

## **MICROCREDIT PROJECT – SABOBA**

### **1. Mission and general purposes**

Health-aid recognises that charity is not always the best answer to poverty, since charity carries the risk of never-ending dependency and lack of self-determination.

To ensure local ownership and give responsibility and dignity to the people of Ghana, Health-aid has launched a microcredit project in the area of Saboba-Chereponi, where Health-aid has been providing health services for more than 9 years.

The main purpose of the project is to advance small loans in order to fight poverty. The credit will assist the poorest village people to help themselves in improving their living conditions.

In particular, the lending will be targeting self-employment, quick income generating production activities, freely selected by the borrowers to employ the skills they already have.

The borrowers should preferably be the poorest women of the villages, who would not otherwise have access to credit.

The project aims at achieving sustainability in 5 years time. Therefore, the loans should attach a competitive interest rate, comparable to the interests applied by commercial banks. People of Ghana should be directly involved in the development of the project.

### **2. Main features of the project**

The Saboba microcredit project is very much inspired by the Grameen Bank experience, which proved to be very successful around the world.

The exclusive focus of the lending should be on the poorest of the poor. This is achieved by establishing very clear eligibility criteria for selecting the target clientele and adopting means to screen out those who do not meet them.

In delivering credit, priority should be given to groups of five women. The lending should meet the diverse socio-economic development needs of the poor.

Our ambition is to achieve an average of default rate of 2% only, in line with the statistics experienced by the Grameen bank.

### **3. Description of loan terms**

The main terms and conditions of the loans should be as follows:

- The financing should be limited to small amounts, to be determined more precisely in the light of the outcome of the screening we are going to carry out in August. The amount should be sufficient to finance the proposed micro-enterprises. From reading I have made, it seems that the outstanding microcredit loans in Ghana are in a range of about €70 per credit on average;

- the borrowers should be organised in groups of five persons (see following paragraph); however the lending is to the individual person;
- the interest rate should be of 20%, subject to review on the basis of the rate of default we will face;
- the loans are advanced without collateral (no personal or asset security guarantees are required). This is because poor people are not able to provide collateral. For the viability of the project we need to find highly motivated people and ensure strong peer reviews and pressure, in place of collateral;
- the loans should possibly be revolving: the eligibility for a subsequent tranche of credit should be conditional to the timely repayment of previous instalments. This mechanism should be adapted to the peculiarities of each project. For instance, we should seek as much as possible to divide the requested loans in several tranches and condition the access to the following tranche to the repayment of previous ones. However, this may not be feasible for all projects. At least we should ask that access of some group members is conditional to the timely fulfilments of other members' repayment obligations;
- repayment should start as soon as the financed project provides returns; it should take place on a weekly basis and be divided in possibly 50 instalments;
- the financing should target individual, self-chosen, quick income generating projects which employ the skills that the borrowers already possess. Self-determination is the key feature. We should never suggest projects to the people. The idea should come from themselves (I expect that usual outcomes will be the purchase of tools, equipments or other means of production, but we will see that in August);
- close supervision of the financed group of people and credit discipline should be promoted by our pressure, monitoring and weekly meetings (see below paragraph);
- special safeguards through compulsory and voluntary savings should be sought in order to minimise the risks;
- transparency in all monetary transactions should be ensured; most of the transactions should take place during the weekly meetings with the groups (see below) and reporting should be carefully carried out of each and all of those transactions;
- more than one loan may simultaneously be advanced to the same borrower, provided that she has always paid on time.

#### **4. Eligible clients**

In selecting the project and the client to finance we should take into account the following factors:

- as mentioned, preference should be given to women, since on average they have proved to be more reliable and keen to invest the money earned to the benefit of the family and for improving the quality life of the children;

- the lending should serve the most poverty-stricken people, needing resources but unable to access credit (because, for instance, they are landless);
- we should make it possible for the borrower to be able to repay the loan. We should finance only when we are sure that the amount covers the entire capital they need to actually start the activity and we have to design the repayment plan in a way consistent with the dynamic and income expectations of the particular financed business. In case of unforeseeable event which causes difficulties in repaying the debt, we should assist the borrower in rescheduling the instalments and fix problems;
- we should look for highly motivated persons, self-proposing income generating (small) projects, having willingness and capacity to succeed (e.g. a person who is good in doing some potentially productive activity, but who does not have the mean to start it or a person who does already the activity, but who could improve it from a qualitative or quantitative perspective if she have access to credit);
- the money advanced must be exclusively used for the purposes declared at the time of selection and approval of the loans by us (e.g.: to purchase the needed tool or the raw materials necessary to develop the project). We need you to assist people and help them in the purchase of those items; you should control that they actually employ the moneys in the way they have declared;
- possible project may be rice-husking, making bread or cakes, machine repairing, buying of milk cows, goats, sewing, pottery, etc... but the identification of the suitable projects really depends on the specific Saboba context; we should carefully analyse the socio-economic environment of the area (e.g. How many times and where markets take place? Which type of goods are sold? Which type of activities are typical of the Saboba area? Etc..);
- we should build on social capital, promoting formation of groups of people: borrowers must be organised into small homogeneous groups of 5 people and should be willing to participate to their own group. Each group should elect one representative, who will be the main contact point. This is meant to facilitate group solidarity and participants interaction. Eligible clients should be able to form the group by themselves, asking friends and people they know to join. Group people should come from a similar sociological context. No relatives should belong to the same group;
- the group should be federated in a centre. Each centre should be composed of a max of 8 groups and should meet weekly. During these meetings you should collect the instalments and discuss with the borrowers all outstanding developments and possible problems.

## **5. Elements to be considered during selection phase**

In the light of the aforementioned purposes and eligibility criteria, we can identify the following elements that we should consider at the time of selection of the prospective borrowers:

- ability to propose a viable and convincing project;
- willingness to be abide to credit discipline and to repay the loan;

- personal motivation (we should understand why she is asking for a loan, what are her goals and expectations);
- willingness to use the profits for social and family purposes; e.g. children education;
- personal capacities and skills;
- economic viability of the proposed project (does it make sense from an economic perspective? Are there too many competitors already present in the market? Is the amount requested consistent with the actual needs? Is it sensible to undertake that particular activity? Is remuneration foreseeable? How much cash flows the project is expected to generate? Is this cash-flow sufficient to cover the expenses and repay the loan (capital amount+interests)?)
- is the prospective borrower capable of forming a group and working within this group?
- is she willing to participate to the weekly meeting at the centre?
- is she able to write and read (but this must not be a prerequisite)? The representative elected by each group should preferably be a person able to write and read.

## **6. Ongoing client selection and management**

The basic principle in our microcredit project is that we provide a service at the door step of the poorest persons. This service is wider than pure lending.

The principle is indeed that the bank should go to the people, not the people to the bank. On this basis, we should consider to set up our work in accordance with the following organisational elements:

- the mode of operation is that a manager (now you, Moses) set up and runs a branch and a number of centres covering an area of about 15/20 villages;
- the manager and the other persons helping him (if any, anyway not for now) should start by visiting the villages to familiarise themselves with the locals, identify prospective clients and explain the purpose, function and mode of operation of our microcredit project to the members of the villages (this is exactly what we are going to do in August);
- groups of five people are then to be formed. The groups should be small and informal; the group should co-opt borrowers coming from the same or similar background and trusting each other. This is why it is very important that the borrowers form groups by themselves, autonomously;
- the borrowers member of the group should be interviewed and pass a text/exam which will let us testing the viability of the project and their willingness/ability to repay the loan. All members of the same group should approve each other projects;
- at the first stage, only 2 or 3 members of the group (out of 5) are eligible to receive the loans. The group is observed for a month to see if the members are conforming to the rules of our microcredit project (e.g. they are all attending the weekly meeting and taking cares of

their children) and if the financed members are actually repaying their instalments at due time. Only if the financed members have timely repaid the instalments over a period of 6 weeks, the other members of the group may access their own line of credit (in this way we try to achieve some group pressure on timely repayment);

- we should carefully monitor how the moneys are actually invested by the borrowers and we should be prepared to provide them with any help they might need in order to start their activity. It is very important that the groups meet on a weekly basis, because this gives us a chance to discuss whether problems are coming and foresee issues;
- we should build on social capital, promoting formation of the groups and the activities at the centres, developing leadership quality and team working. To this aim, we should organise social activities during the weekly meetings at the centres, including for instance morning gym sessions, cultural and religious activities prays. Saboba people should autonomously develop a social agenda for the benefit of their community; it is essential that financed people invests in and monitors their children's education and wealth;
- since the final goal is to improve the quality life of the community, participants should agree on certain provisions they undertake to comply with (we should discuss how to develop those rules/provisions with the Saboba people); we should monitor that they actually comply with those provisions;
- advancing of new loans and repayment of instalments should all take place during the weekly meetings of the 8 groups (40 members) at the centre;
- you should fix a specific date and time for these weekly meetings at the centre;
- any time we receive repayment of an instalment we should provide the relevant borrower with receipt. In the receipt you should indicate the date, amount of repaid instalment, outstanding debt with separate indication of the principal amount and the interests due;
- you should immediately record the repayment in our books and keep the records updated;
- during the meetings all the progress and possible problems should be shared; we should be prepared to provide our advices to the borrowers and face issues;
- the discussions and problems coming from the meetings should all be reported to Health-aid: there should be a detailed minute of each weekly meeting, which should be turned to Health-aid, together with copy of the receipts. The collection of the weekly repayments must be promptly recorded and reported in electronic form to Health-aid on a weekly basis;
- if the borrower is facing difficulties, it is of utmost importance that we understand those problems and try to address them. If it is not possible to find a solution, we should be prepared to postpone the repayment schedule in order to adjust to these events. The restitution should be re-negotiated in a way as to meet the specific needs of the borrower and address the incoming issues;
- if possible, borrowers should themselves keep records of their outstanding loans and repayments. The representatives appointed by each group should be in charge of keeping these records updated. Borrowers should also record the list of expenses and the average amount of revenues of their business (e.g. average price per unit and amount sold during the

week). The purpose is that they take control of their project and that they are from time to time aware of what's going on;

- the collected moneys should be promptly deposited with a bank (is this feasible?);
- before advancing the loans we should very clearly explain that the contingency for future applicants to benefit of financing is that every borrower pays back its own loans; otherwise resources are destined to be extinguished soon. We should provide details on the consequences of the failure to repay (including that the borrower and possibly members of the group will not be able to access more credits) and advise on the good use that everybody should make of the loans;
- we should deliver a set of guidelines that groups are challenged to adhere to throughout the repayment.

## **7. Reporting to Health-aid**

Health-aid should receive on an on-going basis at least the following reporting:

- minutes of each weekly meeting held at the centre;
- weekly group monitoring forms, organised in order to keep evidence of the name of the borrower, purpose of the loan, date, outstanding amount (principal and interests), repayments (principal and interests), summary of the progress, (if any) existing or expected problems;
- monthly reports including details on the progress and outstanding/expected problems, with relevant analysis, suggested way forward and proposal for enhancement;
- in urgent cases Health-aid should be informed of problems immediately in order to jointly discuss and agree upon actions to be taken.