreneurs. Therefore, they need a longer period than 8 weeks

to assimilate the topics. It takes a long time for them to gain the confidence needed to put this new knowledge into practice and to operate their business effectively without further assistance.

3.2.3 Business checking, consultancy and monitoring

During the business management training the Extension Worker will monitor the progress of the assisted businesses and the status of LIF payment and loan repayment. In the event of any occurring business problems advice has to be given from the whole group. Physical business checks and individual business consultancy is done when ever it is necessary. The continuous and close contact between the Extension Worker and the entrepreneur will ensure profitable business performance as well as high loan repayment.

The Extension Worker has to write a participation list for each training course as a loan can only be given to entrepreneurs who regularly participated in the business management training. Before a loan will be paid out it has to be proven if each entrepreneur:

- **Paid the LIF completely**
- **Signed that he agrees not to get interest on his LIF payments**
- **Attended all training lessons**
- **Filled in the formal application form completely**

Furthermore, it has to be proved if the formal application forms are signed from each expected person and if the approval of the loan is signed. It needs at least another week to do all this check work. Usually the entrepreneurs want to have the loan as soon as possible but one should take enough time for all the necessary preparations. One should not be under time pressure to pay out the loan. It can bring the organization into legal problems if everything is not properly done. For example, to get a signature for something at a later stage, is always a problem.

The initial and orientation meeting, the business management training, the checking of businesses, the collections for the LIF savings and the final decision making process take a long time. Take this time! One will need all this time to be sure about a business. A training and a good business preparation is more important than a credit. By doing the training and the checking in a hurry one will not do a favor to the entrepreneurs.

The checking and training time is a good time to get acquainted with the entrepreneurs so that one is able to make a good selection. Borrowers who are really interested in business and hard work will accept this. Entrepreneurs who can not plan and who do not look into the future and who are just interested in today and the credit are bad examples to other borrowers. They often even fail to do their business and in the end they fail to repay their loan.

Certificates:

On successful completion of loan repayment of each group participant the group will get a certificate for the good performance of the group. Each entrepreneur who attended the business management training regularly and successfully gets an individual business management training certificate. Furthermore, each entrepreneur who repaid the full loan amount including the interest rate and administration fee receives a loan repayment certificate. If necessary these certificates can be used later to receive a loan from a bank.

One should organize a special function to hand over the above mentioned certificates in the area where the group stays. The important people of that area, public people, politicians as well as the press should be invited to the function. Such a function would be important because:

The project involves the whole area and it will be shown what good effect it has on the area. This is essential for the social acceptance.

- **The function will be in the honor of the entrepreneurs for the good example they have given.**
- **The function makes the project well known.**

3.3 Additional skill training

On top of the business management training which is compulsory for each entrepreneur, there can be some special skills training depending on the existing business. For example marketing and advertising for tailors, ornamental skills or chicken rearing courses can be offered. For instance, clients must attend a chicken rearing workshop before they can get a loan for chicken rearing. This significantly reduces the number of chickens dying in the first weeks. This training should be organized either through training institutions or by existing successful enterprises.

Checking of businesses:

The businesses of those entrepreneurs who wish to attend a skills training for expanding or diversifying to a more productive business have to be rechecked: Is there really a market for their business goal and is it profitable? If their business aim is appropriate a skills training can be provided as long as it is possible for the organization to organize and finance it.

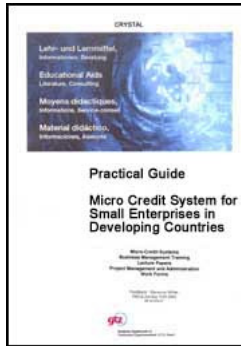
3.3.1 Involvement of youth

Possibilities to assist the youth can be achieved by getting into contact with vocational training centers. The business management training could be combined with the curriculum at school. Another possibility could be together with the teachers to choose some young people with final degrees and to offer them an intensive business management training. Then they have to follow the same procedure as the other clients except that they do not have to pay a Loan Insurance Fund for the first loan. But before

they can get a second loan they also have to pay a LIF.



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Micro Credit Systems for Small Enterprises in Developing Countries - Practical guide (GTZ, 66 p.)

4. Advice for organising a micro enterprise support projects

(introduction...)

4.1 Staff

4.2 General administration work

4.3 Loan Insurance Fund administration

4.4 Loan administration

4.3 Financial controls

4.4 Project financing

4.5 Project evaluation

Micro Credit Systems for Small Enterprises in Developing Countries - Practical guide (GTZ, 66 p.)

4. Advice for organising a micro enterprise support projects

One should not be under time pressure to establish the project. Before one starts to work with the target group, it is necessary to carry out a comprehensive survey about the:

- **Project area**
- **Problem statement**

- **Target group**
- **Project objectives**
- **Final goals**
- **Roles of the partners**
- **Staff which has to be properly selected and employed**

After this has been completed the following things have to be set up:

- **The training contents and courses**
- **The micro credit scheme**
- **A control system**

The establishment of the micro credit scheme, the training courses, the office administration work and the control system have to be checked by a neutral party. The staff has to be trained properly in all these topics before the work with the target group can start. It can take up to one year until the work with the beneficiaries starts. Do not be put under pressure to establish the project quickly. Take enough time to prepare everything so that you can start a clear, understandable, safe and controlled work.

4.1 Staff

Select qualified personnel. The staff is the key player for the success of the project. Therefore the staff has to be continuously and intensively trained about the project, the business¹⁹ and accounting management. They have to be familiar with current credit methods. Furthermore, a basic knowledge in computer software is mandatory so that credit data and the project's budget can be analyzed and the progress of the whole project can be monitored.

¹⁹ The above mentioned "Improve your business, basics, practical management for

small businesses" includes also a "Trainer's guide - Training of Entrepreneurs".

To work with 150 to 200 micro entrepreneurs you need 1 Project Director, 3 Extension Workers, 1 Book-Keeper, 1 Secretary and 1 Office-Ordinary. Start with one entrepreneur group per Extension Worker. If the group is running well, start to identify and to check a second group. Continue until each Extension Worker has a maximum of 4 groups at the same time. If a group has nearly finished repaying of the first loan, the Extension Worker can start the preparation for the second loan. If a group is almost independent a new group can be identified and the Extension Worker can start to do the business checks. But before a new group is started, make sure that there is enough money in the revolving fund for the expected second loans as well as the first loans for the new group. An Extension Worker needs time to react to problems of the entrepreneurs, to assist in individual situations, to teach courses, to collect the repayments as well as to prepare and report training matters and loan repayments. The "Kabwe Enterprise Support Project" showed that one Extension Worker is fully occupied with four entrepreneur groups. Therefore, the Project Director should be sensitive if an Extension Worker wants to be responsible for additional groups. Something could be wrong. If there are too many entrepreneurs who have to be supported, it will be difficult to attend to the entrepreneurs, to keep everything under control and to establish a proper reporting system.

4.2 General administration work

The position of the Book-Keeper is very important since a proper accounting system is vital for the project. The accounting system provides all information about income and expenses, cash in hand and money at the bank. Proper accounting is the basis of operations control and analysis. Therefore, only with proper maintained accounts it is possible to manage all project activities. It helps to make decisions. The accounts must be up-to-date at any time and ready for inspection. All entries have to be made daily or at least weekly.

There are excellent books about simple accounting systems. For example the "Manual of practical management - for third world rural development associations" from Fernand Vincent²⁰ is recommendable. The following accounting documents, books and forms described in the "Manual of practical management" are necessary to be maintained for any bookkeeping purposes:

20 Manual of practical management - for third world rural development associations, Fernand Vincent, Volume II Financial Management, Development Innovations and Networks (IRED), Series IV Tools and action, 1989. General secretariat: IRED-Forum, 3 rue de Varembe - Case 116, 1211 Geneva 20, Switzerland, Tel. 7341716, Fax. 7400011.

- **Budget form**
- **Cash book, petty cash vouchers and receipts**
- **Cash control form**
- **Bank: accounts, vouchers, documents like cheques and statements, transfers, withdrawals, deposits**
- **Bank reconciliation form**
- **Goods account vouchers**
- **Expense statement**
- **Accounting books about all activities: income and expenditure, cash in hand and money at the bank**
- **Profit and loss accounts**
- **Cash-flow and balance sheet form**
- **Depreciation form**
- **Stock form**
- **Inventory of goods**
- **Check list of all regular running costs like office rent, insurance payments or car**

maintenance

The accounting system must be controlled regularly at least once per month by the Project Director and a neutral external person. The system must be simple so that everybody who has to control can understand it easily.

4.3 Loan Insurance Fund administration

The organization must have a separate bank account for the deposits of the Loan Insurance Fund. This makes it easier to manage and control the LIF.

To manage the savings of the LIF, one must keep the following documents:

- a) LIF Savings Account Register and Saver Account Register**
- b) Individual LIF Savings Receipt Card**
- c) LIF Savings Receipt**
- d) LIF Savings Account Book**
- e) LIF Savings Cash and Bank Accounts²¹**

²¹ All documents needed in connection with the LIF should be printed in a color different from the one used for the loan documents so that they can not get mixed.

a) The Book-Keeper should keep a register of the LIF savings account of the savers as follows:

| Project Name | | | | |
|-------------------------------------|--------------------|-------------|----------------|----------------|
| LIF Savings Account Register | | | | |
| Date | Account No. | Name | Address | Remarks |
| | | | | |

| | | | | |
|-----------|---------|--|--|--|
| 02.07.'97 | 0111 SK | | | |
| 02.07.'97 | 0537 SK | | | |
| 02.07.'97 | 1224 SK | | | |

Table 11: LIF savings account register²²

²² See Appendix III: "LIF Savings Account Register".

The account numbers should be written down by one group after the other. They should be constructed as follows:

- **The first two numbers indicate the number of the group.**
- **The third number indicates the sub-group number.**
- **The fourth number indicates the number of the individual saver or borrower.**
- **The two letters at the end should be the initials of the Extension Worker who attends to the entrepreneur.**

It is advisable to set up an additional Saver Account Register. The first column should contain the names of the savers in alphabetical order and the second one should be filled with their respective account numbers. Such a register helps in finding the account number of an individual saver.

b) For each borrower an Individual Savings Receipt Card is set up which has to be kept by himself properly. On this card each of his deposits or withdrawals are recorded and signed in the following way:

| |
|---|
| Project Name Individual LIF Savings Receipt Card |
|---|

| Name of the saver: Group Name: | | | | | | |
|--|----------------|----------------------|------------------------|---------------|--------------------------------|---------|
| Address: | | | | | | |
| Account No.: Signature of the saver: | | | | | | |
| Date | Details | Amount \$ Deposit | Amount \$ Withdrawn | Balance \$ | Signature Receiver of money | Remarks |
| | BAL/B/F | DB | CR | BAL | | |
| 05.07.'97 | Deposit | 1.50 | - | 1.50 | Treasurer | |
| 12.07/97 | Deposit | 1.50 | - | 3.00 | Treasurer | |
| 19.07.'07 | Deposit | 1.50 | - | 4.50 | Treasurer | |
| 20.07.'97 | Withdrawn | - | 4.50 | 0.00 | Saver | |

Table 12: Individual LIF saving receipt card²³

²³ See Appendix IV: "Individual LIF Savings Receipt Card". It should be printed on a card board.

c) An LIF Savings Receipt Book has to be given to each Extension Worker who signs for the receipt of the book which has to be numbered and recorded. Besides this each page of the Receipt Book has to be numbered. The original receipt remains with the treasurer of the group. The copy is kept in a project file which itself has to be placed in a secured box in the office. The Extension Worker and a representative of the group have to deposit the LIF money immediately at the bank. The copy of the LIF receipt and the banking slip must be given to the Project Director who checks the documents and gives them to the Book-Keeper. After the Book-Keeper has checked them as well, he enters the savings into the

LIF Savings Account Book, which is explained under d).

| Project Name | | | | | | | | |
|--|------|------|------|------|------------------|------|------|------------------------|
| LIF Savings Receipt | | | | | | | | |
| Group name: | | | | | | | | |
| Week No.: | | | | | | | | |
| Date: | | | | | | | | |
| Savers of 1. Sub-group | | | | | | | | Total \$ amount |
| Acc. No | 0111 | 0112 | 0113 | 0114 | 0115 | 0116 | 0117 | |
| Amount | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | \$ 17.50 |
| Savers of 2. Sub-group | | | | | | | | |
| Acc. No | 0121 | 0122 | 0123 | 0124 | 0125 | | | |
| Amount | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | | | \$18.75 |
| Grand Total: | | | | | | | | \$ 36.25 |
| Place: | | | | | Date: | | | |
| Grand Total amount of (in words): Thirty six dollars and twenty five cents only | | | | | | | | |
| Paid by: Name | | | | | Signature:..... | | | |
| Received by: Name: | | | | | Signature: | | | |
| Witnessed by group representative: Name: | | | | | Signature:..... | | | |

Table 13: LIF savings receipt²⁴

²⁴ See Appendix V: "LIF Savings Receipt".

d) The Book-Keeper has also to keep a LIF Savings Account Book where the savings of each participant are recorded. One page can be reserved for each individual member. The projects LIF Savings Account Book has to be kept in the same way as the Individual LIF Savings Receipt Card. Each page of the book can be printed in the same way as the

individual LIF Savings Receipt Card a column for the signature is not needed since the Book-Keeper just fills in the LIF Savings Account Book according to the receipts.

e) The Book-Keeper has to keep for all LIF Savings a normal Cash and Bank Account. This is part of the "General administration work" as described in Chapter 4. The paid LIF amount has to be deposited immediately in the project bank account for the LIF. This should avoid fraud and interest can be earned.

4.4 Loan administration

The organization must have a separate bank account for the revolving fund. The entire money for the loans as well as for the loan repayments including interest payments of the borrowers and administration fees have to be deposited in this account.

To manage the revolving fund one must keep the following documents:

- a) Register of Loan Disbursement Accounts and Borrowers Account Register**
- b) Individual Loan Repayment Receipt Card**
- c) Loan Repayment Receipt Book**
- d) Loan Repayment Account Book**
- e) Loan Cash and Bank Accounts²⁵**

²⁵ All documents concerning loans should be printed in a color different from the LIF documents to avoid mixing them up.

a) The Book-Keeper should keep a register of all loans disbursed to the entrepreneurs as follows:

Project Name

| Date | Account No. | Name | Address | Register of Loan purpose | Loan amount | Disbursement rate | Accounts Administration fee | First installment | Last installment |
|-----------|-------------|------|---------|--------------------------|-------------|-------------------|-----------------------------|-------------------|------------------|
| 02.07.'99 | 0311K S | | | buying chicks | 300 | 30% | 5% | 17.09.'97 | 20.03.'99 |
| 02.07.'99 | 0312K S | | | sewing material | 300 | 30% | 5% | 17.09.'97 | 20.03.'99 |

Table 14: Register of loan disbursement accounts²⁶

²⁶ See Appendix VI: "Register of Loan Disbursement Accounts".

It is advisable to set up a Borrowers Account Register whereby in the first column the name of each borrower is recorded alphabetically and in the second column the account number of each borrower is written down accordingly. This list will help to find the account of a special borrower quickly. Furthermore it informs about the disbursed loans and on which day the money has to be completely paid back.

b) For each borrower an Individual Loan Repayment Card is set up which has to be kept properly. On this card each of his repaid amounts are recorded and signed in the following way:

| | |
|---|--------------------|
| Project Name | |
| Individual Loan Repayment Receipt Card | |
| Name of borrower: | Group Name: |
| | |
| Address: | |
| | |

| Account No.: Signature of borrower: | | | | | | |
|---|----------------|-----------------------------|---------------------|------------|--------------------------------|---------|
| Date | Details | Loan Interest Admin. fee | Weekly Repayment | Balance | Signature Receiver of money | Remarks |
| | BAL/B/F | DB | CR | BAL | | |
| 07.09.'97 | Loan | 300 | - | 300 | Borrower | |
| 07.09.'97 | Interest | 62.42 | - | 362.42 | Borrower | |
| 07.09.'97 | Admin. fee | 6 | - | 368.42 | Borrower | |
| 29.11.'97 | | - | 14.17 | 354.25 | Treasurer | |
| 06.12.'97 | | - | 14.17 | 340.08 | Treasurer | |
| 13.12.'97 | | - | 14.17 | 325.91 | Treasurer | |

Table 15: Individual loan repayment receipt card²⁷

²⁷ See Appendix VII: "Individual Loan Repayment Receipt Card". It should be printed on a card board.

c) A Loan Repayment Receipt Book has to be given to each Extension Worker who signs for the receipt of the book which has to be numbered and recorded. Besides this each page of the receipt book has to be numbered. The original receipt remains with the treasurer of the group. The copy is kept in a project file which itself has to be placed in a secured box in the office. The Extension Worker and the representative of the group have to deposit the loan repayment money immediately in the bank. The copy of the LIF receipt and the deposit slip must be given to the Project Director who checks the documents and gives them to the Book-Keeper. After the Book-Keeper has checked them, he enters the

repayments in the Loan Repayment Account Book, which is explained under d).

| Project Name Loan Repayment Receipt | | | | | | |
|---|---------------------|-----------------------|-------------------------|------------------------|---------------------------|----------------|
| Group Name: | | | | | | |
| Week No.: | | | | | | |
| Date: | | | | | | |
| Name: (Of one sub-group only) | Account No.: | Loan \$ repaid | Interest \$ paid | Ad. fee \$ paid | Total repayment \$ | Remarks |
| | 0531 | 9.62 | 1.44 | 0.19 | 11.25 | |
| | 0532 | 9.62 | 1.44 | 0.19 | 11.25 | |
| | 0533 | 9.62 | 1.44 | 0.19 | 11.25 | |
| Grand Total: | | | | | 33.75 | |
| Place: | | | | | | |
| Date: | | | | | | |
| Grand Total amount of (in words): Thirty three dollars and seventy five cents only | | | | | | |
| Paid by: Name: | | | | | | |
| Signature:..... | | | | | | |
| Received by: Name | | | | | | |
| Signature: | | | | | | |
| Witnessed by group representative: Name: | | | | | | |
| Signature: | | | | | | |

Table 16: Loan repayment receipt²⁸

²⁸ See Appendix VIII: "Loan Repayment Receipt".

d) The Book-Keeper also keeps a Loan Repayment Account Book where all repayments of each borrower are recorded. Two pages of the book respective can be reserved for one borrower. The Loan Repayment Account Book has to be kept as follows:

| |
|---|
| <p>Project</p> <p>Loan Repayment Account Book</p> |
|---|

| Name of borrower: | | | | | | | | | | | | | | | |
|-------------------------|------------|----------------|-----|-------|--------------------|-------|------|----------------------|----|------|-----------------|-------|--------|---------|-----|
| Address: | | | | | | | | | | | | | | | |
| Account No.: | | | | | | | | | | | | | | | |
| Date | Detail | Loan amount \$ | | | Interest amount \$ | | | Admin. Fee amount \$ | | | Total amount \$ | | | Remarks | |
| | | BAL/B/F | DB | CR | BAL | DB | CR | BAL | DB | CR | BAL | DB | CR | | BAL |
| 07.09.1997 | Loan | | 300 | - | 300 | - | - | - | - | - | 300 | - | 300.00 | | |
| 07.09.1997 | Interest | | - | - | - | 62.42 | - | 62.42 | - | - | - | 62.42 | - | 362.42 | |
| 07.09.1997 | Admin. fee | | - | - | - | - | - | - | 6 | - | 6 | 6 | - | 368.42 | |
| 29.11.1997 | repaid | | - | 11.54 | 288.46 | - | 2.40 | 60.02 | - | 0.23 | 5.77 | - | 14.17 | 354.25 | |
| 06.12.1997 | repaid | | - | 11.54 | 276.92 | - | 2.40 | 57.62 | - | 0.23 | 5.54 | - | 14.17 | 340.08 | |
| 13.12.1997 | repaid | | - | 11.54 | 265.38 | - | 2.40 | 55.22 | - | 0.23 | 5.31 | - | 14.17 | 325.91 | |

Table 17: Loan repayment account book²⁹

²⁹ See Appendix IX: "Loan Repayment Account Book".

e) The Book-keeper has to maintain a normal Cash and Bank Account for all Loan repayments, interest and administration fee payments. This belongs to the "General administration work" as described under Chapter 4.2. The repaid money has to be

deposited immediately in the project's bank account for the revolving fund. This should avoid fraud and interest can be earned.

Note to Revolving Fund: In the event that somebody fails to repay the loan, interest and administration fee and neither the sub-group nor the group is able to solve the problem, the LIF of the sub-group will be transferred to the Revolving Fund Account in order to cover the missing amount.

Before one starts to check businesses for a new group, prove if there is enough money in the Revolving Fund Account to pay out all necessary loans for the new group. Furthermore make sure that there is still enough money for the expected second loans for the currently running groups.

Do not use the whole amount of the Revolving Fund at the same time. A minimum of 20 to 30 % of the Revolving Fund should be in the bank account at any time. In the event that the loan repayment decreases drastically since the borrowers do not repay the loan a reserve is needed to pay out further loans under new conditions which take the problems into consideration. It is also necessary always to have money available for unforeseen circumstances.

4.3 Financial controls

It is obvious and therefore normal practice that wherever money is involved strict financial controls have to be implemented. Fraud is a problem all over the world and developing countries are not an exception. It has to be taken into consideration that social pressure on the few people with regular incomes in developing countries could increase the risk of fraud. For example due to hunger, death, unemployment or a disease like AIDs the pressure from the extended family could cause a change in the perception of the workers dealing with financial matters. Furthermore, in some countries corruption is common and is even accepted. Due to such aspects control and decision making about

personnel and finance is done by a neutral and honorable person or organization. This one is also responsible for the implementation and keeping up of a strict control system. Every six months an audit report should be done. In addition to that a person from the donor organization should visit the project in order to control the project status and the finances at least once a year.

To avoid corruption and fraud the following advise is recommendable:

- **All documents have to be printed in books. They should not be on lose papers.**
- **On the front cover of each accounting book the name of the organization, the purpose of the book, the year and the signature of the Project Director should be stated.**
- **The pages of all accounting books have to be numbered.**
- **The Project Director has to maintain a list of each existing accounting book. The workers who use a receipt book in the field have to sign for this book.**
- **At the end of each day the balance of the cash book and cash in hand has to be checked and reported.**
- **Cheques for bank withdrawals or bank transfers have always to be signed by two persons.**
- **Each month the accounting records have to be balanced with the bank statements. If there is any discrepancy it has to be followed up immediately.**
- **Check all cash and bank transfers.**
- **Each cash operation has to be recorded in a so called cash book kept by the**

Project Director in a secure, lockable place in the office together with all important accounting documents such as the bank account book and voucher files, see under Chapter 4.2 "General administration work".

- **The petty cash should be a very small amount. As far as possible payments should be done by cheque or through bank transfer. One possibility is to arrange with frequent suppliers, for example petrol stations for a credit account or prepayment account which is paid on a monthly basis.**
- **The money which is used for petty cash must be withdrawn from the bank. Never take money from the loan repayment for petty cash or any other project operations.**
- **Loan repayments have to be deposited immediately in the revolving fund bank account.**
- **Make sure that the money of the loan repayment is really 100 % banked by checking the bank statements regularly.**
- **Open three bank accounts one for the project's operation money, a second one for the LIF and a third one for the loan money. Never mix the money of these bank accounts. Never use LIF or loan money for the project's operation.**
- **All documents have to be numbered in the same way as done in the cash and bank book. The same numbers must be recorded in the corresponding account books and files.**
- **All receipts must be numbered consecutively and filed in the same way.**
- **Make sure that there are receipts for all operations. Make sure that the receipts are not falsified: For example figures could be changed. Besides this, check if the**

goods are really bought for the project. Make an inventory of goods.

- **Each document has to be filed immediately so that nothing can get lost.**
- **If the accounting books are not up-to-date react immediately. Since loan repayments are made in cash, a lot of cash money is involved so that the temptation to embezzle some money can not be disregarded.**
- **Do an audit every six month.**

4.4 Project financing

A project to support micro entrepreneurs in developing countries has a social character. Therefore, the project is implemented to obtain social gain and not financial profit. Such a project as described here can not be self-financing. The business training, checking and monitoring work as well as the loan administration for such small loan amounts is very expensive. Since the project is meant to serve the disadvantaged people, the target group can not afford to pay the full costs for these services. However, the organization must be able to cover the financial needs. At the start of the project the funding has to come through donors. If the project is established it can generate some income through interest payments on the loans, administration fees and eventually by consulting or training organizations and entrepreneurs who do not participate in the project. But the major part of funding has still to come through government assistance, sponsors and donors.

The described project deals with a revolving fund amount of \$ 60,000. All other costs like salaries for the staff, office material, equipment, training material and operating costs for office rent and fuel have to be calculated with regard to the respective country's situation. Such a social project needs 100 % financing in the first 3 to 4 years. After this period, it is realistic to try covering the costs related to the revolving fund out of project's income. These costs can be quite high through an extreme high inflation rate and not repaid loans.

Besides this the project should manage to cover 10 % of the total project costs through its own income. The following points give some ideas how the project can generate income so that the revolving fund will be covered continuously and 10 % of the total project costs as well:

- **The interest rate of the revolving fund will be used to keep the revolving fund. This is a quite risky amount and maybe a very large amount is needed since the inflation rate can be extremely high meanwhile the loan repayment can be difficult.**
- **The administration fee will be used either to keep the revolving fund or to cover some of the 10 % of the project costs. Further income for the running project costs will be:**
- **Interest out of LIF and project money in the bank accounts.**
- **One could charge a small fee for the business management training adjusted to the financial possibilities of the target group.**
- **In the fourth year a fourth Extension Worker can be employed. Based on the made experiences of the project he has to offer business training courses and business consultancies for entrepreneurs who are able to pay for such services. The costs of the fourth Extension Worker will be covered and it will still be possible to make some profit.**
- **From the beginning of the fourth year consultancy service to other social projects can be offered. For such services as well as for the training and credit system money can be charged.**
- **Furthermore, training material and business books can be sold. The price can be lower for project participants but should be a profitable for external entrepreneurs**

with a larger enterprise.

To cover the remaining 90 % of the project costs serious attempts should be made to raise the money in the country where the project is established. The involvement of foreign donor organizations must be reduced step by step. Otherwise the project will never be sustainable. Therefore the following steps can be undertaken:

One has to "sell" the social aspect of the project. This is a difficult but possible task. The project work has to be published and must have a good reputation. It must be an advantage for public people to be in connection with the project. For example, you can arrange for an open day or you can organize a special day on which the entrepreneurs who successfully attended the business management training and repaid the loan show their increased business and standard of living. The press, important people out of the political and social field, big business leaders, the directors of important organizations and other important people should be invited. The following ways are possible for building up on the publicity of the good charity work and the good name of the project:

- **The government of the country has to be involved. They should support the project on a regular financial basis. For them it will be a good opportunity to support a nicely running project for the disadvantaged people of their country. In this way their image will improve.**
- **One has to get in contact with big companies or other sponsors. For example a big company which is selling cars can sponsor a car or others can sponsor a training course through which they can make publicity to their own advantage.**
- **One has to get in contact with public figures, wealthy people and firms who like to spend some money for a charity purpose. If it is transparent what is happening with the money and if the money is really used for a good purpose, there will be people who support such a social project. In each country there are people who are**

working very hard but they do not have enough time to do charity work. For them it is good if they can give their input in form of financial assistance.

- **There are also charity organizations which like to support a good functioning social project. Besides this there are people or companies who raise money at parties or for the festive season and like to donate it to a charity project.**
- **More ideas and possibilities to raise money will most probably come up if you are doing a reasonable, honest and trustworthy work with the disadvantaged people. For example in the described project entrepreneurs who increased their business significantly started further to train micro entrepreneurs and donated money for loans to other micro businesses in their area. Furthermore, the project educated 10 Volunteer-Trainers who did individual business training in addition to the group training. This improved the business knowledge and success. Last but not least it helped to have a really good loan repayment rate. Therefore, not much money was needed to cover the unpaid loan of the revolving fund. It should be mentioned that the entrepreneurs who were assisted from the project also made their contribution to support the project. In rural areas they build the training centers without any financial or material assistance from the project. They provided the center to the project free of charge and the houses could even be used for further social activities in that area. In urban areas the supported entrepreneur groups organized the meeting and training places for example in churches or government rooms which they renovated themselves. The organization did not pay any rent for the rooms, therefore project money could be saved.**

4.5 Project evaluation

Project meetings are held by the project team monthly whereby the following aspects are discussed:

- **Statements of the entrepreneur groups**
- **Problems of businesses**
- **Review of the training and credit system**
- **Progress with the existing borrowers**
- **Potential participants**
- **Plans for the future**

The project team can be advised by the "Advisory Committee".

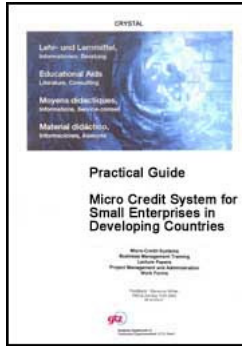
At least once a year a project evaluation should be done. The attached "Final Interview"³⁰ will assist to do the evaluation. The following aspects should be worked out by the evaluation meeting:

30 See Appendix No. X: "Final Interview"

- **Goals and objectives which were set**
- **Achievement of the goals and objectives**
- **Strong and weak points, good and bad aspects of:**
 - ⇒ **The training system**
 - ⇒ **The credit system**
 - ⇒ **The administration work**
 - ⇒ **The whole project**
- **Decisions about the ongoing of the project**
- **Future goals and objectives**



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- 📄 1. Introduction
- 📄 2. Micro credit system
- 📄 3. Business management training
- 📄 4. Advice for organising a micro enterprise support projects
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5. Conclusion








In conclusion I would like to say that a micro enterprise support project in developing countries is realistic and very helpful to the community. It can help micro enterprises to improve or to develop sustainable income generation activities. It can improve businesses and the standard of living among the most vulnerable groups in developing countries.

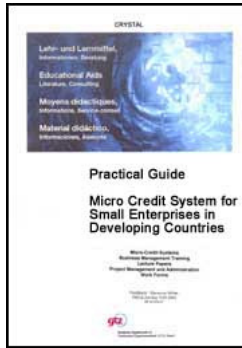
A major reason for the (economic) problems in developing countries is related to the fact that they do not have an economically noticeable and stable middle class. Developing countries usually have a small upper class, a small middle class and a very large lower class which lives below the existence minimum. The aim of a micro enterprise support project should be to assist entrepreneurs from the lower class who are able to improve their business and their standard of living in such a way that they will join the middle class. The middle class has to get larger. Such improved enterprises will be large enough to employ workers from the lower class. Increasing and strengthening the middle class will have a positive effect on the whole society of the respective country.

As mentioned in the introduction, the special situations in the various countries, the tradition, economy, culture, society and mentality have to be taken into consideration when a support project for micro businesses in developing countries shall be established. In any case such a project will change the society and the people will be confronted with aspects which are called "western culture or business". All over the world banks, businesses and organizations are found which are working as in western countries. The influence of western structures and working behavior can not be stopped in developing countries. Therefore it is important to educate the disadvantaged people in such a way that they can understand the mechanism of the bank and business world. So that they have a choice and that they are able to find their own suitable way. Otherwise the big risk will always remain, that disadvantaged people will be misused and exploited from people who belong to the upper class. It is a great challenge to combine the "traditional culture" with the "western culture". Thereby it is important to support and strengthen positive aspects of the traditional culture. In this way the project has a positive influence on the social as well as the economic situation of the involved population.



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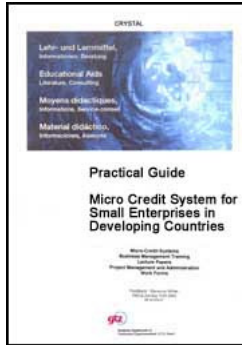
➔  **List of Abbreviations**
List of Appendixes

List of Abbreviations

| | |
|------------|--|
| Ace. | Account |
| Admin. fee | Administration fee |
| BAL | Balance |
| B/F | Balance brought forward |
| CR | Credit |
| DB | Debit |
| ded | Deutscher Entwicklungsdienst (German Development Service) |
| EZE | Evangelische Zentralstelle fuer Entwicklungshilfe (Protestant Association for Co-operation) |
| ID - Card | Identity Card |
| KESP | Kabwe Enterprise Support Project |
| LIF | Loan Insurance Fund |













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-  **Appendix II: Individual Loan Application and Approval Form**
-  **Appendix III: LIF Savings Account Register**
-  **Appendix IV: Individual LIF Savings Receipt Card**
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-  **Appendix VI: Register of Loan Disbursement Accounts**
-  **Appendix VII: Individual Loan Repayment Receipt Card**
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List of Appendixes

Appendix I: Business Check Form

Project Name
Business Check Form

1. **Group name:**
2. **Surname of entrepreneur as per ID-Card:**
3. **First name of entrepreneur from as per ID-Card.:**
4. **ID-Card No.:**
5. **Date of birth:**
6. **Marital status:**
7. **Number and age of children in your household:**
8. **Number and age of children who are going to school?**
9. **Who is the head of the household?**
10. **Number of meals per day?**
11. **Educational qualifications:**.....
12. **Professional qualifications:**
13. **Type of your business:**
14. **Place of your business:**
15. **Licence number of your business:**

- 16. How long have you been operating your business?**
- 17. Which type of business equipment do you have?**
- 18. How much time do you spend on your business per week?**
- 19. Who is managing your business?**
- 20. How many employees do you have?**
- 21. How much do you pay your employees?**
- 22. What is your working capital?**
- 23. What is your daily income?**
- 24. Is your business profitable?**
- 25. What do you do with your profits?**
- 26. Are you maintaining books of accounts?**
- 27. Are your books of accounts available for our scrutiny?**
- 28. Which kind of problems do you have in your business?**
- 29. Did you attend the project business skills course?**
- 30. What will you do with the loan?**

I, (Name), certify that the above information are true and correct.

Place:..... **Date:**..... **Signature:**

For office use only:

I, (Name of Extension-Worker), have physically inspected the business and business books of accounts belonging to (Name of entrepreneur), and I am convinced that the entrepreneur meets / does not meet our requirements.

Place: Date: Signature:

Checked by Project-Leader, (Name), result:

Acceptance: Rejection: New business check:

Remarks:

Place: Date:..... Signature:.....

Appendix II: Individual Loan Application and Approval Form

**Project
Individual Loan Application and Approval Form**

For the borrower

1. Surname as per ID-Card:

2. First name as per ID-Card:

3. Address:

- 4. ID-Card No.:
- 5. Date of birth:
- 6. Marital status:
- 7. Last school attended:
- 8. Year and grade attained:
- 9. Place of business:
- 10. Type of business:
- 11. Trade Licence No.:
- 12. Loan amount requested:
- 13. For which items will you use the loan?
- 14. Are you willing to repay the loan on weekly basis?
- 15. Do you fully agree with the credit system of the project?

Personal guarantee - For the sub-group

- 16. The sub-group fully agrees with the loan request of..... (borrowers sure- and first name) for the amount of \$
- 17. The sub-group guarantees the above borrower and the requested amount of (in

words).....

18. The sub-group agrees to repay on demand the above mentioned loan plus a fixed interest calculated as% per annum and an administration fee of..... % of the total loan amount in case of default on the side of the borrower:

| Loan guarantor name: | ID-Card No.: | Address: | Signature: |
|----------------------|--------------|----------|------------|
| | | | |
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For the main group

Group name:

19. The group understand and agrees with the implications of the credit scheme and especially the repayment and regulations system.

20. We, (name) and
 (name) and
 (name), certify for the whole group that the information given above are correct and we recommend that..... (name of the borrower) should get a loan of \$ (amount).

Place: Date: Signature of the chairperson:
 Place: Date: Signature of the secretary:

Place: Date: Signature of the treasurer:

For office only

21. The loan request is approved (), deferred () or rejected ().

22. Loan amount agreed for \$ (amount).

Place: Date: Signature of Advisory Committee:

Place: Date: Signature of Project-Leader:

23. Loan receipt:

**I,(name of borrower), received
.....(amount in words), \$ from
.....(project name and address/ I
acknowledge that owe \$ (amount) to the above mentioned organisation and I
promise to repay the loan plus fixed interest calculated with % per annum and
administration fee of % of the total loan amount within weeks. The grace
period is weeks. The first installment will be on the (Date) and the
last installment will be on the (Date).**

**I will use the loan only for the above mentioned items.
I declare that I have no outstanding debts with other institutions.**

Place: Date: Signature of the borrower:

Place: Date: Witness of sub-group representative:

Place: Date: Witness of group representative:

Place: Date: Witness of project representative:

Appendix III: LIF Savings Account Register

| Project Name LIF Savings Account Register | | | | |
|--|--------------------|-------------|----------------|----------------|
| Date | Account No. | Name | Address | Remarks |
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Appendix IV: Individual LIF Savings Receipt Card

| | |
|--|--|
| Project Name | |
| Individual LIF Savings Receipt Card | |
| Name of the saver: | |
| Group name: | |
| Address: | |

Account No.: **Signature of the saver:**

| Date | Details | Amount \$ Deposit | Amount \$ Withdrawn | Balance \$ | Signature Received | Remarks |
|------|---------|----------------------|------------------------|---------------|-----------------------|---------|
| | | DB | CR | BAL | | |
| | Bal/B/F | | | | | |
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Appendix V: LIF Savings Receipt

Project Name
LIF Savings Receipt

Group name: **Week No.:**
Date: **Account No.**

| | | | | | | | |
|------------------------|--|--|--|--|--|--|--|
| Savers of 1. Sub-group | | | | | | | |
| Account No. | | | | | | | |
| Amount \$ | | | | | | | |
| Savers of 2. Sub-group | | | | | | | |
| Account No. | | | | | | | |
| Amount \$ | | | | | | | |
| Savers of 3. Sub-group | | | | | | | |
| Account No. | | | | | | | |
| Amount \$ | | | | | | | |
| Savers of 4. Sub-group | | | | | | | |
| Account No. | | | | | | | |
| Amount \$ | | | | | | | |
| Savers of 5. Sub-group | | | | | | | |
| Account No. | | | | | | | |
| Amount \$ | | | | | | | |

Grand Total: **\$**

Place: **Date:** **Grand total amount of (in words):**

Paid by Name: **Signature:**

Received by Name: **Signature:**

| | | | | | | |
|---|--|--|--|--|--|--|
| 1 | | | | | | |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |
| 5 | | | | | | |
| 6 | | | | | | |
| 7 | | | | | | |

Grand Total: \$

Place: Date:

Grand total amount of (in words):

Paid by: Name: Signature:

Received by: Name: Signature:.....

Witnessed by group representative: Name: Signature:

Appendix IX: Loan Repayment Account Book

Project Name
Loan Repayment Account Book

Name of borrower:

Address:

| Account No.: | | | | | | | | | | | | | | |
|--------------|---------|-------------|----|-----|-----------------|----|-----|----------------------|----|-----|-----------------|----|-----|---------|
| Date | Detail | Loan amount | | | Interest amount | | | Admin. fee amount \$ | | | Total amount \$ | | | Remarks |
| | | \$ | | | \$ | | | | | | | | | |
| | | DB | CR | BAL | DB | CR | BAL | DB | CR | BAL | DB | CR | BAL | |
| | BAL/B/F | | | | | | | | | | | | | |
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Appendix X: Final Interview

**Project Name
Final Interview**

1. Surname of entrepreneur as per ID-Card:

- 2. First name as per ID-Card:**
- 3. ID-Card No.:**
- 4. Date of birth:**
- 5. Address:**
- 6. Marital status:**
- 7. Who is the head of the household:**
- 8. Number and age of children in your household:**
- 9. Number and age of children who are going to school:**.....
- 10. Number of meals per day:**
- 11. Licence number of your business?**
- 12. Since when do you have a licence number?**
- 13. Address of your business?**
- 14. What type of business are you in now?**
- 15. What type of business were you in before joining this project program?**
- 16. If your present business is different from what you were doing earlier, why did you change?**
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17. Did your business stabilise and increase since you attended the projects program? If your business changed describe what is the difference:

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.....
18. Did your living standard change since you joined the project? If yes, how?

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19. Would you like to continue with this programme? Give reasons for your decision:

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20. What was the total amount of the loan you got?

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21. Did you experience any difficulties in repaying the loan? If yes, please explain:

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22. What would you consider as good within the training programme?

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23. What would you consider as bad within the training programme?

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24. What would you consider as good within the credit system?

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25. What would you consider as bad within the credit system?

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26. What would you think the project should do to improve the provision of training?

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27. What would you think the project should do to improve the credit scheme?

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28. Would you recommend this program to other people? Give reasons for your answer:

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Remarks of the interviewer:

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.....

Name of the interviewer:

Place:..... Date: Signature of the interviewer:

