# Managing your Money

**Financial Literacy Training for Community Savings Groups**

**Trainer Manual: Version for Piloting**

**Version 1**

**February 2014**

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## Acknowledgements
This financial literacy training manual was developed by DAI-IMARISHA based on material prepared by Microfinance Opportunities and updated using market information from banks, MFIs, SACCOs and Savings Groups in Tanzania. The materials were adapted for use with local NGOs and community savings groups in Tanzania.

## How to Use this Manual
This manual is intended to be used as part of ongoing financial management education for community savings groups in Tanzania. The manual is organized into brief 30 – 90 minute modules on a variety of money management topics to facilitate integration into the weekly meetings of community savings groups. The sequencing of the manual is designed to build financial management knowledge incrementally; however, all the modules are stand-alone and can be adapted to suit individual needs.

# Section One: Getting Started

## Introduction

Organizations working on economic strengthening in Tanzania have championed the use of community savings groups to either introduce a culture of savings in vulnerable communities. Increasing the levels of savings and coupling savings with grant-making Most Vulnerable Children (MVC) and social funds can insulate impoverished communities against external shocks. This section is divided into two modules; Module I discusses some of the basic issues related to savings and use the discussion to reiterate and reinforce good behaviors among savings group members. Module II is designed to be a refresher course on the key concepts of how community savings groups work. The modules are divided into timed sessions that are between 30 - 90 minutes long. These sessions are meant to be add-ons to regular group activities/processes/learning.

### Facilitator's Note

Facilitators should familiarize themselves thoroughly with the material prior to delivering the trainings to the community savings groups. Some things to consider are:

- Facilitators should be familiar with their audience. Decisions on how to customize/make adjustments to the materials should be based on the facilitators understanding of the recipients' literacy levels and ease with written materials.
- The sessions are designed to be brief and concise. Where possible facilitators should adhere to the suggested session lengths. While the pace of delivery may vary depending on the literacy levels and understanding of the group, care must be taken not to place undue burdens on the savings groups by monopolizing their meetings.
- The sessions are meant to encourage as much participation as possible. Facilitators should take every opportunity to make the training as interactive as possible. Research in adult learning show that adults learn better through doing.
- Where possible, facilitators should endeavor to use local examples to provide illustrations for the concepts outlined in the trainings.
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### Audience

The suggested audiences for these modules are all community savings groups, Community Resource Persons (CRPs), Economic Empowerment Workers (EEWs) and other community volunteers, and community members like Village Executive Officers (VEOs). However, these modules will be most helpful for newly formed community savings groups or groups that have not yet completed a full cycle.

# Module 1: Savings

## Session I: Defining Savings, Its Uses and Barriers

**Total session time: 45 Minutes**

**Session Objectives:**

- Define Savings
- Categorize Savings Purposes
- Identify Barriers to Savings

Materials Needed:

1. Flip charts
2. Blank cards
3. Markers

### <u>Step One: Discuss Savings (15 Minutes)</u>
**Format: Group Discussion and Group Work**

*Ask participants the question.*

**Question: What are savings?**

*Listen to a number of responses from the group. Then post the following flip chart and summarize their ideas as you review each point. The responses may include the following:*

- Money that is put away in the present for use in the future
- Investments in animals or land that can be sold when cash is needed
- A way of building assets
- A fundamental part of money management

**Question: What are 3 reasons why people save?**

*Ask participants the question. Listen to a number of responses from the group. Then post the following flip chart and summarize their ideas as you review each point. The reasons may include the following:*

- To cope with unexpected emergencies including health, a funeral
- To buy an asset (e.g., equipment, furniture, land, a cow)
- To invest in a business
- To pay for predictable expenses (such as school fees, weddings, the birth of a child)
- To pay for basic household items e.g. household appliances
- To improve one's house (e.g., purchase roofing materials)
- To allow for future consumption (i.e. food at a time when stores are used up)

**Question: Let's look at this again. Which savings purposes are similar?**

*As the participants to group the reasons for savings in a list into similar categories.*

**Question: What can we name these categories?**

*Help the participants come up with appropriate names for the different categories of savings. See the example below.*

| *Unexpected Future Events* | *Expected Future Events* | *Optional Expenditures* | *Building Assets* |
|---|---|---|---|
| • *Emergencies* | • *Education*<br>• *Agricultural inputs* | • *Home Improvement* | • *House*<br>• *Roofing materials*<br>• *Beds,*<br>• *Plough*<br>• *Bicycle*<br>• *Business* |

**Explain:** Every individual or family has different reasons to save. Saving helps us to protect against future unexpected events, plan for future anticipated events and build assets. It also permits us to enjoy the pleasures of life. But despite the obvious benefits of saving, many people do not do it.

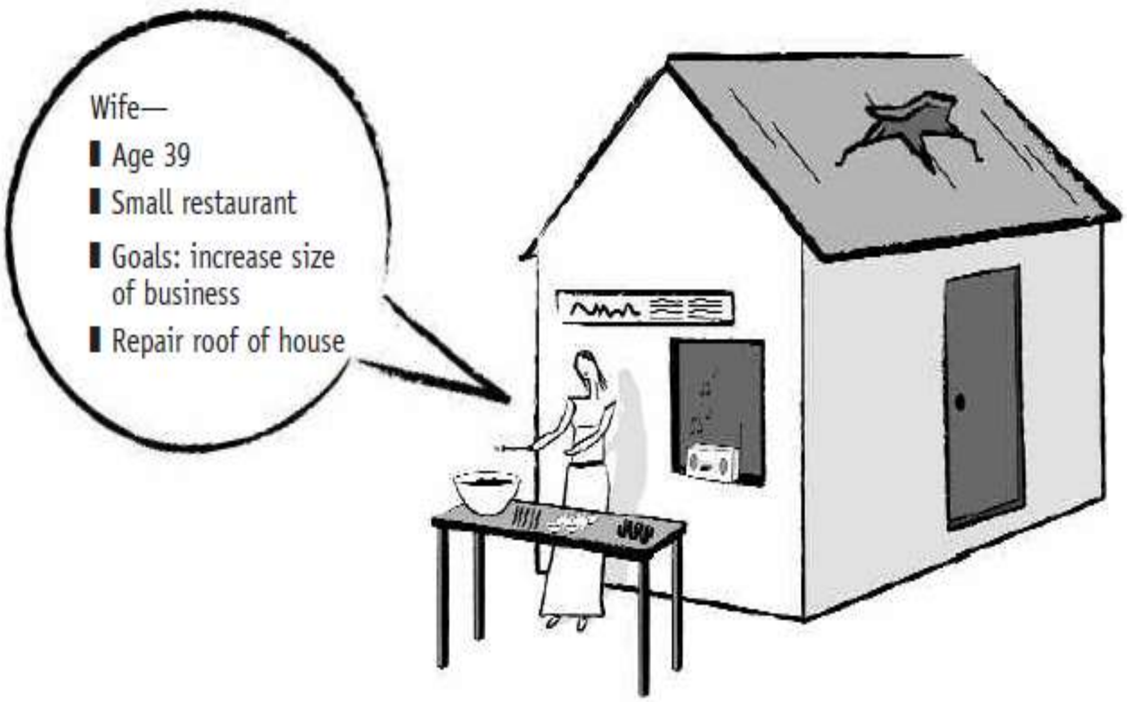
## Step Two: Understanding savings goals using an imaginary family (15 Minutes)

**Format: Small Group Activity**

*Ask participants to imagine a family in their village. In small groups ask them to develop imaginary stories of different families of their choice and describe their saving goals. If they can, tell them to write it in a piece of paper or in their note books. Tell groups they will have 10 Minutes for this activity. Tell participants that we will share the stories with the larger group and will use these families to explore the difficulties of savings and the tools that can help meet those difficulties. Tell participants that they can apply the lessons they learn to their own situations.*

*Select 3 groups to present their family and give each group 3 Minutes to present their imaginary families.*

Share the example below. (Note: this picture should be printed and laminated for use.)




*Ask the question to participants.*

**Question: How do these families remind you of your family?**

*After hearing a number of responses, make the following point: Although these families are imaginary, examining their savings goals and difficulties will help us learn to deal with the difficulties in our own families.*

## <u>Step Three: Understanding the Challenges of Savings (15 Minutes)</u>

**Format: Group Discussion**

*Have participants answer the question. Write the answers on a flip chart or board. Acknowledge the challenges that participants have named.*

**Question: Why is it difficult to save money?**

*Give the groups a few Minutes to talk about the specific difficulties their case study family faces when trying to save. Ask someone from each group to report.*

| Challenges to Saving Money |
| --- |
| |

*<u>Say:</u> with all these difficulties in trying to build up savings, we know that saving is hard work. To save when you have little to start with requires sacrifice. In order to save, you will likely have to give up something important. It takes discipline.*

*Ask the question of participants. Ask for volunteers to share their ideas. Highlight the common themes.*

**Question: What can be done to overcome these barriers?**

*Be sure to include the following 2 rules of saving:*

- Spend less than you earn!
- Save something every day or week!

***This is the end of this day's discussion.***

# Session II: Setting Savings Goals and Making a Savings Plan

**Total Session time: 45 Minutes**

**Session Objectives:**

- Set short- and long-term savings goals
- Rank the importance of savings goals
- Developed a savings plan for the family

## Step One: Savings goals (15 Minutes)

**Format: Group Discussion and Small Group Activity**

*Give participants a summary of the exercise completed at the last session on imaginary families and their savings.*

<u>Say:</u> *We have talked about the different reasons people save. Now please find the group with which you created an imaginary family. In your groups, consider the following question.*

**Question: What are the savings goals of your imaginary family?**

*Ask participants the question. Record the answers on a flip chart of their goals or remember them. After the participants have listed the goals, explain the following:*

- Savings goals can be short-term or long-term.
- Short-term goals are those that will be reached in less than 1 year, such as paying school fees.
- Long-term goals are those that will take more than 1 year to reach, such as home improvements or buying a house.

*As a group refer back to the families from the previous session. Ask participants to name those goals that are short term goals and those goals that are long term. Pass out* ***Handout: Savings Goals and Planning Worksheet chart*** *for planning savings goals to each family.*

# Handout 1: Savings Goals and Planning Worksheet

| *Savings Goal* | *Lump Sum Needed* | *When Needed?* | *Amount of Savings Required per Week or Month* | *Ranking of Importance* |
|---|---|---|---|---|
| **Short-term** | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| **Long-term** | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| **Total Savings Required** | | | | |

*Use the table to set savings targets for your imaginary family. Ask participants to leave the last column blank for now. Post a flip chart of the table and demonstrate how to use it with the example provided. Give the participants about 10 Minutes for this exercise.*

**EXAMPLE**

| *Savings Goal* | *Lump Sum Needed* | *When Needed?* | *Amount of Savings Required per Week or Month* | *Ranking of Importance* |
|---|---|---|---|---|
| **Short-term** | | | | |
| Education Fees | Tshs. 60,000 | In 6 months | Tshs. 10,000 | |
| Emergency Fund | Tshs. 120,000 | In 3 months | Tshs. 40,000 | |
| | | | | |
| **Long-term** | | | | |
| New Roof | Tshs. 800,000 | In 24 months | Tshs. 34,000 | |
| | | | | |
| **Total Savings Required** | Tshs. 980,000 | | Tshs. 84,000month | |

## Step Two: Prioritizing Savings Goals (10 Minutes)
**Format: Small Group Work**

*Ask participants to r*eview the savings goals they developed for each family. Ask the groups to decide which goals are the most important. Rank the goals of your imaginary family in order of importance using 1 for the most important, 2 for the next most important and so on. Note: where ranking is too hard to do, ask participants to put a star (*) next to the most important savings goals. *When the groups have finished, ask 2 or 3 volunteers to answer the following:*

**Question: Why have you ranked the savings goals this way?**

*Discuss the importance of saving for the most critical needs such as health, education, and shelter.*

## Step Three: Activity: Develop a Savings Plan for your Family (15 Minutes)
**Format: Individual or group work and Discussion**

Think about your savings goals for your own family. What do you need to save for in the short term? What future long-term goals do you have? To achieve your financial goals, you will need a plan that states each goal, the amount of money you will need to achieve that goal, and the amount you will save each week or month over a defined period. To make this plan, you must look at your income, determine how much you have available to set aside as savings, and decide your savings priorities. Which goals are most important to you? A clear plan will help you know what to do, increase your discipline to save and be more successful in reaching your savings goals.

*Distribute Handout: Savings Goals and Planning Worksheet. This time, give a copy to each participant, and ask him/her to complete it based on his/her own savings goals.*

*Help the participants as needed. If participants do not read and write, ask them to think of at least 2 short-term savings goals and 2 long-term savings goals.*

*When they have identified their goals, ask them to answer the following questions for each goal:*

- How much will it cost to reach this goal?
- When do you need the money?
- How much will you need to save every week or month?

*When nearly everyone has finished, ask the following:*

- Which goal is most important, next in importance, and so on?

*When nearly everyone has finished, ask the following:*

- How is setting your own savings goals different from doing it for an imaginary family?
- How are your priorities (the way you ranked your goals) different from those of the imaginary family?

*Explore the way participants feel about setting goals for their own families:*

- How do you feel when setting goals for your own family?
- How much more difficult is it to think about your own savings goals and priorities? Why?

*Then ask:*

- What did you learn about how your family could save more?

*Ask the group if they have done this exercise as part of their savings groups. If they have not, suggest that they record their top savings groups for themselves in the groups's ledger to refer back to at the time of cash out.*

***Acknowledge how difficult it can be to develop savings goals. Thank everyone for taking on the challenge!***

# Module 2: Using Savings Groups/HISAs to Save

## Session I:  Community Savings Groups

**Total Session Time:  60 Minutes**

| **Session Objectives:** |
|---|
| • Introduce the basic features of the HISA Savings Methodology<br>• Explain how HISA groups to conduct an action audit/ share-out |

### Step One:  Savings Groups, their Purpose and Characteristics (20 Minutes)

**Format:  Group Discussion**

At the last meeting we talked about savings in general.  Now we will talk about savings groups. Because this is a savings group meeting, this session will reiterate some of the important features of a savings group.

**Question: What is a savings group?**

*Encourage the group to provide answers to this question.  A savings group is a group of people who voluntarily come together to save money, borrow small amounts and receive benefits from a small insurance fund.  It is a place for people to learn to manage their money.*

*Ask group members what the basic features are of their savings group.  Be sure they mention the following on the list below.*

The basic features of a savings group are:

- Groups of 25-30 people come together voluntarily to manage their own money.
- The group is managed by its members.
- Every group has a written constitution and clear rules.
- Every group elects a Management Committee, which  changes once a year through elections.
- The group allows all members to save small amounts each week.
- The group decides the minimum and maximum savings deposited each meeting.  The minimum amount is called a 'share'. A group member may save up to 5 shares each week.

- Members are not required to save the same amount each week, or the same amount as other members.
- The accumulated savings are used to provide small loans to members.
- All loans must be repaid over a period of not more than 3 months, so that other group members can access loans and money is always in circulation
- Borrowers pay an interest rate on loans. Generally this varies between 5% and 10% per month using a reducing balance method, but is ultimately the decision of the group members. The group has an emergency or social fund from which members can receive grants or no-cost loans as decided by the members.
- Many groups that serve MVC also have an MVC fund which collects money to be provided for identified MVC in the community.
- All of the group's cash is kept in a box secured by three locks that can only be opened in meetings when all of the key holders are present.
- All transactions take place in the meetings, in front of all of the members.
- Record-keeping is done using passbooks (one for each saver) and a central ledger. Savings and loans are recorded weekly in the passbooks; the ledger includes information on the group's total balances in savings, loans, social funds, net worth, etc. Passbooks and ledgers are also kept in the box.
- Transactions as well as balances of the savings, loan, MVC and social fund are shared out loud verbally so that all group members know what has been collected and distributed. This system allows everyone to know the totals of the savings groups and to participate equally.
- At the end of each cycle, all loans are repaid, and all savings and profits are distributed to members according to the number of shares saved by each member using the payout method.
- After the payout/distribution is complete, members who do not want to stay can leave, and new members can join – the activities then begin for another cycle.

## Step Two: Sharing Out Funds (40 Minutes)

**Format: Lecture and Group Discussion**

*Remind people that sharing out funds is a complicated process. Be sure to tell them that:*

Sharing out accumulated savings is an important step in the life of a savings group. The share out should take place one time following approximately 9 to 12 months of savings group activities. Savings groups share out so that members can use their accumulated savings toward savings goals which may include basic needs for children in their household (school fees), investment in a productive or household asset (roof, equipment, etc.) or in stock for their business. Savings group members may also intend to put these funds back into the savings group to save them to other future savings goals.

Make sure to mention that preparing for share-out often takes place 1 to 3 months before the time when savings will be paid out. During this time, the group must not give out any new loans that cannot be repaid before this final meeting and it must ensure that all loan repayments have been made PRIOR to the final share-out meeting. For example, if the group wishes to share out its savings in December, it should ideally not make any loans later than the end of September.

Remind the group that at the final share-out meeting, the following steps happen:

- The group completes its usual activities -collection of new savings shares, social and MVC fund collections, collection of fines, and loan repayments. The Secretary then announces that this money will be shared out amongst the members.
- The Chairperson then asks the money counters to count all the money in the savings fund in front of all the members; social fund and MVC funds are counted separately. The total amount of the group's savings is noted and announced.
- Now the chairperson and treasurer verify the stamps in the member's passbook to make sure they match with the records in the Savings Ledger. A total number of savings shares is determined for the group. Similarly, each member's shares will also be verified. The new share value is determined by dividing the total savings in the box (which include interest paid to the fund) by the total number of shares of group members.
- In principle, if the group's members have made equal contributions, they should all receive an equal share of the money in the savings fund. However, it is rarely the case that contributions are equal, because usually members save different amounts or perhaps someone has failed to repay a loan that he/she has taken out. Draw a disbursement or distribution table (see example).
- Multiply the total number of each member's shares by the new value of each share to get what each member's pay-out will be.
- If there are any members who have not repaid loans, these loans will be deducted from the total pay-out calculated for that member. See the distribution table example.
- S/he first of all discusses with the members how much, if any, of the money will remain in the group's fund, so as to kick-start lending at a higher level during the next cycle. The members must come to a consensus on the decision leave some money in the group fund.

**Handout 2: Formula to Determine Savings Distribution at the End of Cycle**

$$\textbf{New value of share} = \frac{\text{Total amount of money in cash box (excluding Social Fund, MVC Fund)}}{\text{Total number of member stamps in passbook}}$$

**Example:**

Total amount of money in box is 6,000,000; Total number of stamps counted is 3,000

$$\text{New value of shares} = \frac{6{,}000{,}000}{3{,}000}$$

New share price is = TShs. 2,000

**Handout 2.1: Sample Distribution/Disbursement Table**

| Member's name | Number of shares/stamps | Value of share | Total worth | Debt | Payment due | Signature |
|---|---|---|---|---|---|---|
| Lomitu Melau | 120 | 2,000 | 240,000 | 100,000 | 140,000 | |
| Nanyori Loitopuaki | 50 | 2,000 | 100,000 | 0 | 100,000 | |
| Adam Madushi | 70 | 2,000 | 140,000 | 0 | 140,000 | |
| Ngwanang'ondi Dotto | 200 | 2,000 | 400,000 | 0 | 400,000 | |
| Hija Madirisha | 78 | 2,000 | 156,000 | 0 | 156,000 | |
| Meure Loomoni | 47 | 2,000 | 94,000 | 0 | 94,000 | |
| Natoiwoki Memirieki | 80 | 2,000 | 160,000 | 0 | 160,000 | |
| Lotejo Kisarisho | 70 | 2,000 | 140,000 | 0 | 140,000 | |
| Lufuluandama Ng'wananchucho | 40 | 2,000 | 80,000 | 0 | 80,000 | |
| Naisujaki Masalu | 23 | 2,000 | 46,000 | 0 | 46,000 | |
| Endung'oti Melamari | 90 | 2,000 | 180,000 | 0 | 180,000 | |

*Tell participants that sharing-out has been simplified so that group leaders will be able to calculate it without any external assistance. Emphasize the following:*

- List down member names and total number of shares contributed during the cycle based on shares recorded in the passbooks.
- Match stamps/shares stamped in individual passbooks with individual number of shares in central ledger and confirm they are the same.
- When there are differences in the passbooks and the ledger, some investigation will need to be done to determine where the discrepancy is. Most groups work on the assumption that the passbooks show the correct numbers.
- Count the total cash in the cash box (savings, interest, other income).
- Divide total number of stamps (shares) by total cash. This gives you a new share value.
- Take the new value and multiply by each member's total shares to get the amount to be paid out.

**Note:**

- Once the Share-out/Action Audit is completed (see above), the money counters announce the amount of money left in the cash box. This is comprised of what the members decide to leave in for the next cycle and also any money left in the Social and MVC Funds.
- The Secretary calculates the Statement of Association Worth and announces it to the members.
- The box is locked.
- The Community Resource Person (CRP)/EEW/community volunteer officially announces that the savings group/HISA has graduated from the partner's intensive support and is now fully independent. (S)he tells the members that the organization will maintain contact from time to time for follow-up purposes (especially if the group is part of the Monitoring and Evaluation (M&E) sample). The CRP hands over a certificate of independence and accomplishment (if this is part of the program).

# Section Two: Financial Planning

## Introduction

Community savings groups are usually trained on financial planning principles by community volunteers.  Generally, this training focuses on the preferred methodology of the organization supporting the groups. This training is intended to build on the prior learning of community savings groups and illustrate how group members can integrate these best practices in their daily lives. Module I encourages group members to take a step back and critically evaluate their household financial needs and spending habits. It also briefly covers the advantages/disadvantages of financial services available in communities. Module II is a step-by-step guide for creating a budget. This module is specifically customized for low literate populations.

**Facilitator's Note**

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**Audience**

The suggested audiences for these modules are all community savings groups, Community Resource Persons, Economic Empowerment Workers (EEWs) or other community volunteers, and community members like Village Executive Officers (VEOs). However, these modules will be most helpful for community savings groups that have been in existence for a while and are quite familiar with the basic concepts of savings methodologies.

# Module 3: Household Needs & Financial Services

## Session I Household Finances & Financial Services
**Total Session Time: 45 Minutes**

**Session Objectives:**

- Identify what people spend money on during their lifetimes
- Categorize expenses as "expected" and "unexpected"
- Identify and distinguish daily financial requirements, future expected and unexpected life-cycle expenditures
- Describe all sources of financial services, both formal and informal
- Assess the advantages and disadvantages of each type of service

Materials Needed:
1. Cards
2. Flip charts/board
3. Markers
4. Training aid: Financial needs pictures

## Step 1: Understanding Financial Needs (10 Minutes)
**Format: Small Group Work**

*Introduce the session.*
- Divide participants into 3 – 4 groups.
- Distribute randomly sorted financial needs cards showing pictures of common household expenses. (Expenses may be a regular, everyday expense or a future expense that occurs only at certain points in our lifetimes.)
- Ask the group to sort the cards into 3 piles:
  - Everyday expenses
  - Expected future expenses
  - Unexpected future expenses

Note: *While the groups are at work, put 3 sheets of flip-chart paper on the wall vertically. Write one of the following headings at the top of each paper: Everyday Expenses, Expected Future Expenses and Unexpected Future Expenses. See the example below. If you are working with a small group of participants, you can choose to create one flip chart with 3 columns instead of a page for each expense category*

*Example:*

| Financial Needs | | |
|---|---|---|
| **Everyday Expenses** | **Expected Future Expenses** | **Unexpected Future Expenses** |
| | | |

## Step 2:  Categorizing Financial Needs (20 Minutes)
**Format:  Small Group Work, Discussion and True/False Quiz**

*Ask a group representative to come forward (one at a time) and place their cards under the correct expenditure category.*

**Question 1: Do you see any cards that should be or could be moved to a different category?**

*Invite individuals to come forward and move the cards around. Make sure they explain why they are doing so. Solicit comments from the group until most agree about how to categorize the cards.*

**Question 2: How do these categories differ from each other?**

*Encourage discussion on what makes the categories different. Post the following definitions written on flip charts on the wall and ask a volunteer to read them.*

**Question 3: How do these definitions compare with what we have just discussed?**

*Draw out and clarify similarities and differences.*

**Handout 3: Financial Needs**

| Everyday Expenses | Expected Future Expenses | Unexpected Future Expenses |
|---|---|---|
| Occur regularly and are necessary for the household's day-to-day existence.<br><br>These expenses are fairly predictable in both their timing and amounts. | Are large, lump-sum expenses that are required to cover life-cycle events?<br><br>Life-cycle events can be predictable, such as marriage, childbirth, a child starting school, or buying a house.<br><br>These events normally occur for most families over their lifetimes. One usually knows when they will occur and can plan for them. | Are also large expenditures that are required to cover life-cycle events, but the events are unpredictable.<br><br>They can include natural disasters such as floods, droughts, tsunamis and earthquakes.<br><br>Or they can include personal or household difficulties such as a robbery, fire, accident, illness or death.<br><br>Although we know these events can occur, it is difficult to plan for them. No one knows when they will strike or how expensive they will be. |

**Question 4: How do we pay for different expenses?**

| ***Everyday Expenses*** | ***Expected Future Expense*** | ***Unexpected Future Expenses*** |
|---|---|---|
| • Income from Business or Salary<br>• Money Sent from Relatives<br>• Borrow from Family and Friends<br>• Credit from Shopkeepers | • Long-Term Savings<br>• Borrow from family<br>• Loan from an MFI<br>• Loan from the Women's or other group | • Loan<br>• Long-Term Savings<br>• Insurance<br>• Borrow from Friends<br>• Grant from Church Groups or Local Council<br>• Fundraisers |

**True/False Quiz**

*Derive lessons from previous discussion by asking participants a series of questions. Ask them to raise their hands to show whether they agree/disagree. Tally the scores and ask for a few volunteers to explain why they chose their answers.*

## HANDOUT 4: TRUE/FALSE QUIZ ANSWER SHEET FOR TRAINER

### True/False

1. ***Pay for day-to-day expenditures with income from your own business, wages or piece work.***

   **TRUE**. Income you earn on a regular basis is most often used to pay for day-today expenses. If you have no income, then you must use your savings or turn to others for assistance.

2. ***Because you never know when you will have unexpected expenses, you can't be prepared for them.***

   **FALSE**. Although you cannot predict every expense, you can be prepared by establishing an emergency fund that you contribute to on a regular basis.

3. ***You should save to meet future expected and unexpected expenditures.***

   **TRUE**. The more you save; the better off you will be when unexpected events force you to spend money. Saving is the best way to reach your goals and dreams for the future.

4. ***Taking a loan to pay for everyday expenses is good financial management.***

   **FALSE**. Loans come with an obligation to pay interest and fees that make them expensive and a costly way to pay daily bills.

5. ***You should only take loans when you can use the money to increase your business income.***

   **TRUE**. Because taking a loan costs money, you should only borrow when you know you can invest the loan and make money above and beyond the cost of the loan.

6. ***Poor people cannot save.***

   **FALSE**. Everyone can save, even if only a tiny amount. When you track your daily expenses in detail, you can usually find one or two things that you spend money for that could be cut out in order to save.

## Step 3: Obtaining Financial Services in Your Community (15 Minutes)
**Format: Group Work and Discussion**

**Question: Where can you and members of your community obtain financial services?**

*List participants' responses down the left side of the flip chart. If they do not mention informal services, probe to learn if they keep savings at home in special containers, or under the mattress, and include them on the list. Your list should include:*

**Where do you or your neighbors obtain financial services?**

| *Financial Services* | | | |
|---|---|---|---|
| 1. Bank | | | |
| 2. Insurance Company | | | |
| 3. Burial Societies | | | |
| 4. Savings and Credit Associations | | | |
| 5. Moneylender | | | |
| 6. Micro-lenders | | | |
| 7. Employers | | | |
| 8. Retailers | | | |
| 9. Your Mattress | | | |
| 10. Cooperative Societies | | | |
| 11. NGO MFIs | | | |
| 12. Savings Collectors | | | |
| 13. M-PESA, Tigo-PESA | | | |

*Discuss and categorize sources of financial services into the following categories: formal, informal, and semi-formal.*

**Definitions of formal and informal financial services**

***Informal Financial Services***
All financial transactions, loans and deposits occurring outside the regulation and supervision of the government's central banking authority. They include local moneylenders, pawnbrokers, self-help groups and NGOs, as well as family members who contribute their savings to a microenterprise.

***Formal Financial Services***
All financial transactions, including loans and deposits, provided by institutions which are regulated and supervised by the government's central banking authority, the Bank of Tanzania. These include commercial banks, finance and insurance companies. They must report regularly to the government.

***Semi-formal Financial Services***
All financial transactions provided by institutions which are not regulated by banking authorities but are licensed and supervised by other government agencies. Examples are SACCOs, and cooperative banks, which are often supervised by a government bureau or agency in charge of cooperatives.

**Activity: Categorize financial services**

Put three columns on your flip chart to the right of the list of the financial services: one column for formal, one for semi-formal and one for informal.

Review the list of services; for each one ask participants to tell you if it is formal, informal or semi-formal and place an "x" or checkmark in the corresponding column, as shown in the example below.

| *Financial Services* | *Formal* | *Informal* | *Semi-formal* |
|---|---|---|---|
| 1. Bank | X | | |
| 2. Insurance Company | X | | |
| 3. Burial Societies | | X | |
| 4. Savings and Credit Associations | | X | |
| 5. Moneylender | | X | |
| 6. Micro-lenders | | | X |
| 7. Employers | | X | |
| 8. Retailers | | X | |
| 9. Your Mattress | | X | |
| 10. Cooperative Societies | | | X |
| 11. NGO MFIs | | X | |
| 12. Savings Collectors | | | X |
| 13. M-PESA, Tigo-PESA | | | |

***Discuss advantages/disadvantages of a few financial service providers***

## Handout 5: Advantages/Disadvantages of Financial Service Providers

| FINANCIAL SERVICE | ADVANTAGES | DISADVANTAGES |
|---|---|---|
| Bank | ▮ Security (money is safe)<br>▮ Liquidity (for savings)<br>▮ Large, long-term loans<br>▮ Cost<br>▮ Reliability<br>▮ Privacy<br>▮ Income (money earns interest)<br>▮ Choice of products<br>▮ Allows you to build a credit history<br>▮ Operates within banking laws<br>▮ Access to financial advice | ▮ Can be far for rural residents<br>▮ Restricted hours<br>▮ Minimum deposit requirements may be too high<br>▮ Unfriendly staff<br>▮ Banks charge fees on many accounts<br>▮ Long lines in bank take time |
| MFI | ▮ Access<br>▮ Proximity<br>▮ Speed<br>▮ If registered, operates within laws<br>▮ Social aspect/group support | ▮ Loan size is typically small<br>▮ Cost of borrowing can be high<br>▮ Some offer no savings service<br>▮ Some require group membership |
| Savings and Credit Associations | ▮ Access<br>▮ Proximity<br>▮ Frequency<br>▮ Social aspect/group support<br>▮ Lump sum of money at a specified time | ▮ High risk (due to dishonest members or group conflicts)<br>▮ Unreliable<br>▮ Limited funds to meet borrowing needs<br>▮ Lack of financial knowledge |
| Retailers | ▮ Many available<br>▮ Safe | ▮ Poor customer service<br>▮ Limited financial knowledge<br>▮ Interest can be high<br>▮ Banking not core business |
| Mattress Account | ▮ Money easily available<br>▮ No bank costs<br>▮ No transportation costs<br>▮ Easy to manage | ▮ Money doesn't grow<br>▮ Less incentive to save<br>▮ Money at risk for theft, fire<br>▮ No access to financial experts<br>▮ No access to other banking products<br>▮ No credit record<br>▮ Less control of spending<br>▮ No transaction records |
| Insurance Company | ▮ Security<br>▮ Peace of mind<br>▮ Insurance expertise regarding variety of products<br>▮ Operates within insurance laws | ▮ High monthly payments<br>▮ High increases each year<br>▮ Products difficult to understand<br>▮ Must read the conditions<br>▮ Long waiting period for payment |
| Moneylender | ▮ Money available immediately<br>▮ Available at your doorstep | ▮ Very expensive<br>▮ Risky—operates by intimidation<br>▮ Not protected by government laws<br>▮ Easy to get into deep debt |

This is Johali. Johali is worried about her family's finances.

**Question: What expenses is Johali thinking about?**

Please give me your ideas and I will show an image of the expense—each one on a separate card. If an idea has already been mentioned, please give me a different idea.

*As the participants give ideas, post the card with the appropriate word or image of the common expense around Johali's head as her thoughts (see below). If an idea is mentioned for which there is no card, quickly draw or write it on a blank card.*

**Question: What are the ways that people spend their money that aren't listed here?**

> *Add cards as needed. When the participants have finished, ask for volunteers to come to the wall where you have posted the cards and classify them, organizing them into categories of similar expenses off to the side (away from Johali).*

*Say:*

May I have 2 volunteers to sort the expense cards into groups that are similar?

Please put the cards that are similar next to each other.

*Assist the volunteers and encourage the participants to call out their ideas. Encourage participants to give reasons for their suggestions. When the cards are organized, review them with the participants.*

**Question: What changes are needed to improve the categories?**

*Make any changes. Then say:*

Now we have many groups. Let us give each group a name that sets it apart from the others.

*Question: What suggestions do you have?*

*Lead the large group in assigning names to each group. Write these or make a symbol representing the name on cards, and post above the groupings as headings. Make sure that the following groups are included (even if you choose different names for the groups). It is likely that you will have to help the group separate expected and unexpected events.*

| ***Necessary Expenses*** | ***Expected Events*** | ***Debt Repayment*** | ***Optional Expenses*** | ***Unexpected Events*** | ***Business Costs*** |
|---|---|---|---|---|---|
| Food | School Fees | Group Loan Payment | Treats for Children | Medicine for Illness | Agricultural Inputs |
| Rent | | | Household Assets | Funeral Costs | |

*Say:*

Look at these expenses again.

**Question: What are the expenses you pay once in awhile as opposed to every day or every week?**

*Place a checkmark or star by those expenses that participants identify as infrequent or irregular.*

**Question: How do you plan for expenses that occur only once in awhile?**

*Summarize their answers and say:*

It is important for good money management to plan for expenses that do not occur regularly. You have mentioned many ways this can be done, including saving and putting off purchases until the money is available.

## <u>Step Two – 10 Minutes</u>
**Format: Group Discussion**

*Say:*

We have talked about the ways that Johali and her family spends their money.

Now let us talk about where that money comes from.

**Question: Where does Johali's money come from?**

*Quickly write each idea or draw a picture on a card and post it next to the image of Johali on the wall. The sources of income shown below are examples only. Participants will likely suggest different income sources.*

**Vegetable Sales**

**Son's Salary**

**Mat Weaving**

**Brother sends money (M-pesa) from city**

*Ask the participants to sort these sources of income into similar types of income.*
*You should end up with something like this:*

| Farm Income | Business Income | Salary | Other |
|---|---|---|---|
| *Vegetable Sales* | *Mat Weaving* | *Son's Salary* | *e.g Remittances, m-pesa from cities* |

**Question: Which of these sources of income are infrequent or irregular? Why?**

*Ask volunteers to talk about their infrequent sources of income. Check the cards with the sources they mention.*

When you get income in one large amount every once in awhile, how do you plan to use it to pay for expenses throughout the year?

It is nice to get a large amount of income at one time. It is important to think about how to use this money wisely to pay off debts, make sure you can meet basic necessities and save to meet expenses that will occur in the future.

**Handout 6: Infrequent Income and Expenses Worksheet: Making Monthly Estimates**

## Infrequent Income

| Income | No. of Times Received | Amount | Annual Amount | Monthly Income (divide annual amount by 12) |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

## Infrequent Expenses

| Expense | No. of Times Paid | Cost per Time Paid | Annual Cost | Monthly Cost (divide annual cost by 12) |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

*Explain:*

In the next sessions we will learn what a budget is and how to make one. This tool will help you plan for both regular and infrequent expenses and income.

## Step Three – 20 Minutes

**Format: Group Activity**

**Activity: Family Purse vs. Business Purse**

**Question: What do you need money for?**

In a family:

- Starting up a home (building a new home)
- Day-to-day items (buying food for meals, cleaning materials)
- Items for long-term use (a radio, a television, a motor cycle)

In a business:

- Equipment
- Registration fees
- Land, a building
- Raw materials
- Paying wages

Explain

When thinking about expenses related to your private life, make sure to distinguish between your personal expenses and those of your enterprise – **keep them separate!**

Tips for keeping personal and business finances separate:

1. Keep the money in separate accounts/places.
2. Keep records to track cash flow for both personal and business income and expenditures.
3. Pay yourself a salary and restrict personal spending to the limits of your salary.
4. Educate your family on the difference between personal and business resources.

# Session II – 60 Minutes

# Making a Budget

**Session Objectives:**

- Define the term budget
- Develop sample budgets

## <u>Step 1: What is a budget? Why is it useful? (20 Minutes)</u>

**Format: Lecture and Group Discussion**

*Say:*

*We have discussed your expenses and income. Expenses and income are 2 key components of a budget. But what is a budget? Derive definitions from participants where possible*

**What is a budget?**

A budget is a summary of estimated income and how it will be spent over a defined period.

*Say:*

*We are here to learn how to manage money. A budget is an important tool for this. It is a plan that divides your income among necessary living expenses, savings and investment during a certain period. In order to budget, we must know how much money we have coming in and how we want to spend that money during a set period of time that we choose. To budget, it is important to identify and organize spending.*

*Put up the following flip chart of Johali's budget and say:*

Here is an example of a budget for Johali's family for a year.

| Johali's Family Budget for 12 Months | In TZS |
|---|---|
| ***Income*** | |
| Farm income | 375,000 |
| Business income | 500,000 |
| Wages | 300,000 |
| Other | |
| Remittances/transfers from family in the city | 100,000 |
| Rental income | 75,000 |
| Interest on savings | |
| Gifts | |
| ***Total Income*** | 1,350.000 |
| ***Expenses*** | |
| Debt payments (principal and interest) | |
| Moneylenders | 75,000 |
| Supplier credit | 52,500 |
| Bank/MFI loans | |
| Sub-total | 127,500 |
| Necessary Household Spending | |
| Food | 150,000 |
| Clothing | 30,000 |
| ….School fees | 112,500 |
| Transport | 37,500 |
| ….Healthcare | 75,000 |
| ….Rent | 375,000 |
| ….Utilities/power | 67,500 |
| Subtotal | 847,500 |
| Business Spending | |
| Supplies/inputs | 150,000 |
| Other (transport, etc.) | 45,000 |
| Sub-total | 195,000 |
| Optional Spending | |
| ….Mandazi/sweets | 12,000 |
| Jewelry/beauty products | 15,000 |
| …. Mobile phone/airtime | 33,000 |
| ….Church offering | 60,000 |
| Sub-Total | 120,000 |
| ***Total Expenses*** | 1,290,500 |
| ***Savings*** | 59,500 |

**Question: What information does the budget give you?**

*Encourage responses until participants have mentioned the following. Fill in with any information they miss.*

Information provided by Johali's family budget

- Different types of income sources
- Amount of income by source
- Total planned income
- Types of expenditures, including business and household expenses
- Amount of expenditures
- Total planned expenditures
- Total savings

*Please turn to the person sitting next to you and answer the following question:*

**Question: Why is a budget useful?**

*After a few minutes, ask volunteers to share their ideas. Summarize the ideas of the group. Be sure to cover the following points:*

**A budget:**

- Allows you to assign your income to different types of expenses
- Helps you make decisions about spending and saving
- Encourages cautious and disciplined spending
- Allows you to take control of your financial situation
- Helps you organize and manage money more effectively
- Helps you plan for your future and meet your financial goals

## <u>Step 2: Make a budget (20 Minutes)</u>
**FOR GROUPS THAT HAVE LOW LITERACY SKILLS**

*If participants do not read, tell the following story:*

### JOHALI MAKES A BUDGET

Johali does not read and write very well, but she still knows how to make a budget. Here is what she does. She remembers the family's goals for the future and how much it will cost to reach them. She thinks about the family situation. She asks herself, "What is happening in this family that will bring in money and require us to spend money for the next month?"
She thinks about how much money is coming in to the house weekly or monthly from the farm, business and other sources. She thinks about how much they will need to spend during the same period. If she can, she asks a family member to write down what she thinks her income and spending will be in the next month or more. Then Johali checks to be sure she does not plan to spend more than the income she will receive. She also decides how much to save.
She follows the income and spending closely over time to compare her plan with what really happens. She changes her estimates for the next month based on what she learns

**Question: What does Johali do to make a budget?**

*Ask volunteers to respond. Reinforce their ideas and make sure they mention the following steps to make a budget.*

1. Review your financial goals
2. Estimate amount of income by source
3. List all expenses and amount needed for each one
4. Make sure your expenses are not more than your income
5. Decide how much you will save
6. Review and adjust as needed

**Group Activity:**

*Give each member Handout 7: Budget Calendar.*

*Next, give each person 50 small objects. Tell the participants to place up to 5 small objects in each box based on how much income they think is coming in or going out of the household for that category and time period. The objects* ***do not*** *represent specific amounts, rather 1 object represents the smallest amount of income or expenditure and 5 objects represent the largest amount of income or expenditure.*

*See example below. Demonstrate how to fill in the income row and 1 of the expenses rows with the whole group before giving each participant a worksheet.*

*Give the participants 15 minutes for this activity. Go around and assist them as needed.*

## Budget Calendar

*Please note that you can use weeks instead of months.*

| | MONTH 1 | MONTH 2 | MONTH 3 |
|---|---|---|---|
| ***Income*** | | | |
|  | ❍ ❍ ❍ ❍ | ❍ ❍ ❍ ❍ | ❍ ❍ ❍ |
| ***Spending*** | | | |
| Business  | ❍ ❍ ❍ | ❍ ❍ ❍ | ❍ ❍ |
| Household  | ❍ ❍ ❍ | ❍ ❍ ❍ | ❍ ❍ ❍ |
| Loan Payments  | ❍ | ❍ | |
| Savings  | | ❍ | ❍ |

*When they are finished filling in the rows, ask the following:*

- **What times of year is income more or less than other times?**

- **What times of year are expenses more or less than income?**
- **What can you do to meet expenses when income for that period is not enough?**

*Make sure the group mentions the following:*

- **Save** when you have surplus income, to spend during times when income is less than you need
- **Spend less** during the low-income periods
- **Plan ahead** so you do not have to borrow to meet your household needs

*Then say:*

Look again at your budget calendar.

**Question: What will you change to plan for irregular income and expenses?**

*After a few minutes, ask the group:*

**What did you do to make sure you will have enough income to meet your expenses?**

*Ask a few volunteers to share their ideas.*

## FOR ALL

Turn to a partner and discuss how to answer the following.

**Question: How will you use at home what you learned today about budgeting?**

*Listen to volunteers and then say:*

Budgeting is an important tool to think about how you will use your income to pay expenses including loan repayments—as well as to decide how much you can save for the future.

## Step 3: Staying within your budget (10 Minutes)

**Format: Group Discussion**

**Stories of Two Women Trying to Stay within their Budget**

**Jane's Story**

Jane made a budget with her family. She was at the market a week or so later and a close friend wanted to sell her some beautiful clothes she had recently purchased in the city. Jane was tempted but remembered that there was no money for expensive clothes in her budget. She was also glad she had put her savings in her account with the Village Bank so it was not readily available. Later that week, her children broke her cooking pot. She was able to buy a new pot with some money she had set aside for unexpected expenses.

**What did Jane do to stay within her budget?** *[Remembered what was planned in her budget and stayed with the plan; put savings out of reach so it was not easy to spend; set aside some money for unexpected expenses.]*

**Rita's Story**

Rita had many expenses during Christmas. She planned for this in her budget. During the season, she purchased gifts for family and friends and special foods. From time to time, she added up her expenses to find out how much was left in her budget. She realized that she spent more on gifts than expected, so she looked carefully at her budget. She had put an amount in to buy a new dress. She decided to spend less on the dress to make up for overspending on gifts and food.

**What did Rita do to stay within her budget?** *[She kept track of her spending so she did not spend more than budgeted; when she overspent on some things, she cut costs on others.]*

*Tell the participants to get back into their groups and discuss how to answer the following question:*

**Question: What can you do to stay within your budget?**

*Give the groups 5 minutes to discuss how to answer the question. Ask participants to share their ideas. Summarize their ideas and be sure the following are mentioned.*

**How to stay within your budget:**

- Remind yourself often what you planned to spend
- Put in the budget something for unexpected spending needs
- Keep savings out of reach so you do not spend them
- Keep track of what you spend
- Make sure you do not spend more than is budgeted
- If you spend more for one item, spend less for something else
- Make a list of ways to cut planned expenses
- Get the family to participate in developing and sticking with the budget
- When investing money in business, consider what to do if the investment fails

# Section Three: Accessing Credit

## Introduction

As group members begin to increase their financial assets, their needs can outpace their ability to save within their savings groups. This results in some group members looking outside the savings groups for access to increased credit. Banks and Microfinance Institutions have recognized that there is a niche for them in rural communities. These financial institutions have created consumer products that specifically target savings groups. Module 5 introduces savings group members to the commercial banking and microfinance industry in Tanzania. It also aims to demystify banking services for low literacy populations. Module 6 focuses debt management and simplifies complex financial concepts like interest calculations.

**Facilitator's Note**

Facilitators should familiarize themselves thoroughly with the material prior to delivering the trainings to the community savings groups. Some things to consider are:

- Facilitators should be familiar with their audience. Decisions on how to customize/make adjustments to the materials should be based on the facilitators understanding of the recipients' literacy levels and ease with written materials.
- The sessions are designed to be brief and concise. Where possible facilitators should adhere to the suggested session lengths. While the pace of delivery may vary depending on the literacy levels and understanding of the group, care must be taken not to place undue burdens on the savings groups by monopolizing their meetings.
- The sessions are meant to encourage as much participation as possible. Facilitators should take every opportunity to make the training as interactive as possible. Research in adult learning show that adults learn better through doing.
- Where possible, facilitators should endeavor to use local examples to provide illustrations for the concepts outlined in the trainings.

**Audience**

The suggested audiences for these modules are Sub-Grantee staff, all community savings groups, Community Resource Persons, Economic Empowerment Workers (EEWs) and Community Volunteers, and community members like Village Executive Officers (VEOs). However, the course content of these modules is fairly advanced therefore these modules are recommended for mature groups.

# Module 5 - Microfinance & Banking

## Session I – 60 Minutes
## Overview of Financial Industry in Tanzania

**Session Objectives:**

- Overview of different financial service providers in Tanzania
- Provide examples of microfinance products and services

### <u>Step I: Microfinance in Tanzania and Different Institutions that Provide Services (20 Minutes)</u>
**Format: Lecture and Group Discussion**

*Ask participants of their knowledge of microfinance institutions in Tanzania. Although the information provided in this section is largely lecture, try to solicit participation of the group members by asking them to share their local knowledge.*

**Question: What is a microfinance institution?**

Microfinance institutions are institutions that provide small loans and other financial services to poorer people who manage small businesses. In Tanzania there are between 80 and 100 registered credit based institutions that provide services; about 42 are registered members of the Tanzania Association of Microfinance Institutions (TAMFI), the local microfinance network. Most MFIs are registered as non-governmental organizations (NGOs); savings and credit cooperatives (SACCOs) and banks also provide financial services to the poor.

*Ask participants if they can name any microfinance institutions. Share with them the names of some of the major NGO institutions in Tanzania. These are:*
- PRIDE Tanzania,
- FINCA (Tanzania),
- BRAC (Tanzania)
- Small Enterprise Development Agency (SEDA) and
- Presidential Trust for Self-Reliance (PTF).

Others, which are relatively smaller in size, include:
- Small Industries Development Organization (SIDO),
- YOSEFO,
- SELFINA,

- Tanzania Gatsby Trust,
- Mama Bahati Foundation,
- Poverty Africa,
- The Zanzibar based Women Development Trust Fund, and
- Mfuko.

The rest consists of very tiny programmes scattered throughout the country mainly in the form of community based organizations (CBOs).

*Ask participants if they are familiar with banks in Tanzania that make smaller loans. Ask participants to name some that operate in their area.*

Banks that are actively involved in microfinance services delivery include:
- The National Microfinance Bank (NMB),
- CRDB bank,
- Akiba Commercial Bank (ACB),
- Dar es Salaam Community Bank,
- Mwanga Community Bank,
- Mufindi Community bank,
- Kilimanjaro Cooperative Bank,
- Mbinga Community Bank, and
- Kagera Cooperative Bank.

*Explain to participants that in terms of providing small loans to people there are a couple major differences between banks and microfinance institutions in Tanzania.*
- Banks tend to lend to institutions, businesses/enterprises and individuals, where MFIs lend to groups.
- Many banks require the pledge of collateral such as land or a building; MFIs use group guarantees but also require that borrowers save as a condition of the loan.
- Many MFIs focus on women borrowers, who are more underserved in the banking sector while banks work with both men and women.
- Unlike savings groups, both banks and microfinance institutions tend to work in urban areas only where more people live and work.

Note to participants that the microfinance industry in Tanzania is still young. The fact that only around 5% of the market is being served by all institutions involved in microfinance combined is an indication that there is a huge demand for microfinance services in Tanzania particularly in the rural areas, which is prone to high risks and costs.

*Ask participants what they know about SACCOs.*

**Question: What is a SACCO?**

SACCO is the acronym for **S**avings **A**nd **C**redit **Co**operative. Another name used for a SACCO is a credit union. A Savings and Credit Cooperative (SACCO) is a democratic, member based (and often managed) institution. It is owned, governed and managed by its members who have the common bond of belonging to the same group e.g. working for the same employer, belonging to the same church, labor union, social fraternity or living/working in the same community. A SACCO's membership is open to all who belong to the group.

These members agree to save their money together in the SACCO and to make loans to each other at reasonable rates of interest. Interest is charged on loans, to cover the interest cost on savings and the cost of administration. There is no payment or profit paid to outside parties or internal owners. The members are the owners and the members decide how their money will be used for their mutual benefit. Members elect a 9 – 15 member board that in turn employs staff to carry out the day-to-day activities of the SACCO. Members also elect a supervisory committee to provide oversight and conduct internal audits.

**How does a SACCO operate?**

- SACCOs belong to its members who manage it democratically. SACCOs provide a forum for financial cooperation and economic education. The primary mission of SACCOs it to provide financial services to members under favorable conditions and reduced risk.
- Since SACCOs are member-owned, they are more flexible than other lending institutions. SACCOs reflect the philosophies of the members because the rules and regulations governing their operations are determined by members through consensus-building processes. Therefore, members can decide to prioritize providing access to credit to economically marginalized people.
- Unlike banks, SACCOs allow members to borrow money using collateral substitutes such as loan guarantees in lieu of traditional collateral such as land, or buildings.. SACCOs have made access to credit easier by using collateral substitutes like group guarantees, deposited savings, and un-surveyed houses as loan guarantees.

**Advantages of SACCOs**

- As microfinance institutions, SACCOs encourage savings among members. These savings can be used for investments which pay dividends thus adding to the income of members.
- SACCOs can be avenues for economic empowerment among vulnerable populations which may improve the well-being of households and promote gender equality in communities.
- The availability of small loans through the SACCOS in a community increases access to credit which may allow small businesses to expand.
- The SACCOS also have been a source of employment to members. *See Appendix.*

**Disadvantages of SACCOs**

- Unlike savings groups, SACCOS do not usually meet weekly to collect savings from their members. This means there is not a regular time for members to come together and encourage one another to save money. Without this discipline, SACCOs must rely on voluntary savings of members based on the times and frequency that members save.

- Unlike savings groups, SACCOs can be large. Many SACCOs are more than 30 people. Some SACCOs are very large. They tend to have many more small and infrequent savers and a small number of borrowers.
- SACCOs tend to experience credit rationing more than savings groups. With less regular savings, SACCO managers must decide who and how much to lend to members. Usually fewer members are borrowers and many times the borrowers are only the people who have great influence over the institution.
- Because of the lack of savings discipline and elite capture, many SACCOs do not really provide services to the vast majority of members.

## Step 2: Microfinance Products and Services Available in Tanzania (40 Minutes)

**Format: Lecture and Group Discussion**

*Explain to participants that in the past decade, the number of MFIs in Tanzania has grown rapidly compared to the 1990s. This growth has resulted in stiff competition among MFIs for clients and market share. In order to stay competitive, MFIs now offer a wide range of products targeting different populations and different client needs.*

*In this lesson we will discuss MFI products and services and will share some examples of the different products currently being offered by local microfinance institutions.*

**Question: When I say the word "Microfinance Institution," what images or thoughts come to your mind?**

*Make a list of all participant answers. When they run out of ideas, review the list and add the following points if they have not been made already.*

Common thoughts about microfinance:

- MFIs serve poor people
- Only women are clients of MFIs
- MFIs provide cheap loans.
- MFIs provide expensive loans.

*Tell participants that now we will go through a couple real life example of microfinance institution products.*

**7. Pride Tanzania**

**Micro-Enterprise Credit Loan**

- To be eligible for a loan, a client must join a self-selected solidarity group made up of 5 people. 10 Solidarity groups combined into one large group of 50 called a market enterprise group (MEC), for ease administration and enhancement of group mechanism.

- To ensure repayment, Price uses a three tier loan guarantee system and peer pressure. At the first tier, solidarity group members co-guarantee each member's loan. If the group is unable to meet the obligation of one non-paying member, then the loan repayment falls to the MEC for repayment.
- In order for a solidarity group to get a loan, groups members are expected to save an amount that equals 25% of the total loan amount. This compulsory savings is treated as a loan insurance fund (collateral). Groups must also save each week into this fund; all savings are refundable upon exit from the institution, except for savings collected during the first loan cycle.
- Loan cycle ranges from Tshs 100,000 to 1.0 million
- Solidarity groups meet weekly for approximately 1 hour. During this meeting, savings (loan insurance) is collected and loans are repaid.
- Clients are engaged in the administration of the program through elected leadership.
- For subsequent loan cycles, Prides repays clients their compulsory savings to be applied to the new loan.

Interest rates vary between 21% and 28% per annum, depending on the product, loan size and length of loan term The bigger the size, and longer the repayment period attracts low interest rate.- Most microfinance institutions require that loan processing fees be paid up front. The fees range between 2.5% - 3% of the total loan for each borrower. This is a onetime fee. *If time permits, share with participants, another example of the MFI Vision Fund. Vision Fund is a small MFI run by the NGO World Vision. It has a variety of loan products that it offers its clients. These include:*

a) **Kitita (personal loan)**
This individual loan requires a deposit of 10% and physical assets collateral

b) **Jiendeleze (solidarity group loan)**
This type of loan is given to a group of 3 to 5 business owners. Group members are required to deposit 20% as collateral for each of their individual loan into a joint bank account under the name of Vision Fund. Although the bank account belongs to the solidarity group, only two members and the Vision Fund Loan Officer are signatories to the account. It is only after the loan is repaid that the members can retrieve their compulsory savings (less any unpaid loan payments). .

Loan sizes range between TShs. 500,000-700,000 for the first loan.

c) **Group loan**
This is a loan provided to a group of 6-10 people and the loan sizes range between TShs. 50,000 - 400,000. A 10% deposit is required before disbursement. (Group collateral is a requirement).

For all the above products the term of the loan is 3 to 9 months. Vision Fund charges 3% interest per month flat. Repayments are made monthly with no grace period.

# Session II: Banking Services
**Total Session Time: 45 Minutes**

| **Session Objectives:** |
|---|
| • Name the documents and information required to open an account.<br>• Distinguish between different types of bank accounts<br>• Identify the information one should obtain about bank terms for each type of account<br>• Match account features to type of account |

## Step 1: Understanding Banks (15 Minutes)
**Format: Group Discussion**

**Question: When I say the word "Bank," what images or thoughts come to your mind?**

*Make a list of all their answers. When they run out of answers, review the list and add the following points if they have not been made already. Then, decide which are true and which are myths. People may disagree. Encourage discussion.*

Common myths about banks:
- You Have to be Rich to Use a Bank
- Banks are Unfriendly
- Going to the Bank Takes a Lot of Time
- If a Bank is Robbed, You Will Lose Your Money
- Banks Will Take Your House Away

*To conclude, say: Some of these things are simply not true; some may be true only some of the time. This module will help us understand better what banks are really like and how we can use them to better manage our money.*

*Describe Why is a Bank is better than a ""Kibubu" ? Some answers include:*
- Divide participants into small groups of 4 – 5 people.
- Hand out blank sheets of flip chart paper and markers.
- Ask the groups to discuss the advantages of using a bank (The group that comes up with most…wins!)
- Ask representatives from the groups to present their lists.

Some benefits of using a bank include:
- Security (money is safe)
- Liquidity (for savings)

- Reliability
- Privacy
- Income (money earns interest)
- Many Products Available (varying types of loans and savings accounts)
- Allows You to Build a Credit History
- Operates within Banking Laws
- Access to Financial Advice from Knowledgeable Staff

**Question: Is there anything on your list that has not been mentioned yet?**

*Summarize the advantages of using a bank. Make reference to features of local banks that may not have been highlighted in earlier sections or sessions.*

*Ask participants to turn to a partner and discuss the following questions:*

- **In your family, who would you have to convince to open a bank account?**
- **How would you convince your family to open an account at a bank?**

*Give the participants five Minutes. Then ask for a few volunteers to share.*

## Step 2: Features of Banks and Bank Services (20 Minutes)

**Format: Group Activity, discussion and materials review**

Materials needed:

1. Examples from a local financial institution
    - Bank application form
    - Bank deposit form
    - Bank withdrawal form

2. Cards with labels of different bank functions and descriptions.

*Ask the following questions:*

- **Who has had personal experience with a formal bank or knows someone who has?**
- **What did you (they) like about it? Why?**
- **What didn't you (they) like about it? Why?**

*Listen to the responses. Summarize and repeat the likes and dislikes when everyone has spoken.*

**Activity: Match Descriptions of Roles and Responsibilities with Key Bank Features, Staff and Services**

*Hand out the labels and description cards, one per participant. See list of labels and their descriptions below.*

*(**Note**: Before you make these cards, make sure you use local words; some of these labels may need to be changed. You will need to have at least 20 people to use all the cards at once. If you have fewer people, use as many cards and their definitions as there are people in the group. If there are only 12 people, use 6 label cards and 6 definition cards that go with those labels. Repeat the activity for the next 6 label cards and definitions.)*

| Labels | Descriptions |
|---|---|
| **Application Form** | You need to fill me out in order to open an account at the bank. After you fill me out you also need to present your personal identification documents to the bank officer to complete the process. Once you complete the application and present your documents, you go to the teller and deposit money into your account. |
| **Accounts Manager** | I sit at a desk in the branch lobby. My job is to help customers open accounts. I can give you an application form. I can also help you decide which accounts are more suitable for your needs. Ask me what products we offer and what forms you need to use. Ask me what documents you need to open an account. Don't ask me to accept deposits or to give you your money. |
| **Branch Manager** | I oversee all the staff and make sure they are carrying out their responsibilities. In addition to the staff you see, I also supervise the staff who work in the back office doing the accounts and other jobs. Come to see me if you have problems that the other staff cannot solve for you. Don't come to me about opening an account. |
| **Teller** | It is my job to handle the money and to record the transactions. I collect deposits from customers and I give them their cash withdrawals. Customers must provide proof of identification and have the correct form filled out for me to help them. Ask me how much money you have in your account or whether a deposit has arrived. Don't ask me to open an account for you. |
| **Security Guard** | My job is to protect the bank, the bank staff and the customers. In order to do my job, I need to keep an eye on everything that is happening in the bank. Don't ask me for information about how to open an account or what forms to use. |
| **Information Board** | I contain information about the kinds of products offered and how much they cost. |
| **Document Table** | I hold all the forms that are necessary for carrying out transactions. You will need my forms if you want to conduct business with the Teller. |
| **Withdrawal Form** | You will need to fill me out completely and sign your name if you want to take money out of your account. |
| **Cheque** | You can use me to pay someone without using cash. When you fill me out and sign me, you are giving the bank permission to pay the person whose name you have written on me. The bank will pay that person with money taken out of your checking account. |
| **Deposit Form** | You will need to fill me out completely, including your account number, if you want to put money into your account. |

## Step 3: Banking Documentation (10 Minutes)

**Format: Group discussion and Review**

*Discuss the documents required to open a bank account:*

- Identity card or passport
- Salary slip/pay stub
- Proof of physical address, such as a utility bill

*Ask the question:*

**Question: Why do you think these documents are necessary?**

The main reasons that participants should know for why these documents are required are to:

- Verify Identity
- Verify Employment
- Verify Residence

*Discuss required information for deposits and withdrawals. Ask participants to guess why these things would be needed.*

- First and last name
- Account number
- ID number
- Bank card/ID card
- Signature/thumbprint
- Amount desired (withdrawals)
- Amount to be deposited plus the money or check to be deposited

*Post the following questions:*

**Question: What difficulties will you have in getting these documents and information together for the bank?**

**Question: What can you do to make sure that you have all the documents and information you need?**

*Write responses to the last question on a flip chart.*

***Thank participants and end the session.***

# Module 4: Debt Management

## Session I: Loans – 60 Minutes

Total Session Time: 60 Minutes

**Session Objectives:**

- Identify the principal reasons to borrow money
- Understand the true costs of borrowing
- Identify pros and cons of equity and debt
- Distinguish good loans from bad ones

Materials Needed:

1. Flip chart
2. Different colored markers
3. Small stones or dried beans (about 150)

### Step One: Loans (5 Minutes)

**Format: Activity: Word Association Game**

*Explain to participants the following: We are going to do a word association exercise.*

*Demonstrate with a familiar word as an example. Select 3 people and ask them to say whatever comes into their minds when you say the word ________ ("mandazi,""school," or "bicycle").*

*When everyone understands the exercise, say: Now let's try the same thing again. Tell me what comes into your mind when I say the word "loan". I will write what you say on the flip chart.*

*Once you have filled a flip-chart page with participants' associations, step back and review their contributions. Ask the participants to help you group the words by commonality of answers. For example, some answers may be related to costs, some to repayment, some to access to money you would not otherwise have, etc.*

*Use different-colored marking pen or symbols to identify each item with a category.*

*Post the following question.*

**Question: What are similar categories for these thoughts and responses?**

*Review each of the categories of responses that you have identified with participants. Then pose the following question:*

**Question: Based on what we see here, what is a definition for "loan"? Will someone help me complete this sentence: "A loan is____________________."**

*The definition will be something similar to the following.*

**What is a loan?**

A loan is money that the borrower can use temporarily. After a defined period of time, the money is repaid to the owner, usually with interest or a fee charged for use of the money.

## Step Two: Borrowing Money (10 Minutes)

**Format: Group Discussion**

*Pose the following question:*

**Question: Why do we borrow?**

*Ask participants this question. Write the responses on the flip chart or board. Look at their responses for the 3 reasons people tend to borrow, and highlight them. They are the following:*

Three reasons people borrow

- To invest
- To respond to an unexpected emergency
- To consume, to purchase an item for which they do not now have enough money

If you borrow money from a bank or other formal lender, you will hear the following terms associated with your loan. It will be important to understand what each means for your specific loan.

- **Loan size:** The amount you borrow.
- **Loan term:** Period of time you have to use the loan money and repay it.
- **Interest:** the amount a borrower pays in addition to the loan principal to the lender to compensate the lender for use of the money.
- **Interest rate:** Percentage of the total loan amount charged to the borrower for the use of money borrowed. Interest is usually charged on a monthly basis in savings groups, but banks may charge interest on an annual basis.
- **Fees:** Administrative charges in addition to interest which are usually paid once, at the time the borrower takes the loan.
- **Grace period:** Period after receiving a loan and before the first payment is due. Grace periods are sometimes given with agricultural loans,

- **Repayment schedule:** The frequency of loan payments (e.g. weekly biweekly, monthly).

A loan provides you with a sum of money that might be difficult to obtain when you need it. It enables you to take advantage of business opportunities, respond to emergencies, make home repairs or purchase something you need. But borrowing money can be expensive and carries obligations to repay on time. For these reasons, taking a loan is not the same as using your own money that you may have through wages, business profits or savings.

The chart below outlines the advantages and disadvantages of taking a loan.

| | Taking a Loan | Using your own Money |
|---|---|---|
| **Advantages** | You gain access to more money than you have in savings.<br><br>You get money quickly when you need it for emergencies. | You avoid the costs of borrowing.<br><br>You are free to use your money as you wish.<br><br>You face less risk when you finance your business growth in smaller increments based on what you can afford to invest.<br><br>You avoid the obligation of future loan repayments. |
| **Disadvantages** | You bear the cost of borrowing (with interest, fees, and time to apply).<br><br>You are responsible for repaying your loan on time, and face penalties for late payment.<br><br>You must meet the requirements of group membership (attend meetings on time, etc) if the loan is through a group.<br><br>If you do not pay, you can face problems in the future trying to borrow and may face problems in your community if people learn you are untrustworthy. | You have limited access to needed capital.<br><br>Your business grows more slowly.<br><br>You have limited ability to respond to opportunities. |

## Step 3: Good Debt versus Bad Debt (10 Minutes)

**Format: Group Discussion**

*Have participants brainstorm about what is good debt and what is bad debt. Record their answers on a flipchart. Below are some of the answers that should be shared.*

## TRAINER ANSWER SHEET

| Use of the Debt | Good Debt | Bad Debt |
|---|---|---|
| Purchasing an asset for business | The asset outlasts the time it takes to pay off the lender. The income earned from the asset exceeds the cost of the loan. | Debt is still owed after the asset is outdated or broken or the income earned from the asset is less than the cost of the loan. |
| Working capital | The loan makes it possible to pursue a business opportunity that is profitable enough to repay the loan and have something left. The loan helps you save money on inputs or inventory and thus increase your earnings from the final product. | You cannot earn enough to repay the loan.<br><br>You have other less-costly sources of financing.<br><br>You cannot get the loan in time to take full advantage of a specific opportunity. |
| Basic family needs | | Debt is still owed after the loan has been used. The loan didn't generate any income to pay back. |
| Emergency loan | The loan helps you solve an immediate problem without undue hardship. | The loan terms are too costly, or cannot be adjusted to your ability to repay. |

## Step Four: Understanding Interest Rates (25 Minutes)

**Format: Lecture, Demonstration and Discussion**

Tell participants that today the group is going to discuss interest rates and how they are calculated. The aim of today's discussion is about ensuring that participants know that interest rates are calculated in different ways which sometimes can mean we pay more for a loan than we thought; we want to make sure group members know to ask about how interest rates are calculated so that they can always be sure to ask the lender about this.

Ask the group if they remember how to define interest.

**Interest is the amount a borrower pays in addition to the loan principal to a lender to compensate the lender for use of the money.**

Ask participants what is an interest rate.

**An interest rate is the expression of interest as a percentage of the principal.**

Tell participants that both savings groups and lending institutions such as banks and microfinance institutions charge interest on loans. However, different methods are used in calculating interest rates, which can be confusing to borrowers. The two primary methods for calculating interest rate are: **declining balance** and **flat rate.**

Ask participants if anyone knows the difference or has heard about different interest rate calculations. You may then explain in more detail the difference between these two methods as noted below.

### a) Declining Balance Method

When the declining balance method is used, interest is calculated based on the balance of the loan that remains in the borrower's hands. As a borrower repays, the total balance of the loan also goes down. Interest is charged only on the remaining loan amount, **not** on the loan principal.

### b) Flat rate Method

When the flat rate method is used, interest is calculated based on the original amount of the loan rather than on declining balance. While arguably simpler to use and easier to understand, the flat rate method is in fact more expensive for borrowers.

Calculating interest using the flat method instead of the declining balance method has the effect of keeping the interest rate and interest payment the same from loan repayment to loan repayment regardless of the amount of principal still to be repaid. However, it has the net effect of making borrowers pay more by the end of the loan as the "effective" interest rate (what you actually pay) is higher than the stated one (the written interest rate), making the loan more costly to the borrower.

These differences may not be clear to participants and thus, a simple example to show this may be necessary. Show the two examples of declining balances and flat interest rates using either dried beans or small stones.

Using small stones or dried beans demonstrate an example of a loan of 100,000 shillings where the lender charges 2% per month for the loan on a declining balance. Tell participants that each bean or stone represents 1,000 shillings. Count out 100 beans and group them in a pile. Tell participants that the pile of 100 beans represents the loan. Then show participants how a lender would organize loan repayments over 5 months, dividing up the beans into five equal piles of 20 beans each. Show participants that for the first month, the interest owed would be 2 beans. Then remove one of the piles of 20 beans to show only the 4 piles of 20 beans (80 beans in total).

Ask participants how much interest is owed in the coming month.

Tell participants that in fact, less than 2 beans are owed because the interest is applied **<u>ONLY</u>** to the portion of the beans remaining with the borrower. In other words as the borrower gives back portions of the100,000 shillings owed, the borrower only pays an increasingly smaller portion of beans back depending on how much of the 100,000 (100 beans he/she has left). Note to participants that with each repayment the number of beans of interest goes down.

Now show participants what happens with flat interest rates. Again organize the beans into five equal piles of 20 beans. Then align 2 beans to the side of each pile of five beans to show that each month the borrower has to pay the same amount in interest (2 beans) on the principal owed. Show the borrower that the lender would make the borrower repay 2 beans each month on the 100 beans of the loan. Even when the borrower has repaid a portion of the loan, the amount owed to the lender is still 2 beans.

Explain to participants that calculating using a flat interest rate may be simpler and easier to explain then demonstrate how much principal and how much interest is owed so that participants can see that the effect of using a flat interest rate is that borrowers pay more under this method(and financial institutions earn more).

By contrast, while calculating interest rates using the declining balance method may be more complicated, requiring a special financial calculator and a strong understanding of math, in the end borrowers often pay 2 times less than if the loan interest was calculated on a flat rate basis.

Explain to participants that knowing **<u>HOW</u>** a lender calculates matters to them. It is one of the issues they will want to consider if they decide to seek loans outside their savings group.

## Note: Optional Exercises and Examples for Step 4 to be Used with More Literate, Educated Audiences.

The below tables are often more effective to use with audiences who have a higher level of numeracy (those who understand numbers well).

Note: The aim of showing these is to demonstrate the financial differences between the two methods. The aim is not to expect that participants can calculate them on their own.

Examples of Declining Balance and Flat Rate Calculations.

### Declining Balance Method

Consider the following example of a 6 month, TShs. 350,000 loan to be repaid in 6 equal monthly installments, calculated on declining balances. The payment made each period is TShs. 58,333. In the early periods, when the outstanding balance is high, the contribution of interest paid by a borrower is relatively high and the contribution to principal repayment is relatively low. As the principal balance declines, the contributions to interest payments decline as well.

| Loan Amount: TShs. 350,000 | | | | |
|---|---|---|---|---|
| **Term: 6 month repayment period** | | | | |
| **Monthly Interest Rate: 5%** | | | | |
| **Month** | **A<br>Principal** | **B<br>Interest** | **C<br>Total Payment** | **D<br>Outstanding Balance** |
| 0 | | | | 350,000 |
| *1* | *350,000 / 6 months = 58,333* | *D x 5% = 17,500* | *A + B = 75,833* | *291,667* |
| 2 | 58,333 | D x 5% = 14,583 | A + B = 72,917 | 233,333 |
| 3 | 58,333 | D x 5% = 11,667 | A + B = 70,000 | 175,000 |
| 4 | 58,333 | D x 5% = 8,750 | A + B = 67,083 | 116,667 |
| 5 | 58,333 | D x 5% = 5,833 | A + B = 64,167 | 58,333 |
| 6 | 58,333 | D x 5% = 2,917 | A + B = 61,250 | - |
| **Grand Total** | **350,000** | **61,250** | **411,250** | **-** |

**Flat Rate Interest Calculation Method**

Example:

Consider the same example as that of table above, except now interest is calculated using the flat method. In this case, the contribution of interest payments is constant: in each period, the borrower repays TShs. 58,333 in principal and TShs.17, 500 in interest.

In this scenario, the payment made each period is TShs. 75,833. The total payment made by the borrower at the end of the repayment period using flat rate interest calculation method is TShs. 455,000 compared to TShs. 411, 250 paid by the borrower using declining/reducing balance calculation method. See table below.

| Loan Amount: TShs. 350,000 | | | | |
|---|---|---|---|---|
| **Term: 6 month repayment period** | | | | |
| **Monthly Interest Rate: 5%** | | | | |
| **Month** | **A Principal** | **B Interest** | **C Total Payment** | **D Outstanding Balance** |
| 0 | | | | 350,000 |
| *1* | *350,000 / 6 months = 58,333* | *5% x 350,000 = 17,500* | *A + B = 75,833* | *291,667* |
| 2 | 58,333 | 5% x 350,000 = 17,500 | *A + B = 75,833* | 233,333 |
| 3 | 58,333 | 5% x 350,000 = 17,500 | *A + B = 75,833* | 175,000 |
| 4 | 58,333 | 5% x 350,000 = 17,500 | *A + B = 75,833* | 116,667 |
| 5 | 58,333 | 5% x 350,000 = 17,500 | *A + B = 75,833* | 58,333 |
| 6 | 58,333 | 5% x 350,000 = 17,500 | *A + B = 75,833* | - |
| **Grand Total** | **350,000** | **105,000** | **455,000** | **-** |

**<u>Note:</u>**

A lending institution can effectively raise the interest rate of a loan (and increase the portfolio yield) by changing any of the following factors:

- Requiring that a portion of the loan be deposited as compulsory savings prior to or after loan disbursement.
- Requiring payment of interest at the beginning of the loan, as a deduction from the amount of principal disbursed to the borrower.
- Charging an initial fee or commission in addition to the interest
- Requiring more frequent payment of principal and interest

**Group Loan Repayment Schedule**

Interest rates are calculated using the loan amount and the repayment. To better understand how interest rates are calculated consider the example below:

1. Meure is the chairperson of Tupendane Group which is taking a loan from the Vision Fund. Tupendane Group has nine other members and they are in their second cycle. Each member of the group took a different size loan depending on their individual credit needs. In this cycle, each member is eligible to apply for a loan up to TShs. 1,000,000.

The following is their repayment schedule for a loan period of six months.

| Name | Loan | Interest | Repayment Interest | Principal | Total Repayment | Monthly Repayment | | | | | | Grand Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1 | 2 | 3 | 4 | 5 | 6 | |
| Nakutu | 50,000 | 5% | 2500 | 8,333 | 10,833 | 10,833 | 10,833 | 10,833 | 10,833 | 10,833 | 10,833 | 65,000 |
| Namelok | 100,000 | 5% | 5000 | 16,667 | 21,667 | 21,667 | 21,667 | 21,667 | 21,667 | 21,667 | 21,667 | 130,000 |
| Sinyati | 150,000 | 5% | 7500 | 25,000 | 32,500 | 32,500 | 32,500 | 32,500 | 32,500 | 32,500 | 32,500 | 195,000 |
| Naleku | 200,000 | 5% | 10000 | 33,333 | 43,333 | 43,333 | 43,333 | 43,333 | 43,333 | 43,333 | 43,333 | 260,000 |
| Aisha | 350,000 | 5% | 17500 | 58,333 | 75,833 | 75,833 | 75,833 | 75,833 | 75,833 | 75,833 | 75,833 | 455,000 |
| Meure | 420,000 | 5% | 21000 | 70,000 | 91,000 | 91,000 | 91,000 | 91,000 | 91,000 | 91,000 | 91,000 | 546,000 |
| Buswelu | 600,000 | 5% | 30000 | 100,000 | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 | 780,000 |
| Kabula | 800,000 | 5% | 40000 | 133,333 | 173,333 | 173,333 | 173,333 | 173,333 | 173,333 | 173,333 | 173,333 | 1,040,000 |
| Lotejo | 900,000 | 5% | 45000 | 150,000 | 195,000 | 195,000 | 195,000 | 195,000 | 195,000 | 195,000 | 195,000 | 1,170,000 |
| Shija | 1,000,000 | 5% | 50000 | 166,667 | 216,667 | 216,667 | 216,667 | 216,667 | 216,667 | 216,667 | 216,667 | 1,300,000 |

**Note:**

Look at the repayment schedule above, Meure is paying the lending institution TShs. 546,000 after taking a loan of TShs. 420,000 of which 20% was deducted as deducted as a loan security deposit.

Additionally, the lending institution has deducted 3% from Meure's loan for processing fees and insurance. Therefore, Meure only received TShs. 323, 400 in cash but her actual loan obligation is for TShs. 420,000. At the end of her repayment period, Meure paid TShs. 126,000 in interest on the principal loan amount of TShs. 420,000. By the fourth month, Meure had repaid TShs. 280,000 of the principal but the lending institution still charged her 5% interest on the initial principal in the fifth and the sixth month of repayment.

Compare Meure's experience with an informal savings group member who borrows a loan from a savings group.

Kabula took a loan of TShs. 250,000 from her savings group Tuliwazane, the term of her loan requires that she pays back the loan within three months. This group has adopted a 5% interest rate per month on all loans disbursed. Below is her repayment schedule:

| Date | Principal | Interest | Penalty | Balance |
|---|---|---|---|---|
| 24/6/2013 | 50,000/= | 12,500/= | | 200.000/= |
| 22/7/2013 | 40,000/= | 10,000/= | | 160.000/= |
| 19/8/2013 | 160,000/= | 8,000/= | | 0 |
| **Total** | **250,000/=** | **30,500** | | **0** |

**Note:** The interest accrued on loans disbursed by savings groups is shared out among group members at the end of the cycle as profit. Therefore, it is not an actual cost of the loan.

**Questions:**

1. **Which of the two loans costs less to service?**
2. **Who actually benefitted more from her loan?**
3. **What are some of the advantages/disadvantages of flat and reducing balance methods of interest calculations?**

## Step Five: How to Borrow Smartly from a Financial Institution (10 Minutes)

**Format: Group Work and Discussion**

*Divide participants into groups of 4. Pose the following question.*

**Question: When you visit a lending institution to learn about its loan products, what questions will you ask?**

*Give the participants 5 Minutes for this exercise. Then ask for volunteers to share their ideas.*

*Summarize their ideas and be sure to mention anything below that they did not say.*

**Questions for Lenders**

- **What is the interest rate?**
- **How is the interest rate calculated?**
- **How often must the loan principal and interest be paid?**
- **What is the amount of each installment?**
- **What amount of savings is required and how often must deposits be made?**
- **What fees or commissions must be paid to obtain a loan?**
- **What penalties are charged for late payments?**

- **Where are loan payments made?**
- **How far away is this from my place of business?**
- **How often do meetings take place?**
- **How long do the meetings last?**

## Session II: How Much Debt Can You Afford?

**Total Session Time: 60 Minutes**

### Session I: How much debt can you afford?

**Session Objectives:**

- Calculated household income and expenses to find the surplus cash available for a new loan payment
- Calculated their own ability to borrow based on current income and expenses
- Developed advice about how much debt one can afford to carry

### <u>Step One: Understanding a Borrower's Ability to Take a Loan (30 Minutes)</u>

**Format: Group Activity: Analyze a Borrower's ability to take a Loan**

Materials needed:

1. Flip chart
2. Markers
3. Cards with amounts and source of income on them
4. Handout: Household income and expense worksheet

*Explain the following:*

Few of us think we have enough money for our basic necessities, our children's education and the other things we want. And many of us have businesses that we would like to expand if only we had the money to invest. We can borrow money to make up the shortfall in capital, but we have to be careful how much debt we take on. If we never borrow, we might not ever make progress; but if we borrow too much, we risk not being able to repay. How do you know how much you should borrow? Let's listen to Ana's story and learn from her experience.

*Read the story below. As you read, put up cards on the flip chart with the name and amount of each expense and source of income mentioned in the story:*

***Facilitator's Note:** <u>This exercise may be complicated for low literacy populations; therefore, accommodations should be made depending on the background of the trainees.</u>*

**Story of Ana and Joseph**

Ana and Joseph live with their 4 children. Ana is a tailor and Joseph raises pigs. Their oldest son, Juma, is 20 years old and drives a boda boda (motorcycle taxi). The 3 younger children are still in school. Ana is paying off a loan that she used to purchase a new sewing machine. She only has 3 more months of TShs.10, 000 payments to finish the loan. But Juma has 10 more monthly TShs. 20,000 payments on the loan he took to purchase his *boda boda*. Now Ana and Joseph are trying to decide if they can take yet another loan to purchase a fridge that they have wanted in their home for such a long time. They are motivated because the fridge is on sale this month. Ana is convinced that having it will save her lots of time on food shopping and preparation; she will thus have more time for her business. But can they afford it? This is their situation.

- Ana earns TShs. 200,000 per month. After expenses (loan, rent, food), she usually has TShs. 20,000 to save or spend on a treat for herself or the children.
- Juma earns Tshs. 260,000 per month, and after paying his expenses, he usually has TShs.30, 000 left over. He gives TShs. 10,000 each month to his parents to help with rent and food.
- Joseph sells piglets twice each year and earns TShs. 380,000. After paying for the veterinarian, pig feed, and school fees, Joseph usually puts TShs. 60,000 in his bank account.

| **Ana's Household Income and Expense Sheet** | | | | |
|---|---|---|---|---|
| | **Ana** | **Juma** | **Joseph** | **Total** |
| Monthly Income | | | | |
| Monthly Expenses | | | | |
| Monthly Cash Available | | | | |

*Encourage the participants to help you figure out where to place the cards in the blank table. When you finish, it should look like the completed version below.*

| **Ana's Household Income and Expense Sheet** | | | | |
|---|---|---|---|---|
| | **Ana** | **Juma** | **Joseph** | **Total** |
| Monthly Income | 200,000/= | 260,000/= | 50,000/= (300,000/=/6) | 510,000/= |
| Monthly Expenses | 180,000/= | 230,000/= | 40,000/= | 450,000/= |
| Monthly Cash Available | 20,000/= | 30,000/= | 10,000/= (60,000/6) | 60,000/= |

Ana and Joseph want to borrow TShs. 300,000 at 3% interest per month for 6 months to buy a small fridge. Their payment will be TShs. 60,000each month. What would you advise them?

**Question: The family has enough income to make the loan payment, but what is the risk for Ana and Joseph?**

*[They will have to use Juma's money, he may not agree; they will have no money for emergencies; Joseph only earns his money twice a year and their cash flow may not allow the loan repayment]*

**Question: What are the options for Ana and Joseph?**

*[Wait until Ana and Juma's loans are both paid up; then they will have Joseph's accumulated savings and more income to make the loan payment with. They can either put Joseph's savings towards the fridge and take a smaller loan, or keep those savings for emergencies.]*
*• [Set up a savings plan for the fridge and wait until the family savings can cover the whole TShs. 300,000 they need. It may take 2 years.]*

*Explain the following: Although each family will have to decide how much debt it can afford based on all sources of income and savings, a guideline you can consider is to keep your debt payments at or below 20% of your income. So if your monthly income is TShs.100,000 the total of all your loan payments should not be more than TShs. 20,000 each month.*

(Note: The debt-to-income ratio will vary between 20% and 40% depending on your location. Investigate what banks or MFIs in your area use as their guideline. If you use a different guideline, you must adjust the figures in the exercise below.)

*Say to the participants: Using this 20% guideline, let us figure out if Ana and Joseph should borrow the TShs. 300,000 to buy a fridge. We know that Ana already has a loan payment of TShs.10,000 each month and Juma's loan payment is TShs. 20,000. The new loan adds a TShs. 60,000 monthly payment.*

**Questions:**

- **What would be the total amount the family owes each month? [90,000/=]**
- **What is 20% of their monthly income? [86,000/=]**
- **What do you think about Ana and Joseph taking on more debt?**
- **What is the problem with spending all of their available cash on loan payments?**

## Step Two: Household Income and Expenses (20 Minutes)

**Format: Group Activity**

*Hand out the blank Household Income and Expense Worksheet.*

### HANDOUT 8: HOUSEHOLD INCOME AND EXPENSES

| Household Income and Expense Sheet | | | | |
|---|---|---|---|---|
| | **Ana** | **Juma** | **Joseph** | **Total** |
| Monthly Income | | | | |
| Monthly Expenses | | | | |
| Monthly Cash Available | | | | |

Now let's see if we can do the same calculations for our own households. Turn to the person on your right and greet your partner. Work out your income and expenses using the same worksheet we used for Ana and Joseph.

Decide how much you can borrow. Share this information with your partner and ask for her opinion. Apply the **20%** guideline to see if your loan payments are above or below that limit.

*Give the participants 10 Minutes for this exercise. Walk around and help them with their calculations if they need it. Ask for three volunteers to present their cases. Invite participants to give their feedback. After each presentation, ask:*

**Question:**

- **What is your plan for making your loan payment? Will you set aside a little money each day or each week for the loan payment?**

## Step Three: Advice on Loan Repayments (10 Minutes)

**Format: Group discussion**

*Divide the participants to get into small groups of 5 people each. Then say the following: "Often people take on too much debt and have trouble making repayments. Let us develop some advice for them. Each group will come up with as many recommendations as they can in the next 5 Minutes for people thinking about borrowing."*

*After 5 Minutes ask for volunteers to share their ideas. Summarize their ideas. Be sure to cover the following points:*

**Advice about Taking Loans**

- Don't let debt prevent you from paying for basic expenses such as food, school fees and other necessary items
- Keep track of the amount and frequency of loan payments due

- The total of your loan payments should not exceed a percentage of your steady income
- Try to limit your borrowing for personal consumption
- Have a plan for making loan payments if it will take time for the loan to generate increased income

***Thank the participants for their good work.***

# Session III: Delinquency

**Total Session Time: 45 Minutes**

**Session Objectives:**

- Recognize behavior that leads to over-indebtedness and default
- Identify the potential consequences of defaulting on loans
- Identify the questions to ask and answer in response to lenders' aggressive sales tactics

## Step One: Understanding Delinquency (10 Minutes)

**Format: Group Discussion**

*Pose the question:*

**Question: What does it mean to be a delinquent borrower?**

*A delinquent borrower is someone who is late making her loan payment. Pose the next question.*

**Question: Why is delinquency a problem? Why is it a big deal if I am a few days late with my payment?**

*A few days late may not seem like a problem, but when a few days turn into a few weeks, it gets harder and harder to pay. The longer you wait, the more you owe, and the harder it becomes to get the money you owe. By paying on time each week or month, you know it is coming and can plan for it.*

**Question: What reasons can you think of that would cause a borrower to be delinquent?**

- Poor sales
- A natural disaster
- Diverting the loan money to another household emergency
- Risky business practices such as selling on credit
- Failure to keep track of loan repayments
- Failure to regularly set aside money for the loan repayment

*When participants have exhausted the possibilities, the next step is to figure out which reasons can be avoided and which cannot be avoided. Choose a symbol to mark each. Say:*

Now, let's look at our list of reasons and decide which are due to poor decisions by the borrower, and which are just unavoidable bad luck. We'll mark the bad decisions with a frown and the bad luck with an **X**.

***In cases of disagreement, encourage participants to explain their views.***

## Step Two: Over-indebtedness (20 Minutes)

**Format: Role Play**

*Explain to participants that they will see a short role-play. But first, ask them what MFIs or other lenders are well-known to them, and fill in the blanks in the role-play with 3 lenders. Then, ask two participants to help you present. Select 2 who are good readers, or ask other staff members to join you in this brief presentation. You should read the part of Clara and assign the parts of Mwajuma and Johali to the others.*

*Explain:*
Allow me to introduce you to 3 women—Clara—that's me—and her sister Mwajuma, who are business partners, and Johali, who is a member of Clara's village banking group. You are about to listen in on 2 conversations. The first takes place between Clara and her sister Mwajuma. The second takes place at the village bank meeting between Clara and fellow member Johali. Listen and learn.

*Read the role-play (Handout 9) and discuss with participants.*

### The Story of Three Borrowers

Mwajuma: Hey, Clara, isn't today the day your loan application will be approved at PRIDE?

Clara: Yes, the loan committee meets at 11:00 this morning. I am not worried, though, since I am only asking for TShs. 200, 000, less than I had before.

Mwajuma: But Clara, how can you only borrow TShs. 200,000? Have you forgotten that next week we have a payment due at FINCA?

Clara: Mwajuma, you told me that you would find the money for that payment!

Mwajuma: I know, but I couldn't. You have to borrow at least TShs. 400,000 at PRIDE.

Clara: Agh! I won't be able to make the payments on such a large loan!

Mwajuma: Don't worry so much! I'll give the money you need later. I've got to go. See you!

At Clara's meeting at PRIDE: Enter Johali and Clara.

Clara: Hey there, friend. Lend me TShs. 10,000 so I can make my payment today, okay?

Johali: (irritated) Oh, yeah, Clara. Sure. This is the second time you have asked me for your payment. And you haven't even paid me back the first TShs.10, 000 I lent to you!

Clara: Don't worry! I'll pay you. Today I am getting money from Vision Fund and I'll give it to you right away.

Johali: You are borrowing from Vision Fund?

Clara: Yeah, I need to borrow from them because my sales are not good these days and I have a lot of debt. Why don't you come with me this afternoon? Wake up! You can get bigger loans there!

Johali: I don't know. I'll think about it.

Clara: Don't be a fool. Take the loan. It is easy. That's what I am doing to get the money to pay you. Then you'll have all the money you need. I'll come by your house at 1 o'clock. Be ready!

***Thank the actors and discuss the play with participants.***

Use the following questions to guide this discussion.

- **Question: What is Clara doing?**

  *Make sure the participants know that the answer is: Borrowing from 3 different MFIs.*

- **Question: Why is she borrowing from so many lenders?**

  Answer: She is borrowing from one to pay her debt to another.

- **Question: How does Clara think about the various lenders she hopes to borrow from?**

  Answer: She seems to think she can borrow from anyone easily and that none of the lenders will care if she is going to others at the same time.]

- **Question: What do you think will happen to Clara?**

Eventually, she will default on one or more of these loans. Her group may ask her to leave, or come to her house to take collateral for the loan she cannot pay. She will become known as a bad borrower and lose her ability to borrow. Defaulting on loans has many negative consequences.

**Question: What are the ways to avoid default in the first place?**

*Summarize their ideas. Mention the following points if they do not do so.*

- Borrow only the amount of money you can afford.
- If you miss a payment, make sure to be honest with the lender about your troubles.
- Get advice about how to repay your loan from the lender, friends and family.
- Cut some costs to make your debt payment.
- Consider making improvements to your business practices to sell more products and services.

In Clara's case, she went looking for more loans. But sometimes, the situation is the other way around—the lending agencies look for borrowers. Remember, lenders make money on each loan, and some of them are very aggressive in their search for borrowers and more loans. Sometimes they offer special rates and attractive terms in order to draw in new customers. They want the potential customer to believe that taking a loan is easy and affordable.

**Question: What can happen if you are tempted to take a loan because it is a good deal?**

*Answer: You may borrow money that you do not really need or cannot afford to repay.*

*Review the warnings below:*

**Beware of Aggressive Lenders**

- Beware of anyone who comes to your door offering easy loan money.
- Beware of "special offers" good for a very limited time. If the lender is legitimate, the terms offered today should be valid tomorrow.
- Beware of lenders who discourage you from reading the loan agreement because it is just "standard"! Read every word of the loan agreement or have someone read it to you.
- Never sign a loan agreement that you do not fully understand. Ask questions until you get the answers you need.

## <u>Step Three: Questions to ask a Lender (15 Minutes)</u>

**Format: Small Group Activity and Discussion**

*Divide participants into small groups. Ask the groups to discuss the following questions:*

- **What questions should you ask when a lender approaches you with a good deal?**
- **What can you do to protect yourself?**

*Give the groups five Minutes to discuss. Then ask for volunteers to report back the questions they identified. Write their responses on the flip chart or summarize them if participants do not read. Make sure the list includes the following:*

**How to Protect yourself against Predatory Lenders**

| ***Ask yourself:*** | ***Make sure you:*** |
|---|---|
| Do I really need this loan? | Evaluate all the financial options for meeting this financial need. |
| How will I use this loan? | Know how the loan will help you. |
| How will it help me earn more money? | Know all the costs and terms associated with the loan, especially the penalties for late payment and refinancing. |
| What are the costs of taking this | Have a plan for repaying that is based on your expected income and cash flow. |

# Appendices

## 1. Savings Goals and Planning Worksheet

| *Savings Goal* | *Lump Sum Needed* | *When Needed?* | *Amount of Savings Required per Week or Month* | *Ranking of Importance* |
|---|---|---|---|---|
| **Short-term** | | | | |
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| **Long-term** | | | | |
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| **Total Savings Required** | | | | |

## 2. Formula to Determine Savings Distribution at the End of Cycle

**Handout: Formula to Determine Savings Distribution at the End of Cycle**

**New value of share** = Total amount of money in cash box (excluding Social Fund, MVC Fund)
Total number of member stamps in passbook

**Example:**

Total amount of money in box is 6,000,000; Total number of stamps counted is 3,000

New value of shares = 6,000,000
3,000

New share price is = TShs. 2,000

### 2.1 Sample Distribution/Disbursement Table

| Member's name | Number of shares/stamps | Value of share | Total worth | Debt | Payment due | Signature |
|---|---|---|---|---|---|---|
| Lomitu Melau | 120 | 2,000 | 240,000 | 100,000 | 140,000 | |
| Nanyori Loitopuaki | 50 | 2,000 | 100,000 | 0 | 100,000 | |
| Adam Madushi | 70 | 2,000 | 140,000 | 0 | 140,000 | |
| Ngwanang'ondi Dotto | 200 | 2,000 | 400,000 | 0 | 400,000 | |
| Hija Madirisha | 78 | 2,000 | 156,000 | 0 | 156,000 | |
| Meure Loomoni | 47 | 2,000 | 94,000 | 0 | 94,000 | |
| Natoiwoki Memirieki | 80 | 2,000 | 160,000 | 0 | 160,000 | |
| Lotejo Kisarisho | 70 | 2,000 | 140,000 | 0 | 140,000 | |
| Lufuluandama Ng'wananchucho | 40 | 2,000 | 80,000 | 0 | 80,000 | |
| Naisujaki Masalu | 23 | 2,000 | 46,000 | 0 | 46,000 | |
| Endung'oti Melamari | 90 | 2,000 | 180,000 | 0 | 180,000 | |

## 3. Financial Needs

| Everyday Expenses | Expected Future Expenses | Unexpected Future Expenses |
|---|---|---|
| Occur regularly and are necessary for the household's day-to-day existence.<br><br>These expenses are fairly predictable in both their timing and amounts. | Are large, lump-sum expenses that are required to cover life-cycle events?<br><br>Life-cycle events can be predictable, such as marriage, childbirth, a child starting school, or buying a house.<br><br>These events normally occur for most families over their lifetimes. One usually knows when they will occur and can plan for them. | Are also large expenditures that are required to cover life-cycle events, but the events are unpredictable.<br><br>They can include natural disasters such as floods, droughts, tsunamis and earthquakes.<br><br>Or they can include personal or household difficulties such as a robbery, fire, accident, illness or death.<br><br>Although we know these events can occur, it is difficult to plan for them. No one knows when they will strike or how expensive they will be. |

## 4. True/False Quiz

1. ***Pay for day-to-day expenditures with income from your own business, wages or piece work.***
2. ***Because you never know when you will have unexpected expenses, you can't be prepared for them.***
3. ***You should save to meet future expected and unexpected expenditures.***
4. ***Taking a loan to pay for everyday expenses is good financial management.***
5. ***You should only take loans when you can use the money to increase your business income.***
6. ***Poor people cannot save.***

## 5. Advantages/Disadvantages of Financial Service Providers

| FINANCIAL SERVICE | ADVANTAGES | DISADVANTAGES |
|---|---|---|
| Bank | ▌ Security (money is safe)<br>▌ Liquidity (for savings)<br>▌ Large, long-term loans<br>▌ Cost<br>▌ Reliability<br>▌ Privacy<br>▌ Income (money earns interest)<br>▌ Choice of products<br>▌ Allows you to build a credit history<br>▌ Operates within banking laws<br>▌ Access to financial advice | ▌ Can be far for rural residents<br>▌ Restricted hours<br>▌ Minimum deposit requirements may be too high<br>▌ Unfriendly staff<br>▌ Banks charge fees on many accounts<br>▌ Long lines in bank take time |
| MFI | ▌ Access<br>▌ Proximity<br>▌ Speed<br>▌ If registered, operates within laws<br>▌ Social aspect/group support | ▌ Loan size is typically small<br>▌ Cost of borrowing can be high<br>▌ Some offer no savings service<br>▌ Some require group membership |
| Savings and Credit Associations | ▌ Access<br>▌ Proximity<br>▌ Frequency<br>▌ Social aspect/group support<br>▌ Lump sum of money at a specified time | ▌ High risk (due to dishonest members or group conflicts)<br>▌ Unreliable<br>▌ Limited funds to meet borrowing needs<br>▌ Lack of financial knowledge |
| Retailers | ▌ Many available<br>▌ Safe | ▌ Poor customer service<br>▌ Limited financial knowledge<br>▌ Interest can be high<br>▌ Banking not core business |
| Mattress Account | ▌ Money easily available<br>▌ No bank costs<br>▌ No transportation costs<br>▌ Easy to manage | ▌ Money doesn't grow<br>▌ Less incentive to save<br>▌ Money at risk for theft, fire<br>▌ No access to financial experts<br>▌ No access to other banking products<br>▌ No credit record<br>▌ Less control of spending<br>▌ No transaction records |
| Insurance Company | ▌ Security<br>▌ Peace of mind<br>▌ Insurance expertise regarding variety of products<br>▌ Operates within insurance laws | ▌ High monthly payments<br>▌ High increases each year<br>▌ Products difficult to understand<br>▌ Must read the conditions<br>▌ Long waiting period for payment |
| Moneylender | ▌ Money available immediately<br>▌ Available at your doorstep | ▌ Very expensive<br>▌ Risky—operates by intimidation<br>▌ Not protected by government laws<br>▌ Easy to get into deep debt |

## 6. Infrequent Income and Expenses Worksheet: Monthly Estimates

**Infrequent Income**

| Income | No. of Times Received | Amount | Annual Amount | Monthly Income (divide annual amount by 12) |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

**Infrequent Expenses**

| Expense | No. of Times Paid | Cost per Time Paid | Annual Cost | Monthly Cost (divide annual cost by 12) |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
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| | | | | |

## 7. Budget Calendar

| | MONTH 1 | MONTH 2 | MONTH 3 |
|---|---|---|---|
| **Income** | | | |
|  | | | |
| **Spending** | | | |
| Business  | | | |
| Household  | | | |
| Loan Payments  | | | |
| Savings  | | | |

## 8. HOUSEHOLD INCOME AND EXPENSES

| Household Income and Expense Sheet | | | | |
|---|---|---|---|---|
| | **Ana** | **Juma** | **Joseph** | **Total** |
| Monthly Income | | | | |
| Monthly Expenses | | | | |
| Monthly Cash Available | | | | |

### 9. The Story of Three Borrowers

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