



# Financial education counselling

## Counsellor's handbook

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### **About Consumers International (CI)**

Consumers International (CI) is the only independent global campaigning voice for consumers. With over 220 member organisations in 115 countries, we are building a powerful international consumer movement to help protect and empower consumers everywhere. For more information, visit [www.consumersinternational.org](http://www.consumersinternational.org).

Consumers International is a not-for-profit company limited by guarantee in the UK (company number 4337865) and a registered charity (1122155).

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# **FINANCIAL EDUCATION COUNSELLING**

**COUNSELLOR'S HANDBOOK**

2012

**Available online and on DVD:**

### ***Know your money***

### ***How to provide financial education in Africa***

Consumers International has produced a short introductory film to accompany this handbook. *Know your money* takes a look at how this *Counsellor's handbook* is being used in Korogocho, an informal settlement in Nairobi.

The film shows just how easy it is to set up and start using the handbook, and the incredible impact of the counselling it provides.

*Know your money* is essential viewing for anyone thinking about setting up a financial education counselling service, in Africa and beyond.

View online at [www.consumersinternational.org/FE](http://www.consumersinternational.org/FE) or email [consint@consint.org](mailto:consint@consint.org) for information about obtaining a DVD copy.

## Overview and acknowledgements



Consumers International and Microfinance Opportunities<sup>1</sup> are pleased to release this handbook to assist consumer advocates in their work on financial counselling.

Consumers International (CI) was awarded a grant in June 2010 from DFID's Financial Education Fund (FEF) to carry out a project entitled *Promoting financial capability in Kenya and Tanzania through delivery of consumer education and consumer protection* with three CI member consumer organisations (COs): Consumer Information Network (CIN), Youth Education Network (YEN) and Tanzania Consumers Advocacy Society (TCAS).<sup>2</sup>

The project's overall objective is to create an enabling environment to empower consumers to make informed decisions about their money and the financial products they buy. Specific objectives are to:

- strengthen the capacity of COs in the provision of financial education services and tracking of consumer behaviour change through Consumer Advice Centres (CACs)
- increase the quality and outreach of their financial education activities.

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<sup>1</sup> Microfinance Opportunities was established in 2002 as a microenterprise resource center that promotes consumer-led microfinance. It seeks to help poor people increase their access to well-designed and delivered financial services. Microfinance Opportunities provides action-research, training and technical assistance in three areas focused on the consumers of microfinance services: Financial Education, Microinsurance and Consumer Assessment.

<sup>2</sup> CIN is a non-profit national consumer organisation founded in 1994. CIN envisions a society that upholds consumer rights and responsibilities; and for CIN to be a recognised and respected leader in the consumer movement. Its mission is to empower consumers through education and advocacy, research on consumer concerns, and to effectively serve as a centre of integrity on consumerism.

YEN is a non-governmental organisation in Kenya, founded in 1997. Focusing on youth, YEN's mission is to empower youth with information and vocational training to effectively contribute to socio-economic development of their communities.

TCAS is an independent consumers' organisation established in July 2007 to promote, protect and advocate for consumers' rights in Tanzania.

CI brought Microfinance Opportunities to the project as the financial education expert resource. Microfinance Opportunities first led the essential research to develop a greater understanding of the financial knowledge, skills and attitudes of the target group and we thank those people in Korogocho, Nairobi and in Dar es Salaam who participated in the focus-group discussions. The results and recommendations from this needs-assessment exercise informed the handbook, which was first piloted in workshops in Kenya and Tanzania in March and April 2011.

CI and Microfinance Opportunities appreciate the efforts that all partners and experts have contributed to the development of this handbook. Microfinance Opportunities worked with CIN, YEN and TCAS on the needs assessment to define the content covered, and members of these organisations provided valuable feedback in the pilot workshop to train staff and volunteers on the use of this handbook. CI and Microfinance Opportunities hope that this work benefits the consumers in East Africa and beyond.

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## ACRONYMS

ASCA	Accumulating Savings & Credit Association
ATM	Automated teller machine
CBFO	Community-based financial organisation
CFI	Cooperative financial institution
CGAP	Consultative Group to Assist the Poor
CO	Consumer organisation
CI	Consumers International
CVECA	Village Savings and Credit Organisations in West Africa
FFI	Formal financial institution
GFEP	Global Financial Education Program
NBFI	Non-bank financial institution
NGO	Non-governmental organisation
MFO	Microfinance Opportunities
MFI	Microfinance institution
ROSCA	Rotating Savings and Credit Association
SHG	Self-help group
SACCO	Savings and Credit Cooperative Society
TAFMI	Tanzania Association of Microfinance Institutions
USD	United States Dollar



## INTRODUCTION

WELCOME to financial education! With this counsellor's handbook covering a range of financial management issues, you can begin to promote basic financial literacy for those who want to learn how to manage their money.

Before you start, however, let's ask and answer two key questions:

*What is financial education? Why is it important?*

The answers to these two questions contain good news and bad news about poor people and their money. While the poor share the same goals as all people—economic security for themselves, their families, and future generations—their limited resources and options often lead to a sense of hopelessness and inertia. Careful management of what little money they do have is critical to meet day-to-day needs, cope with unexpected emergencies, and take advantage of opportunities when they come along. The bad news is that the poor too often lack the knowledge and experience they need to be these careful money managers.

This is the purpose of financial education. It teaches people about the concept of money, and how to manage it wisely. It offers the opportunity to learn basic skills related to earning, spending, budgeting, saving, and borrowing. The good news is that when people do become more informed financial decision-makers, they can plan for and realise their goals. Moreover, once people have acquired financial literacy skills, those skills cannot be taken away. A one-time course in financial education can have lifelong rewards.

Financial education is relevant for anyone who makes decisions about money and finances. Women, in particular, often assume responsibility for household cash management in unstable circumstances and with few resources to draw on. Financial literacy can prepare them to anticipate lifecycle needs, and deal with unexpected emergencies without assuming unnecessary debt. For youth, financial literacy can reduce their vulnerability to the many risks associated with the transition to adulthood, and enhance their skills in managing money as they enter the world of work.

The Global Financial Education Program (GFEP), led by Microfinance Opportunities and Freedom from Hunger, started with a focus on micro-entrepreneurs and consumers of microfinance programmes. For this group, financial education is more relevant now than ever before. Why? Many who seek credit and savings services have more choices than ever before. In many parts of the world, borrowers now can choose from a variety of informal lenders. In

addition, microfinance institutions (MFIs) are beginning to offer a wider range of products and services to their consumers, such as voluntary savings, insurance and money transfers.

That is the good news. The bad news is that consumers often do not understand these new options and may not use them to their advantage. To date, MFIs' promotion of their new products has not always included careful explanation and education about their features. To weigh alternatives and select the products most appropriate for their needs, consumers need to understand how their features differ, how to calculate and compare their costs, and how to determine what they can afford.

By focusing on informed and strategic decision-making, the GFEP goes beyond providing information. Its goal is to strengthen those behaviours that lead to increased saving, more prudent spending and borrowing for sound reasons. To achieve sustained behaviour change, the curriculum is based on a learner-centred approach, capturing how adults learn best. It builds on what adult learners already know, makes the new content relevant to their lives, and provides the opportunity to practice the new skills.

The GFEP developed five training modules over a three-year period spanning 2003 to 2005. Seven partners around the globe actively participated in the project, starting with market research in their countries to identify the priority topics, learning objectives and training methods, and culminating with curriculum design and testing. The participating partners were Teba Bank (South Africa), SEWA Bank (India), ProMujer (Bolivia), The Equity Building Society (Kenya), Al Amana (Morocco), CARD Bank (the Philippines) and the Microfinance Centre (Poland). Their commitment to this process has ensured that the financial education curriculum responds to the real needs of poor consumers.

This counselling handbook, developed specifically for Consumers International, consists of five chapters on five distinct topics. They are as follows:

- Consumer protection: balancing rights and responsibilities
- Bank services: know your options
- Budgeting: use money wisely
- Savings: you can do it!
- Debt management: handle with care.

# Part I. Financial counselling essentials

## What is financial counselling?

*What is financial counselling in the context of financial literacy?*

Few people don't have questions about managing their money from time to time. No one is born with all of the skills needed to make the most of the resources that they have, and that's why it is important to have someone that is both knowledgeable and objective at your disposal. Whether it is clarifying an issue, exploring alternatives, weighing options, making a decision, gaining direction, getting through a particularly rough time or planning for the future, financial counselling can provide valuable insight.

*What exactly is financial counselling though?*

It is about helping other people to help themselves through their financial problems or to reach their financial goals. Being a counsellor does not mean that you have all of the answers or can dictate what people do. Being a counsellor means being knowledgeable, trustworthy, reliable and objective, and allowing consumers to create their own solutions based on the information they have been given. Financial counsellors are there to provide the necessary tools and information.

*Key guidelines of financial counselling:*

Money can be a very difficult thing for people to talk about, particularly with a stranger. Most who seek financial counselling do have a desire to talk about their financial situation, but as financial counsellors, there are several things that you can do to make the consumer feel more comfortable and open:

- **Honest:** There is no place in counselling for anything but honesty. Being manipulative or hiding your own agenda is counterproductive and not in the best interest of the consumer.
- **Informative:** For a consumer to create their own solution to their problem, it does not mean that financial counselling is merely an opportunity for reflection. Consumers need access to new information, ideas, and tools, which may help them to clarify the situation.
- **Concrete:** Consumers will find it harder to process vague suggestions. For example, a consumer wants to save but doesn't know how. Here are two ways of speaking about savings. First: "You can cut something out of your weekly expenses." Or: "Think of

something you buy regularly but don't necessarily need. If you drink beer, cut one beer out a week and put that money in your savings." What is the difference between these two scenarios? Both counsellors are saying the same thing, but the second counsellor gives a specific example of an unnecessary expense that could be put towards savings.

- **Egalitarian:** It is important not to view the consumer as anything but your equal. Even though you are the one who is in a position of the expert, consumers are much more responsive when they are treated with equality and respect.
- **Focused:** Financial problems arise from any number of reasons, like family issues or health problems. However, as you provide 'financial counselling', it is best to stay focused on the financial part. Sometimes, financial problems are inextricably linked to other personal problems. If they are not though, stay focused on the financial problem that the consumer has come to you with. You cannot solve every current or potential consumer problem.
- **Confidential:** Confidentiality is a crucial part of having a successful financial counselling programme. Consumers need to know that they can be honest with you without risking the chance of the information being repeated or used against them.

#### *Key approaches to financial counselling*

**Psychological approach:** When most people hear the word 'counselling', they think of this kind of counselling. Counsellors who use this approach focus less on giving information and more on uncovering the relationship between the person's experience and the source of their financial problems.

**Behavioural approach:** This approach is based on the idea that unwanted behaviour is a result of bad habits and outside stimuli. Unlike the psychological approach, the behavioural approach focuses on the immediate influences in one's life and tries to recondition their behaviour.

**Pragmatic approach:** This is the approach that this manual subscribes to; helping consumers through education and providing practical guidance. It is the principle that counselling is for normal people experiencing normal problems, and personal or behavioural issues are addressed through educational means. It assumes nothing about the consumer as a person and focuses only on providing information to solve their problems.

## Being a counsellor

As a counsellor, your role is to help your consumers help themselves. Rather than giving solutions, you are providing information that will enable the consumers to choose for themselves. This is called being a 'responsive counsellor', which means:

- Helping your consumers to identify and clarify their problems and goals
- Helping your consumers to identify what may be obstructing their progress
- Helping your consumers to explore and evaluate options available to them
- Helping your consumers determine appropriate decisions and actions
- Insisting your consumers take responsibility for their decisions and actions.

### Being a responsive counsellor:

- Let consumers tell their own story in their own way.
- Do not interrupt.
- Do not attempt to offer any solutions until after the story has been completed and the issues clarified.
- During pauses, interject simple, clarifying questions or simply wait for the consumer to resume on their own.
- Avoid confronting or disagreeing with consumers until you are sure that you understand their point of view.
- Do not give specific advice or tell consumers what they must do.
- Provide relevant information, realistic appraisals, viable options and helpful insights.
- Help consumers to visualise the situation, either through a drawing or through diagram.
- Keep your consumers' goals at the forefront of the counselling process.
- Focus their attention on the elements that can be improved or resolved.

DOs	DON'Ts
<ul style="list-style-type: none"><li>• Help consumer get it all out</li><li>• Stay tuned to consumer</li><li>• Ask for needed clarification</li><li>• Playback what you thought you heard</li><li>• Draw out specifics for consumer</li><li>• Duly regard consumer's point of view</li><li>• Provide helpful information and education</li><li>• Provide realistic insights and appraisals</li><li>• Assist consumer in weighing alternatives</li><li>• Guide process of discovery and solution.</li></ul>	<ul style="list-style-type: none"><li>• Interrupt consumer's story</li><li>• Fade out on listening</li><li>• Change the topic</li><li>• Assume you know</li><li>• Get sidetracked by small stuff</li><li>• Ignore the consumer's perspective</li><li>• Let consumer go it alone</li><li>• Condone wrong behaviour</li><li>• Give "should do" advice</li><li>• Pre-empt consumer decisions.</li></ul>

## Counselling session structure

Each counselling session guide in this handbook begins with a preview of the session and contains the following:

- Purpose of the session.
- The consumer whose situation may be helped by each particular session.
- The estimated time you will need to conduct the session.
- A list of handouts that you will need to photocopy before each session. You will always need a new intake sheet, a consumer action-plan sheet and additional handouts that may be needed for the session. Being prepared for the learning session will make your job much easier. Review this information carefully.

### Features of the counselling sessions

**Preview:** the beginning of each learning session contains four elements.

**Purpose:** list of objectives that each counselling session is constructed to accomplish.

**Use if:** describes the consumer situation that could be improved upon by following the particular session.

**Materials:** list of materials that the trainer must prepare before the activity can be presented. Handouts needed for each activity are found at the end of the session.

**Duration:** the estimated time needed to go through the entire counselling session.

**Steps:** the steps needed to complete the counselling session are listed in the order in which they should be implemented. Each session starts with an introduction, the core counselling session, and a closing and action plan. Special features for the trainer to note include the following:

*Italics font* = instructions for the counsellor (not to be read to the consumer)

Regular font = specific information, instructions or questions for the counsellor to read or closely paraphrase to the consumer

Arrow (➤) = symbol that highlights specific open questions to ask

Box (□) = special technical or summary information to share with the consumer

[Square brackets] = the 'correct' answer to expect from a technical question

(Parenthesis) = additional instructions or information

**Note:** The module sessions may be used independently or jointly with other modules from other sessions whenever necessary depending on the need(s) of the consumer.

Remember that you, the counsellor, do not have all the answers. The consumers come to the counselling sessions with a great deal of experience, and are ultimately making decisions for their own lives.

## **Conducting the initial session:**

### **Counsellor helps consumer identify the central issue**

*Identifying and shaping issues.* Most consumers need help in identifying and shaping the issues that they wish to address. It is not uncommon for consumers to have only a general idea of what they are seeking through financial counselling. Frequently, what consumers state on a pre-intake form as their major concern turns out to be something quite different later on. Some people do this because they don't really know what financial counselling is. Others may claim to have different problems that are more socially acceptable or less revealing in order to protect their self-image or reputation. If you encounter this, do not mention the discrepancy as this could embarrass the consumer.

*Supporting the flow.* Allow the consumer to tell their story. It is important that you listen attentively to the consumer's story, and try to put yourself in the consumer's situation. It is sometimes tempting to stop listening when you believe that you have heard enough, but you must listen to everything the consumer has to say pertaining to their problem.

### **Counsellor helps consumer explore issues and options**

*Identifying needs.* Every consumer who comes for financial counselling is looking for something. They are looking for someone to provide them with information, education and guidance, which will help the consumer to understand better their situation and how to reach their goals.

*Providing input.* One of the most important things a counsellor can do is offer relevant information. There are many useful tools contained in this handbook like budgets, savings goal worksheets, debt repayment calendars, etc.

### **Counsellor helps consumer make decisions and action plans**

*Making determinations.* When consumers come for financial counselling, they expect some kind of outcome, usually the clarification of an issue. This clarification will then allow them to make decisions or prompt action.

*Enabling decisions.* Once the issue has been clarified, and the consumer is sure of their next actions, the counsellor's job is to enable them to do so. They generally do this by providing the proper tools and information.

*Planning actions.* Counselling assistance should be extended only as far as is needed to encourage consumer responsibility and self-reliance. In some instances, the counselling



continues until a decision has been made, and the consumer is able to determine their own course of action. However, in other instances, the counselling does not end until the consumer has been assisted in learning and carrying out a course of action. Some consumers need this type of extended assistance but many do not. To assume they do, and to act accordingly, deprives them of the benefits to be derived from fully utilising their capabilities. Consumers learn much more from doing things for themselves, with a little guidance perhaps, than they learn from having others do the same things for them.

For this reason, each session in this handbook prompts the counsellor to fill out a 'consumer intake sheet', which will serve as a written record of the reason the consumer has sought counselling on a particular day, the actions that the counsellor has taken, and the action plan that the consumer has agreed to in an effort to resolve their issue. A new intake sheet will be filled out for each counselling session, as consumer needs often shift from one counselling session to the next. This also allows the counsellor to see very quickly what counselling the consumer has been through, simply by looking at the intake sheets in their file.

#### **Summary tips for continuing the initial session**

- Clarify the focus of concern.
- Identify possible avenues of address.
- Share relevant information with consumer.
- Share insights and assessments with consumer.
- Help consumer explore and weigh alternatives.
- Let consumer draw conclusions and make decisions.
- Help consumer make and carry out plans only as needed.

#### **Tips for concluding the initial session**

- Summarise conclusions for consumer.
- Reiterate basis for these conclusions.
- Identify areas needing further confirmation.
- Encourage reassessment of conclusions.
- Encourage consumer's further deliberation.
- Help consumer to identify what is next.
- Invite consumer to call back as needed.

## **How to conduct subsequent sessions**

Consumers come to subsequent sessions for the same reason that they have come for the initial session: for clarification and guidance. It is never the counsellor's role to interrogate the consumer about something they have or haven't done. The counsellor's role is to encourage the consumer to be responsible for their own actions, therefore applying pressure is counterproductive. As with the initial session, the counsellor begins simply by asking the consumer to fill them in on what has happened since the last session.

Subsequent sessions deal with unfolding the issues, developments and processes initiated in the previous session or sessions. Typically, the consumer's agenda will undergo shifts in direction periodically that will need to be discussed and accommodated. Sometimes, a discrepancy will arise between what the consumer says they want to achieve and the behaviour they exhibit. However, it is not the counsellor's role to enforce the pursuit of any particular goal. The counsellor's role is to help the consumer recognise any discrepancies, re-evaluate their behaviour in light of such discrepancies, and make necessary changes in either their goals or their behaviour.

You should not become too attached to any specific consumer goal. Your role is that of an objective, impartial helper, which means that you must adjust as the consumer's objectives change. What consumers want must come first, but you should not give up on clearly desirable goals.

Subsequent sessions are concluded using the same principles espoused for the initial session. The first consideration is to set the consumer free as soon as they are capable of carrying on the pursuit of their goals. The second consideration is to invite and encourage the consumer to call back for desired help or to share successes. The third consideration is to reaffirm that the counsellor's interest in the consumer and their welfare is real and enduring. From beginning to end, the consumer should be able to recognise that the process is genuine, affording a unique chance to face reality and succeed.

## **Handling special situations**

You will not always have the 'ideal' consumer or situation. There are many obstacles that you are likely to face while counselling, so we will go over a few of them and discuss some good ways to cope.

### *Angry or upset consumers*

It is recommended that counsellors remain calm and courteous in speaking with any consumer. If a consumer becomes angry and threatening, remove yourself from the area as soon as

possible. Do not antagonise the consumer in anyway. Be sure to leave their door open or slightly ajar in case you need to call someone for assistance.

### *Domineering spouses*

If one spouse seems to be controlling the conversation, the information revealed and the decisions made, the counselling will be less effective than if the roles were more balanced. The effectiveness of counselling couples relies on establishing mutually agreed upon goals, roles and practices. In order to encourage and verify genuine agreement without upsetting the couple's relationship, counsellors can use the following tips:

Speak directly to each partner and involve each in a slightly different way. Do not ask the quieter spouse for their opinion on an issue already discussed. Doing so may make the more dominant spouse feel undermined. Instead, ask follow-up questions directly to the quieter spouse. If the dominant spouse tries to answer again, calmly tell them that it is important to their success to hear both of their opinions.

If the domineering partner belittles or insults the other partner, you should once again stress that their cooperation is important to their success. Do not try to get involved in their relationship because personal issues are outside of the realm of financial counselling.

Participation does not necessarily need to be equal. Often, couples have their own strengths, and this involves one being more vocal than the other. As long as one is not being shut out, allow the conversation to flow, and make sure that each is speaking at least occasionally.

### *Old age*

Elderly people with little income and few assets are often referred to financial counsellors. Among them are many who have difficulty in understanding, remembering and dealing with detailed or complex issues. Many also suffer from poor vision and poor hearing. Here are a few ways to deal with these challenges:

When the consumer makes an appointment, make sure that they are able to benefit from financial counselling. If they cannot understand or remember the sessions, then the counselling will be futile.

Ask the consumer if, with their consent, they would bring a family member or friend with them.

#### **Skills every counsellor needs to develop**

- Ability to listen attentively and supportively
- Ability to understand and interpret accurately
- Ability to understand from another's point of view

- Ability to become emotionally involved with others
- Ability to grasp and paraphrase another's concerns
- Ability to distinguish essentials from inessentials
- Ability to identify pivotal issues and goals
- Ability to communicate precisely and effectively
- Ability to provide helpful suggestions and guidance
- Ability to instil confidence and self-reliance.

## Consumer intake sheet

(To be completed for every visit/meeting)

Date:

Name of counsellor:

Place of meeting:

Name of consumer:

Home location:

Business location:

Contact:

Stated problem of consumer:

Counselling session :.....(eg Financial services S2)

Counsellor action:

Follow up:

Action-plan assignment

Materials given

Date of next appointment:

# Part II. Financial counselling topics

## A. **Consumer protection**

1. Consumers' rights and responsibilities
2. Understanding contracts
3. Questions to ask before signing a contract
4. Bringing a financial complaint
5. Understanding policies and practices of creditors

## B. **Financial services**

1. Type of financial service providers
2. Knowing and relating to your financial service provider
3. Financial products and services

## C. **Budgeting**

1. Household financial needs
2. Tracking income and expenses
  - \* Setting financial goals \*
3. What is budgeting?
4. Budgeting: what works and what doesn't
5. Develop a budget

## D. **Savings**

1. What are savings and why should I save?
2. Setting savings goals and developing a savings plan
3. Savings options
4. Savings products

## E. **Debt management**

1. What is debt management?
2. The costs of borrowing
3. Comparing loans
4. How much debt can I afford?
5. Loan non-repayment: What is it and how does it happen?
6. Understanding the danger of non-payment of debt
7. Dealing with over-indebtedness

## MODULE A: CONSUMER PROTECTION

	Session title	Purpose	Use if
1	<i>Consumers' rights and responsibilities</i>	<ul style="list-style-type: none"> <li>a. Understand the meaning of the terms 'right' and 'responsibility'.</li> <li>b. Explore their rights as a consumer.</li> <li>c. Explore their responsibilities as a consumer.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer is unfamiliar with financial services or products.</li> <li>b. Consumer has fallen victim to predatory practices.</li> <li>c. Consumer is worried about being taken advantage of.</li> </ul>
2	<i>Understanding contracts</i>	<ul style="list-style-type: none"> <li>a. Define a contract.</li> <li>b. Explore the commitments made in a contract.</li> <li>c. Discuss different types of contracts.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer is unfamiliar with contracts.</li> <li>b. Consumer has previously signed a contract without understanding its commitments.</li> <li>c. Consumer does not understand the purpose of contracts.</li> <li>d. Consumer has already taken the "Rights and responsibilities" session.</li> </ul>
3	<i>Questions to ask before signing a contract</i>	<ul style="list-style-type: none"> <li>a. Learn four key questions to ask before signing a contract.</li> <li>b. Explore the reasons why these questions are so important.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer is unfamiliar with contracts.</li> <li>b. Consumer has previously signed a contract without understanding its commitments.</li> <li>c. Consumer does not understand the purpose of contracts.</li> <li>d. Consumer has already taken the "Understanding contracts" session.</li> </ul>
4	<i>Bringing a financial complaint</i>	<ul style="list-style-type: none"> <li>a. Learn what a justified complaint is.</li> <li>b. Learn to distinguish between a justified and an unjustified complaint.</li> <li>c. Examine case studies of complaints for different reasons.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer is worried about having their rights violated or has had their rights violated in the past.</li> <li>b. Consumer is unfamiliar with the kinds of things that warrant complaints.</li> </ul>
5	Understanding policies and practices of creditors	<ul style="list-style-type: none"> <li>a. Learn what 'mutual respect' is.</li> <li>b. Be able to distinguish between appropriate and inappropriate debt-collection practices.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer is nervous about taking out loans because they know that loan officers are very intimidating.</li> <li>b. Consumer feels as though inappropriate debt-collection methods have been used against them.</li> </ul>

# CONSUMER PROTECTION COUNSELLING SESSION 1

## TOPIC: CONSUMERS' RIGHTS AND RESPONSIBILITIES

### Purpose

This is a session about rights and responsibilities as a consumer. During this session, the consumer will:

- a. Define and discuss the meaning of the terms 'right' and 'responsibility'.
- b. Explore their rights as a consumer of a financial institution.
- c. Explore their responsibilities as a consumer of a financial institution.

### Use if:

- a. Consumer has never been a consumer of a formal financial institution.
- b. Consumer has fallen victim to predatory practices.
- c. Consumer is worried about being taken advantage of.

### Materials:

Handout C1.1 – Rights and responsibilities

Consumer intake sheet

Action plan

**Duration:** 55 minutes

\*\*\*\*\*

## 1 INTRODUCTION – 10 minutes

*Ask the consumer:*

- **When was the last time that you bargained for something in the market? What did you bargain for?**
- **Why were you bargaining?** *[To not be taken advantage of, to get a fair price, to save money, etc.]*

*Say:*

That's correct. You have the **right** to get exactly what you want, and for a fair price.

*Ask:*

- **What are your responsibilities when you buy something?** *[To pay the agreed upon price to the seller.]*



- **What is the seller's responsibility to you?** *[To honour their part of the bargain, and give you the quantity and quality of merchandise that you have agreed to purchase.]*

Say:

The same is true of any financial transaction. You have rights and responsibilities as a customer when you buy even a cup of tea. Similarly, when you take out a loan or open a savings account with an institution like \_\_\_\_\_ *(insert the name of a financial institution in the community)*, you become a consumer of that institution with rights and responsibilities. For example, you have the right to choose the best product for your situation, and the bank has the responsibility to give you the information you need to do that. Once you have agreed on a loan or other product, you are responsible for meeting the terms of the agreement; the bank has the right to enforce those terms.

Financial institutions are obligated to respect your rights. The government makes sure that formal financial institutions follow a code of ethics that protects consumers' rights. Knowing what these rights are will help you to interact with banks and other financial institutions. When both the consumer and the financial institution respect each other's rights and carry out their respective responsibilities, there should not be any cause for fear or anxiety.

## 2 CORE COUNSELLING SESSION:

### 2.1 EXPLORING CONSUMERS' RIGHTS – 20 minutes

Ask:

- **Before we continue, what questions do you have about the terms "right" and "responsibility"?** *[Right: something to which one has a just claim because it is good, proper or ethical. Responsibility: an obligation or duty one must honour; something that must be done as a result of a contract or agreement.]*

Say:

We are going to do an activity now. As we talked about, when it comes to financial institutions, both the consumer and the institution have rights and responsibilities. I am going to read two phrases, and you tell me which one truly has the right, and which one does not have the right. Are you ready?

*Go through each right – the bolded phrase is the correct one. After each one, ask the consumer why this is an important right. Also, ask what can happen when it is not respected.*

RIGHTS		
1	<b>I have the right to be treated with respect by the staff.</b>	The staff can treat me however they like because I have entered their institution.
2	<b>I have the right to decide which products or services I want to use.</b>	Loan officers can try to sell me things that I don't need because that is their job.
3	Loan officers have the right to use complex terms that I am not expected to understand.	<b>I have the right to receive clear, truthful and timely information in writing.</b>
4	<b>As a consumer, I have the right to have my opinion heard.</b>	I need the bank's services, so I do not have the right to complain or voice my opinions.

5	Once I give out my personal information, the bank has the right to do with it what they want.	<b>I have the right to privacy. My personal information should be kept confidential between myself and the loan officer/bank staff.</b>
---	---	---

Ask:

- Can you think of any others?
- What questions do you have about your rights?

## 2.2 EXPLORING CONSUMERS' RESPONSIBILITIES – 20 minutes

Say:

While you have rights as a consumer of financial institutions, you also have responsibilities. Let's see what these are.

*Go through each responsibility – the bolded phrase is the correct one. After each one, ask the consumer why this is an important responsibility. Also, ask what can happen when it is not respected.*

RESPONSIBILITIES		
1	The customer is always right, so I can treat the staff however I want.	<b>The staff deserve to be treated with respect as well.</b>
2	<b>I have the responsibility to evaluate the costs of the financial products that I'm interested in.</b>	If the loan officer suggests a product, I should listen because they probably know best.
3	If my situation changes, I may change my terms and conditions, like repayment dates.	<b>I have the responsibility to comply with the terms and conditions of the product that I choose. I must meet my commitments.</b>
4	I do not need to tell the loan officer everything that they ask me about my financial situation.	<b>Just as I expect honesty from the staff, I need to provide truthful and timely information to my financial institution and group on all financial matters.</b>
5	<b>I have the responsibility to keep any financial information I have about my family, friends and neighbours confidential. Information is shared within the group that should not be shared outside of the group.</b>	I must be open and honest about my family, friends and neighbours.

Ask:

- Can you think of any others?
- What questions do you have about your responsibilities?
- Are any of these responsibilities related to the rights we have discussed? *[Several responsibilities are simply the corollary of the right. For example, you have the **right** to privacy and the **responsibility** of respecting the privacy of others. A consumer has the **right** to clear product information and the **responsibility** to use that information to decide whether the product is right for them.]*

Ask:

- **Which of these rights and responsibilities do you already practise?**
- **Which ones are challenging to practise?**

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

Say:

As a consumer of financial institutions, you have rights that the institution should respect. Respecting your rights is their responsibility under the law. However, consumers also have responsibilities to the financial institution that they must carry out. This counselling will help you to do both – exercise your rights and carry out your responsibilities. We will help you to identify the kinds of information you should ask for when trying to learn about financial products, and to learn how to use that information to choose the products that are right for you. You will learn about evaluating contracts before you sign them. We will discuss your right to be treated with respect, even in difficult situations like that of debt collection. We will explore your right to voice complaints, and how to do that effectively.

Just as consumers have rights and responsibilities, financial service providers also have responsibilities to their consumers. They must be transparent and forthcoming with you about their products and the terms and conditions of those products. The key to success for both financial service providers and consumers is to speak openly to one another at all stages of your transactions.

- **What are your questions about today's counselling?**

Say:

- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action plan form for the consumer as a reminder.]*

Say:

During our next meeting, we will discuss contracts.

**Counsellor completes consumer intake sheet for files.**

## Handout C1.1 Rights and responsibilities

RIGHTS			
1	I have the right to be treated with respect by the staff.	OR	The staff can treat me however they like because I have entered their institution.
2	I have the right to decide which products or services I want to use.	OR	Loan officers can try to sell me things that I don't need because that is their job.
3	Loan officers have the right to use complex terms that I am not expected to understand.	OR	I have the right to receive clear, truthful and timely information.
4	As a consumer, I have the right to have my opinion heard.	OR	I need the bank's services, so I do not have the right to complain or voice my opinions.
5	Once I give out my personal information, the bank has the right to do with it what they want.	OR	I have the right to privacy. My personal information should be kept confidential between myself and the loan officer.
RESPONSIBILITIES			
1	The customer is always right, so I can treat the staff however I want.	OR	The staff deserve to be treated with respect as well.
2	I have the responsibility to evaluate the costs of the financial products that I'm interested in.	OR	If the loan officer suggests a product, I should listen because they probably know best.
3	If my situation changes, I may change my terms and conditions, like repayment dates.	OR	I have the responsibility to comply with the terms and conditions of the product that I choose. I must meet my commitments.
4	I do not need to tell the loan officer everything that they ask me about my financial situation.	OR	Just as I expect honesty from the staff, I need to provide truthful and timely information to my financial institution and group on all financial matters.
5	I have the responsibility to keep any financial information I have about my family, friends and neighbours confidential. Information is shared within the group that should not be shared outside of the group.	OR	I must be open and honest about my family, friends and neighbours.

## Handout C1.1b Rights and responsibilities answer sheet

RIGHTS			
1	<b>I have the right to be treated with respect by the staff.</b>	OR	The staff can treat me however they like because I have entered their institution.
2	<b>I have the right to decide which products or services I want to use.</b>	OR	Loan officers can try to sell me things that I don't need because that is their job.
3	Loan officers have the right to use complex terms that I am not expected to understand.	OR	<b>I have the right to receive clear, truthful and timely information.</b>
4	<b>As a consumer, I have the right to have my opinion heard.</b>	OR	I need the bank's services, so I do not have the right to complain or voice my opinions.
5	Once I give out my personal information, the bank has the right to do with it what they want.	OR	<b>I have the right to privacy. My personal information should be kept confidential between myself and the loan officer.</b>
RESPONSIBILITIES			
1	The customer is always right, so I can treat the staff however I want.	OR	<b>The staff deserve to be treated with respect as well.</b>
2	<b>I have the responsibility to evaluate the costs of the financial products that I'm interested in.</b>	OR	If the loan officer suggests a product, I should listen because they probably know best.
3	If my situation changes, I may change my terms and conditions, like repayment dates.	OR	<b>I have the responsibility to comply with the terms and conditions of the product that I choose. I must meet my commitments.</b>
4	I do not need to tell the loan officer everything that they ask me about my financial situation.	OR	<b>Just as I expect honesty from the staff, I need to provide truthful and timely information to my financial institution and group on all financial matters.</b>
5	<b>I have the responsibility to keep any financial information I have about my family, friends and neighbours confidential. Information is shared within the group that should not be shared outside of the group.</b>	OR	I must be open and honest about my family, friends and neighbours.

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1.

2.

3.

4.

5.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

# CONSUMER PROTECTION COUNSELLING SESSION 2

## TOPIC: UNDERSTANDING CONTRACTS

### Purpose

This session introduces the consumer to contracts. This is a progression from Session 1, where the consumer learned about rights and responsibilities. During this session, the consumer will:

- a. Define a contract<sup>3</sup>.
- b. Explore the commitments made in a contract.
- c. Discuss different types of contracts.

### Use if:

- a. Consumer is unfamiliar with contracts.
- b. Consumer has previously signed a contract without understanding its commitments.
- c. Consumer does not understand the purpose of contracts.
- d. Consumer has already taken the “Rights and responsibilities” session.

### Materials:

Handout C2.1 – Types of contracts

Handout C2.2—A loan contract

Consumer intake sheet

Action plan

**Duration:** 40 minutes

\*\*\*\*\*

### 1 INTRODUCTION – 10 minutes

*Ask the consumer:*

- **What do you think of when I say the word ‘contract’?** *[Normally, consumers in need of this session find contracts to be intimidating, confusing, a tool to trick people, etc.]*

*Say:*

What did you think the first time you rode a bike? How did you feel on your first day of school? Or when you visited a new place? When you do anything that is new and unfamiliar, there is always some anxiety involved. However, just like riding a bike, once you know the basics, there is no need to be afraid.

To confidently sign a contract, and know exactly what you are committing to, you simply need to know who the contract is with, what the expectations are, the time period, etc. Today’s session

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<sup>3</sup> Sample contracts provided in Handout C2.1 and *Tips and tools* section.

focuses on contracts. This will bring you one step closer to feeling confident about looking at a contract, asking questions, negotiating the terms, and finally being satisfied with the agreement that you are committing yourself to.

## **2 CORE COUNSELLING SESSION:**

### **2.1 DEFINE A CONTRACT – 20 minutes**

*Ask the consumer:*

➤ **What is the colour of the door to our building?**

*Note to counsellor: if not the colour of the door, choose another detail about your surroundings to ask about. It should be something that they surely saw, but most likely did not take notice of (for example, the colour or shape of your logo or the sign for your organisation). You can also ask them about objects in the same room if you ask them to close their eyes first.*

*Allow the consumer to guess the answer. Then say:*

Sometimes when you enter into a room, there are things that you do not notice even though they are in front of you. The same can happen when you sign a contract. Sometimes the contract contains information that we do not notice.

If you remember from the session on rights and responsibilities, we have certain rights and responsibilities. Some of these will help us when looking for important information in a contract:

1. We need to exercise our **right** to receive clear, truthful and timely information from a financial institution.
2. We need to fulfil our **responsibility** to comply with the terms and conditions of the contract.

*Ask:*

➤ **Do you know the meaning of the word 'contract'?** *[Allow the consumer to answer. If they do not know, or give a partial answer, supplement it with the definition below.]*

#### **Definition of a contract**

A contract is a document explaining specific obligations, responsibilities, terms or conditions that those signing the contract agree to. By signing the contract, the person(s) and institutions commit themselves to obey its terms and fulfil its obligations.

*Ask:*

➤ **What kinds of things do you sign a contract for?** *[Employment, loans, housing.]*



- **Have you ever signed a contract? If so, what kind?** *[If not, ask if they've known someone else who has signed a contract.]*
- **What were your obligations or responsibilities as a signer of the contract?**
- **Who else signed the contract along with you?** *[the other party such as the bank, landlord or employer, along with a spouse, parent or guarantor]*

Give the consumer Handout C2.1 - Types of contracts. Explain that they should identify the obligations that each side takes on when signing a contract. Help them to write the answers in the boxes if they need you to.

Their answers might include:

Types of contracts		
Employment	Employer	Employee
	To pay a stated wage or salary.  To respect specific conditions of termination.	To perform the tasks of the job described in the contract.  To respect the requirements of the workplace (hours, breaks, dress, etc).
Loan	Financial institution	Borrower
	To disburse the loan on time and as approved.  To provide clear and transparent information about the loan and its terms.  To use only practices stated in the contract to collect loan payments.	To repay the loan on time as specified in the contract.  To respect the terms and conditions of loan use and repayment.
Housing	Landlord	Renter
	To maintain the property and provide other services as stated in the lease.  To respect the privacy of the tenants.	To pay the full amount of rent due on time.  To respect the lease for its duration.

Distribute Handout C2.2: A loan contract, or give them an example of a local loan contract and say:

Let us look at a sample loan contract. This is a contract that you would sign to take out a loan with \_\_\_\_\_ *(insert the name of the institution)*. Please take 10 minutes to read the contract and ask any questions you might have.

**Note:** We provide a contract as an illustrative example in this module. You should also obtain an actual contract from a local lender for use in comparison discussions.

After 10 minutes, ask:

- **How is this type of formal contract different from an agreement you make with a friend or relative to borrow money or temporarily use one of their assets, such as a house or land?** *[A written formal contract is legally binding. That means if one party fails to meet their obligations as described in the contract, there may be legal consequences; authorities may get involved. In the case of a loan, failure to fulfil the contract usually brings on fines or even confiscation of your collateral or even court actions, which can include legal fees and possibly jail time.]*

## 2.2 COMMITMENTS OF A LOAN CONTRACT – 5 minutes

Ask the consumer:

- **Who needs to sign the contract?** *[The consumer taking the loan, their guarantors and a representative from the institution]*
- **What commitments is the consumer making when signing the contract?** *[To repay as scheduled and adhere to other stated terms and conditions, for example how and where to pay.]*
- **What commitments are the guarantors making?** *[To pay in case the consumer cannot pay.]*
- **What commitments are the institutions making?** *[To respect the rights of the consumer, to keep all information private, to charge only the interest and fees stated in the contract and to disburse the loan on the date stipulated in the contract.]*
- **What happens if the consumer does not fulfil their responsibilities in the contract?** *[It depends on how they have failed; the institution can charge penalties for late payments or might renegotiate the loan; if the consumer fails to pay altogether, their guarantor will have to cover the loan or the consumer will lose whatever they gave as collateral or they may have to appear in court.]*
- **What can you do if your lender does not fulfil its obligations to you?** *[You have the right to question the lender without negative consequences, and take the lender to court.]*

## 3 CLOSING AND ACTION PLANNING - 5 minutes

Say:

Contracts often contain a lot of information, and so it is easy to overlook all of the obligations hidden within. It is important to prepare ahead of time, and think about all of the things that you expect from a lender. You should also know exactly what they expect from you.

- **What are your questions about today's counselling?**

Say:

- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will discuss some of the questions that you ask before you sign any contract.

**Counsellor completes consumer intake sheet for files.**

## Handout C2.1 Types of contracts

Types of contracts		
Employment	Employer	Employee
Loan	Financial Institution	Borrower
Housing	Landlord	Renter

## Handout C2.2 A loan contract

*Reproduced with permission from Faulu Kenya Deposit Taking Microfinance Limited ("Faulu DTM").*

Name of Borrower:	
Postal Address:	
Ministry/Department:	Town:
Employee Number:	Payroll No:
Date of Employment:	Year of Birth <sup>4</sup>
Gross Pay:	Net Pay:
Postal Address:	
Telephone Number: Office:	Mobile:
ID No:	
Next of Kin:	Relationship:

Loan Amount applied for: Shs.	Repayment period:	weeks/months
My current/previous loan Shs.		
Purpose of applying for loan:		
1.		Shs.
2.		Shs.
3.		Shs.

### LETTER OF OFFER

The Microfinance Institution[MFI], a limited liability company, registered under the Companies Act and of Post Office Box Number ----- which expression includes its successors and assigns is pleased to confirm its willingness to make available to the Borrower a credit facility (the "Loan") outlined below on the terms and conditions set out in this letter and subject to the satisfactory completion of any security documentation and in consideration of the loan extended to the Borrower and formalized in this Agreement the Borrower willingly enters into this Agreement.

#### 1.0 Covenant to Pay

The Borrower hereby pledges to repay the loan approved herein together with the interest, penalties (if any) together with other charges including but not limited to the registration fees and insurance in accordance with the terms and conditions.

#### 2.0 Loan Terms<sup>5</sup>

1.1 Loan Amount: Shs. \_\_\_\_\_

1.2 Loan Term (Weeks/Months): \_\_\_\_\_

1.3 Interest Rate: \_\_\_\_\_%

1.4 Total number of loan repayments: \_\_\_\_\_

1.5 Frequency of payment: \_\_\_\_\_

1.6 Set up Fees: \_\_\_\_\_

1.7 Penalty Rate: \_\_\_\_\_ % above Interest rate. The loan shall be repaid without arrears. A penalty which will be an additional amount on the interest shall be payable upon default.

#### 3.0 Event of Default

The following shall comprise of an Event of Default:

<sup>4</sup> Applicants should be no more than 50 years

<sup>5</sup> Subject to a maximum of 24 months

- 3.1 Not paying a scheduled loan payment, interest or any part of such payment; and
- 3.2 Leaving the employment of the Government or specified Government Ministry where currently employed;
- 4.0 Other Covenants
- 4.1 The MFI reserves the right to attach any benefits due to the Borrower in the event of their leaving employment without prejudice to any other remedies available in law until payment in full of any outstanding loan.
- 4.2 Any forbearance, indulgence or relaxation by The MFI shown or granted to the Borrower in enforcing any terms and conditions of this Agreement shall not in any way affect, diminish, restrict, waive or prejudice the rights or powers of The MFI under this Agreement.
- 4.3 That for the duration of this loan the Borrower shall not offer the assets offered as collateral security for any other loan pledge or any other facilities of a commercial nature or sell or dispose of the assets or otherwise transfer title to the assets to a third party. Any deviation from this provision shall be treated as a breach of contract and shall entitle The MFI to seize the assets without any notice.
- 4.4 In the Event of Default the Borrower agrees to immediately pay the outstanding loan balance plus any interest and/or penalties due together with all costs incurred by The MFI in enforcing this Agreement.
- 4.5 Interest shall accrue daily on the outstanding loan balance and shall be subject to change at the discretion of the MFI.
- 4.6 The Borrower agrees to abide by all policies, rules and regulations of the MFI.

**Guarantors<sup>6</sup> for Loans Above Shs 100,000**

1. Name \_\_\_\_\_ Ministry \_\_\_\_\_  
 ID Number \_\_\_\_\_ Date of employment \_\_\_\_\_ Net pay \_\_\_\_\_  
 Tel Office \_\_\_\_\_ Mobile \_\_\_\_\_  
 Signature \_\_\_\_\_
2. Name \_\_\_\_\_ Ministry \_\_\_\_\_  
 ID Number \_\_\_\_\_ Date of employment \_\_\_\_\_ Net pay \_\_\_\_\_  
 Tel Office \_\_\_\_\_ Mobile \_\_\_\_\_  
 Signature \_\_\_\_\_

**(Attach copy of ID of guarantors)**

I, \_\_\_\_\_ the Borrower, certify that I have read and understood the terms and conditions of this Letter of Offer which has been explained to me and I do hereby confirm that I shall abide by all such terms and conditions. I also authorize my employer to deduct monthly installments as per the agreements herein from my salary until the loan has been fully repaid and to recover any outstanding installments and/or interest against my terminal dues or any other benefits due to me in the event of termination of employment before the loan is fully repaid.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Signed in the presence of the MFI Officer:

Name: \_\_\_\_\_ Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Signed on behalf of the Employer by: \_\_\_\_\_ (Name)

\_\_\_\_\_ (Position) Stamp: \_\_\_\_\_

NB: Please attach copy of your National Identity Card, a passport photograph and original payslips together with the certified copies for 3 months. The photograph and payslips to be certified by the Personnel Department.

This form shall be completed in duplicate.

\_\_\_\_\_

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

- 1.
- 2.
- 3.
- 4.
- 5.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## COUNSELLING SESSION 3

### TOPIC: QUESTIONS TO ASK BEFORE SIGNING A CONTRACT

#### Purpose:

This session is a follow up to Counselling Session 2 on contracts. During this session, the consumer will:

- a. Learn four key questions to ask before signing a contract.
- b. Explore the reasons that these questions are so important.

#### Use if:

- a. Consumer is unfamiliar with contracts.
- b. Consumer has previously signed a contract without understanding its commitments.
- c. Consumer does not understand the purpose of contracts.
- d. Consumer has already taken the “Understanding contracts” session.

#### Materials:

Consumer intake sheet

Action plan

**Duration:** 50 minutes

\*\*\*\*\*

#### 1 INTRODUCTION – 10 minutes

*Say:*

Last time we talked about contracts, and we are going to continue that today. You already know what a contract is, the reasons that contracts are generally needed, and some of the examples of different kinds of contracts.

Today, we are going to talk about some of the questions that you should be asking before signing any type of contract. Are you ready?

#### 2 CORE COUNSELLING SESSION:

##### 2.1 REMEMBER THESE FOUR QUESTIONS! – 10 minutes

*Say:*

At the end of the last session, I asked you to take a look at previous contracts that you’ve signed. I also asked that you think about the questions that you did ask, and other questions that you wish you had asked at the time of signing.



Ask:

- **What were some of the questions that you asked/wish you had asked?** *[Take note of the questions that the consumer lists on a sheet of paper. When you have finished the list, take two different coloured pens.]*

Ask:

- **Now that we have a good list of questions, can you indicate which ones are your responsibilities?** *[Mark the ones relating to the borrower's responsibilities in one colour.]*
- **And which ones are the lender's obligations?** *[Mark the ones relating to the lender's responsibilities in another colour.]*

Say:

There are many, many questions that you can come up with before taking a loan, but they can all be summarised by four questions. These four questions should always be asked before signing a contract.

- What are my responsibilities in this contract?
- What are the responsibilities of the institution?
- What happens if I do not meet my responsibilities?
- What happens if the institution does not meet its responsibilities?

## 2.2 EXPLORING THE FOUR KEY QUESTIONS – 25 minutes

Say:

When you are talking to a loan officer, you will need to remember these four questions and break them down into more detail. One key question is about your obligations. What does that mean? What do you need to know? We will learn more about this from a story.

*Read the following story, and instruct the consumer to write down as many questions as they think to ask during the reading of the story.*

### **The story of Pauline**

**Loan officer:** Good morning, Pauline. It is very nice to see you again.

**Pauline:** Good morning. It is very nice to see you too. I am here to sign the loan contract. I have all the requirements you asked for: my identification card, a utility bill, my guarantor and the title papers to my house to leave as a guarantee.

**Loan officer:** That's great. Here is the contract. The general manager signed it already, so you only need to sign. I have the check right here with me! Are you excited?

**Pauline:** Of course I am! But before I sign the contract, I need to fully understand what it says. So let me ask you some questions.

**Loan officer:** Of course, go ahead.

**Pauline:** First, I would like to know what the bank's obligations are.

**Loan officer:** Well, the contract says that the bank will give you a check for USD500 today. The interest rate is 2% flat per month. The loan period is six months, which means that you have six months to pay us back. There are 26 weeks in this time period, and loan payments are due every two weeks; that makes a total of 13 payments.

**Pauline:** That is OK. But tell me again, what do I have to pay?

**Loan officer:** Well, you have to pay USD45 every two weeks. That covers principal and interest. Plus, with each loan payment, you have to deposit USD5 into your savings account. And you have to pay a one-time administrative fee of USD5.

*Stop reading and ask:*

- **What are the questions Pauline asked so far in the story?** [1) *What are the obligations of the institution?* 2) *What do I have to pay?*]
- **What are the answers the loan officer gave her?** [1) *Check for USD500 today, interest rate of 2% flat per month, loan period of six months;* 2) *payment of USD45 in principal and interest every two weeks, required deposit of USD5 into savings account with each payment, one-time USD5 administrative fee before getting the loan.*]

*Then continue reading the story:*

**Pauline:** Yes, now I remember. But don't I also get some other benefit with this loan?

**Loan officer:** Oh, yes, I forgot. You will get insurance with the loan. So, in the unfortunate and unlikely event that you pass during this time period, your family will not have to pay the balance of your loan. The price of the loan insurance is USD4 per month and it is already included in the bimonthly payment of USD45.

**Pauline:** Oh, it seems expensive, but the protection is good. Now, tell me, what happens if I am late with my payment?

**Loan officer:** The bank charges a penalty of USD3 for each day that you are late with your payment, no matter what the reason. As long as you pay on time, penalty fees will not be charged.

**Pauline:** And what happens if I cannot pay at all?

**Loan officer:** If you get into trouble, first consult your loan officer. We might be able to help you by re-scheduling your payments. But if you don't do that, you should know that the financial institution has the right to report you to the authorities and seize your property.

**Pauline:** What can I do if this institution does not meet its obligations to me?

**Loan officer:** Oh my! I don't think that will happen. Our staff are bound by principles of consumer protection that I can show to you. If you ever have a problem with me or anyone here, you should tell the manager.

**Pauline:** Well, I don't really think that will ever be necessary, but it is important for me to understand what I can do. Now, I am ready to sign the contract! I am taking out this loan because it will benefit me and my family, and I know that I can pay you back!

*Stop reading and ask:*

- **What other questions did Pauline ask in the story?** [3) *What other benefit do I pay for with my loan?* 4) *What happens if I am late with my loan payments?* 5) *What happens if I cannot pay at all?*]
- **What are the answers the loan officer gave her?** [3) *Insurance for USD4 a month (USD2 added to each bimonthly loan payment;* 4) *Penalty of USD3 for each day payment is late;* 5) *Pauline should ask the lender about re-scheduling her payments. Otherwise, the guarantor*

*will be responsible for the loan. If neither can repay the loan, Pauline and the guarantor will be reported to the Credit Bureau and Pauline's house will be seized.]*

- **By asking these questions, what right is Pauline exercising?** *[The right to clear and truthful information]*
- **What responsibility can Pauline fulfil with this information?** *[She must read the documents carefully, make sure they match what she was told verbally, and verify that she can fulfil her responsibilities in the contract.]*
- **What is the obligation of the financial institution?** *[To provide clear and truthful information in writing, which she can understand, and to give her the time to review the contract.]*

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Ask:*

- **When you sign your next contract, what are you going to do differently?**

*Listen to the consumer's responses.*

*Thank the consumer and say:*

You have the right to receive clear, truthful and timely information. Exercise your right by asking these four key questions before signing your next contract and by asking for a copy of your contract after you sign. By doing this, you will also be able to fulfil your responsibility to comply with the terms and conditions of that contract.

- **What are your questions about today's counselling?**

*Say:*

- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will discuss how to make a complaint officially.

**Counsellor completes consumer intake sheet for files.**

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

- 1.
- 2.
- 3.
- 4.
- 5.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## CONSUMER PROTECTION COUNSELLING SESSION 4

### TOPIC: BRINGING A FINANCIAL COMPLAINT

#### Purpose

This session will help consumers to distinguish between justified and unjustified complaints. During this session, the consumer will:

- a. Learn what a justified complaint is.
- b. Learn to distinguish between a justified and an unjustified complaint.
- c. Examine case studies of complaints for different reasons.

#### Use if:

- a. Consumer is worried about having their rights violated, or has had their rights violated in the past.
- b. Consumer is unfamiliar with the kinds of things that warrant complaints.

#### Materials:

Handout 4.1 – The complaint game  
Handout 4.2—Sample complaint letter  
Consumer intake sheet  
Action plan

**Duration:** 50 minutes

\*\*\*\*\*

### 1 INTRODUCTION – 5 minutes

*Say:*

We have talked about your rights and responsibilities, as well as understanding contracts before entering into them. However, even if you are very well prepared, and ask all of the right questions, situations arise where you want to make a complaint.

### 2 CORE COUNSELLING SESSION:

#### 2.1 THE STORY OF JOYCE AND DANIEL – 10 minutes

*Say:*

I am going to read out the story of Joyce and Daniel, and then I will ask you some questions. Daniel is a carpenter and Joyce asked him to build her a standalone closet (or armoire). Daniel promised her to have the closet finished by Friday afternoon and gave Joyce an invoice quoting the final price as USD40. Let us see what happens when Joyce goes to pick up her closet:

Read the story:

### Story of Joyce and Daniel

**Joyce:** Hi, Daniel, how are you today? I came to pick up the closet.

**Daniel:** Hi Joyce. Sure, your closet is ready. You owe me USD50.

**Joyce:** USD50? I thought you had said USD40! In fact, I remember you wrote an invoice confirming the cost of the closet as USD40 and not USD50.

**Daniel:** Hmm... let me see if I can find a copy of that invoice. If what you tell me is true, it must be somewhere around here.

*Daniel looks for the copy of the invoice, but because his workplace is so disorganised, he has to search through a lot of papers and tools. Eventually he does find it and says:*

**Daniel:** Oh, here it is! Joyce, you were right. I apologise for this misunderstanding. I wish I could keep my workshop more organised. That would help me to improve how I serve my consumers!

**Joyce:** No problem Daniel. But it is true, if you clean up your workshop, you would not have this type of problem and your consumers would be happier. If you want, I can help you!

Ask:

- **Why did Joyce question Daniel?** *[She wanted to clarify the price because, earlier, he quoted her a lower price.]*
- **What would have happened if Daniel couldn't find the invoice?** *[They may have argued about the price, since neither one of them had any proof of the agreed upon price.]*
- **What is Joyce's responsibility as a consumer, which could have avoided this?** *[She should ask for a copy of the invoice when placing her order. This way, even if Daniel is disorganised, Joyce can protect herself and the agreement she knows that they made.]*
- **How did both Daniel and Joyce benefit from Joyce's complaint?** *[He recognised the importance of being organised to improve his customer service, and she got the lower price she expected; both were satisfied with the outcome; their relationship remained good.]*
- **What kind of similar experiences have you had? When has stating a complaint to a businessperson, the authorities, or even a friend, ended up helping you and/or the person you complained to?**

Say:

As we saw, Joyce's complaint benefited both Daniel and herself. The same can be true when you make a complaint about the services of your financial institution. Sometimes your complaint can benefit both you and the financial institution you work with.

## 2.2 What is a justified complaint? – 5 minutes

Say:

There are two types of complaints: justified and unjustified. Justified complaints are those based on facts, on our rights, on an agreement or a written contract. Many situations in our daily lives can cause justified complaints.

A justified complaint is based on:

- An agreement and/or a written contract
- Our rights
- Facts

Ask:

- **What experience have you had with a justified complaint? What examples can you share of a justified complaint?** *[Lack of respect among friends and neighbours, loaned items that are not returned, bullying among children, lying, breaking a promise, etc.]*
- **Based on the definition of a 'justified' complaint, what do you think the definition is of an 'unjustified' complaint?** *[Make sure that the consumer mentions that an unjustified complaint is neither supported by our rights nor by an agreement or written contract. It is often based on lies, misunderstanding, or something the complainer wants but has no basis to ask for.]*

Ask:

- **What examples of an unjustified complaint can you share with us?**
- **What questions do you have about justified complaints and unjustified complaints?**

Answer the consumer's questions.

## 2.3 Differentiate between justified and unjustified complaints – 15 minutes

Say:

Now, we are going to practise telling the difference between a justified and unjustified complaint. First, I am going to demonstrate how the activity works by reading a statement and then you tell me whether it's 'justified' or 'unjustified'. Ready?

Read the statement twice, then ask if it's 'justified' or 'unjustified':

- Anne complained to her neighbour who had not returned a pot she had borrowed. **(justified)**



- Once a week, Anne gives her son money to buy sweets at the market, but the boy complains that this is often not enough. **(unjustified)**
- Anne's husband complains when she does not have dinner ready at exactly the same time each night. **(unjustified)**
- When Anne's husband bragged to his friends about Anne's profits from her goatherd, Anne complained to her husband about sharing this private information. **(justified)**

Take out Handout C4.1 and say:

Okay, now let us do the same activity. This time, the statements will describe one person's complaint about a situation they face with their financial institution.

After each discussion about each statement, ask the following question:

➤ **Which right or responsibility is this complaint related to?**

Complaint game		
Read:	Justified or unjustified?	Why is this complaint justified or unjustified? Which right or responsibility is it based on?
One month after taking her loan, Jane went to make her first payment and was told she would have to pay a fine for being two weeks late. Thinking she had to make payments once a month, Jane misunderstood the terms of the loan contract. Jane got angry, and now she wants to make a complaint even though the loan officer insisted that he had explained everything when she signed the loan contract.	Unjustified!	<i>She wants to complain because she thought she had to pay monthly instead of every two weeks. Hers was an innocent mistake but now she has to pay a late penalty. This information is written in the contract and was explained to Jane by her loan officer. It is her responsibility to <u>comply</u> with the terms of the loan and pay on time.</i>
Two days ago, Susan went to the bank to deposit some money. The bank teller gave her a deposit slip, which showed both the sum she had deposited and the total amount she had in her account. Yesterday, Susan went back to the bank to make another deposit, but this time, the deposit slip did not show the previous day's deposit. She wants to complain to the teller about this mistake.	Justified!	<i>She has the right to complain about errors the bank makes.</i>  <i>Because Susan did make a deposit two days earlier, the teller likely made a mistake. She also has the prior deposit slip to demonstrate she is right!</i>
George is two payments behind on his loan because his daughter has been sick. Members from his savings and credit group	Justified!	<i>George has the right to be treated with respect.</i>

went to his house and painted “delinquent borrower” on his wall. He wants to complain to the credit officer and to his group about the painting on his house.		<i>The group members, when collecting a debt, have the responsibility to treat others with respect.</i>
Stella got a loan, which she told the loan officer she needed for her business. Instead, she used the loan money for her daughter’s 15 <sup>th</sup> birthday celebration. Now, she cannot pay back her loan, and the bank is going to take her goats, which she had put up as collateral in the contract. She wants to complain in an effort to save her animals.	Unjustified!	<i>Stella has the responsibility to provide truthful and complete information. She also has the responsibility to comply with the terms of her contract. She failed to meet both of these obligations.</i>

At the end of the activity, review the justified complaints (Susan’s and George’s) and ask:

- **How can these complaints help the institution to improve its services?**
- **How would Susan and George benefit from making these complaints?**

## 2.4 WRITING A COMPLAINT LETTER - 10 minutes

Say:

If you have a justified complaint and want to do something about it, remember the following tips:

- **Remain calm:** The person who can help did not cause the problem.
- **Don’t use an angry or threatening tone.**
- **State the problem** and exactly what you want done about it.
- Record each step and **keep copies** of every document.
- **Start with the branch manager.** Know the details of the complaint and use the sample letter provided to make notes before you call or see the person.
- If that doesn’t work, **send a letter to the national headquarters** or consumer affairs office. Especially if the headquarters are far away, writing a letter may be the best way to reach them.
- If the problem still isn’t resolved, try your **local consumer protection agency**, Better Business Bureau or other helpful organisations.
- If all else fails, consider filing a **small claims suit** or hiring an attorney.

Say:

If you cannot resolve your problem easily and you need to write a letter, here is a template:

## Handout C4.2 Sample of a complaint letter

**Your address**

**(Your email address if sending via email)**

**Telephone**

**Date**

**Name of contact person\* (if available)**

**Title (if available)**

**Name of institution**

**Address**

Dear **(contact person)**

Re: **(summarise your complaint in fewer than 10 words)**

**(State your history with the institution, ie length of time as client, which accounts you have, loan history, etc.)**

I am disappointed because **(explain the problem including as many details as possible)**...

To resolve the problem, I would like... \*\*

I look forward to your reply and a resolution to my problem, and will wait until **(set a time limit)** before seeking help from a consumer protection agency. Please contact me at the above address or by phone at **(home and/or office numbers)**.

Sincerely,

**Your name**

\*If there is a consumer complaint department, find the person who handles these matters.

\*\* Complaints without a proposed solution are far less likely to receive a response or reparations. Be specific about what you would like to see happen as a result of this complaint letter.

Once you have sent a complaint letter, be sure to find your local consumer protection agency and inform them of your formal complaint. If you do not receive a response from the offending organisation by the deadline you have specified, be sure to send the letter again and notify the consumer protection agency of what has occurred.

*Say:*

Remember that we can also help you to draft a complaint letter if you come back with all of the contact information and necessary receipts.

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Say:*

Today, we have seen how justified complaints can benefit both you and the institution.

*Ask:*

**When you want to make a complaint to your lender, what do you need to consider before doing so?**

*Thank the consumer and say:*

If you have complaints to make, first think about whether they are justified or unjustified. Make a justified complaint when needed. Remember, you have the right to be heard and the responsibility to provide truthful information. Remember also that most financial institutions welcome justified consumer complaints. They provide them with necessary information to improve the quality of their service and their products.

➤ **What are your questions about today's counselling?**

*Say:*

➤ **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will discuss more on bank services.

**Counsellor completes consumer intake sheet for files.**

The complaint game		
Read:	Justified or unjustified?	Why is this complaint justified or unjustified? Which right or responsibility is it based on?
One month after taking her loan, Jane went to make her first payment and was told she would have to pay a fine for being two weeks late. Thinking she had to make payments once a month, Jane misunderstood the terms of the loan contract. Jane got angry, and now she wants to make a complaint even though the loan officer insisted that he had explained everything when she signed the loan contract.		<i>She wants to complain because she thought she had to pay monthly instead of every two weeks. Hers was an innocent mistake but now she has to pay a penalty for being late. This information is written in the contract and was explained to Jane by her loan officer. It is her responsibility to <u>comply</u> with the terms of the loan and pay on time.</i>
Two days ago, Susan went to the bank to deposit some money. The bank teller gave her a deposit slip, which showed both the sum she had deposited and the total amount she had in her account. Yesterday, Susan went back to the bank to make another deposit, but this time, the deposit slip did not show the previous day's deposit. She wants to complain to the teller about this mistake.		<i>She has the right to complain about errors the bank makes.</i>  <i>Because Susan did make a deposit two days earlier, the teller likely made a mistake. She also has the prior deposit slip to demonstrate she is right!</i>
George is two payments behind on his loan because his daughter has been sick. Members from his saving and credit group went to his house and painted "delinquent borrower" on the wall. He wants to complain to the credit officer and to his group about the painting on his house.		<i>George has the right to be treated with respect.</i>  <i>The group members, when collecting a debt, have the responsibility to treat others with respect.</i>
Stella got a loan, which she told the loan officer she needed for her business. Instead, she used the loan money for her daughter's 15th birthday celebration. Now she cannot pay back her loan, and the bank is going to take her goats, which she had put up as collateral in the contract. She wants to complain in an effort to save her animals.		<i>Stella has the responsibility to provide truthful and complete information. She also has the responsibility to comply with the terms of her contract. She failed to meet both of these obligations.</i>

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Find out who I should go to concerning complaints.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## CONSUMER PROTECTION COUNSELLING SESSION 5

### TOPIC: UNDERSTANDING POLICIES AND PRACTICES OF CREDITORS

#### Purpose

This session introduces the idea of proper debt-collection practices. During this session, the consumer will:

- a. Learn what “mutual respect” is
- b. Be able to distinguish between appropriate and inappropriate debt-collection practices.

#### Use if:

- a. Consumer is nervous about taking out loans because they know that loan officers can be very intimidating.
- b. Consumer feels as though inappropriate debt-collection methods have been used against them.

#### Materials:

Consumer intake sheet  
Action plan

**Duration:** 60 minutes

\*\*\*\*\*

#### 1 INTRODUCTION – 5 minutes

*Say:*

Unfortunately, proper policies and practices of creditors are not always known by their consumers. Worse yet, they are not always followed by the creditors. Today, we are going to talk about some of the policies and practices of creditors, specifically pertaining to debt collection. Knowing what is appropriate and inappropriate behaviour will help you to understand what can be expected from a financial institution, and what kinds of things you do not need to put up with.

#### 2 CORE COUNSELLING SESSION:

##### 2.1 UNDERSTANDING MUTUAL RESPECT – 20 minutes

*Say:*

We have already discussed your right to be treated with respect. It is also your responsibility to treat others with respect. This idea of mutual respect is easy to understand.

But in some situations, it can be challenging to actually *show* mutual respect. One such situation is the collection of loan payments, especially when the borrower is behind on payments and the loan officer is using their authority to collect the money due from the borrower.

*Ask:*

- **Have you been in this situation or known someone else in this situation before? What happened? How did you feel?**

*Explain:*

We are going to role-play a discussion between a borrower and a loan officer. We will do one scenario where the loan officer is mean and nasty. Then, we will go to a second role-play with a respectful loan officer.

Let me describe the scene: the borrower has missed two loan payments and the next due date is approaching. The loan officer visits the borrower at their home to find out what is wrong and find a solution to the problem. The borrower has several reasons why they have missed their loan payments; and we will make these up: fire, theft, illness, an accident, bad business, a death in the family.

For the first conversation, the loan officer should be nasty. The person playing the borrower should feel free to respond as anyone might when treated badly or aggressively. The second time, we will switch roles. The new loan officer will be polite.

*Ask:*

- **What questions do you have about this activity?**
- **Do you want to be the nasty loan officer or the respectful loan officer?**

*Hold the first conversation between borrower and loan officer. Take 3-4 minutes to do this. Thank and congratulate the consumer and then discuss the experience. Ask:*

*[If the consumer was the loan officer]*

- **What reasons did the borrower give for missing their loan payments?**
- **How did you respond, as the loan officer?**
- **What kind of solution did you offer?**
- **How did I respond, as the borrower?**

*[If the consumer was the borrower]*



- **What other reasons, besides the ones you gave, are there for missing a loan payment or two?**
- **How did I respond, as the loan officer?**
- **What kind of solution did I offer?**
- **How did you respond, as the borrower?**

*Now switch roles and have another conversation. Remind them that this time, the loan officer is respectful. After 3-4 minutes, ask the above questions again.*

*Ask:*

- **What challenges does the loan officer face?** *[To collect payment from someone facing financial hardship and show respect while doing so.]*
- **Do you think the loan officer should be stern or sympathetic with the borrower?**

*Explain:*

Collecting on debts can be a sensitive situation where the consumers' right to respect and their responsibility to treat others with respect can be easily forgotten when emotions are high. On the institutional side, many financial institutions are supposed to follow principles of consumer protection, which state that their debt-collection practices will not be abusive or threatening. Today, we will see the different ways to exercise both this right and fulfil its corresponding responsibility.

## **2.2 DEFINE APPROPRIATE DEBT-COLLECTION PRACTICES – 15 minutes**

*Ask:*

- **What are some things loan officers do when trying to collect payments that are overdue?**
- **Which of these practices do you object to? Why?**
- **Has anyone ever experienced or seen any of these practices? How did you feel in that situation?**

*Say:*

There are different ways to collect a delinquent payment. However, not all of them are appropriate.

*Present the definition of appropriate debt-collection practices and review it with the consumer:*

### **Appropriate debt-collection practices**

Appropriate debt-collection practices respect the dignity and the privacy of the borrower. They are usually described in the contract, and accepted as part of the loan agreement.

Ask:

- **What questions do you have about the definition of appropriate debt-collection practices?**

*Answer the consumer's questions. Then review the inappropriate debt-collection practices definition.*

### **Inappropriate debt-collection practices**

Inappropriate debt-collection practices can be abusive, and typically do not respect the dignity and the privacy of the borrower. They are NOT included in the loan contract, and are not part of the agreement.

Ask:

- **What questions do you have about the definition of inappropriate debt-collection practices?**

*Read the following five debt-collection practices and ask the consumer to determine whether they are "appropriate" or "inappropriate":*

- Taking the debtor's personal objects from their house *[appropriate when the taken objects are agreed upon collateral and the debtor has received advance warning that continued non-payment will result in the seizure of these objects]*
- Writing graffiti such as "delinquent" on the debtor's house *[inappropriate]*
- Sending the debtor a confidential letter *[appropriate]*
- Discussing the situation with the debtor and negotiating a solution *[appropriate]*
- Visiting the neighbours to tell them that the debtor is in trouble and find out what is going on with them *[inappropriate: violation of privacy]*.

Ask:

- **What questions do you have about debt collection?**

*Explain:*

Ok, so we know we don't like disrespectful treatment, and should not have to be exposed to abusive debt-collection practices like painting your house or telling your neighbours about your

financial problems. You do have the right to be treated with respect. But along with this right, you have a corresponding responsibility – to treat others with respect.

Ask:

- **How do borrowers generally feel about loan officers?** *[They are often afraid of the loan officer or ashamed when they have fallen behind on their loan payments.]*
- **What are some of the things borrowers do when they expect a visit from a loan officer?** *[Hide, lock the door, leave the community.]*
- **Why do borrowers sometimes fail to treat their loan officers with respect?** *[They react to fears of abusive treatment.]*

Say:

So, if loan officers are abusive in trying to collect overdue payments, their consumers may in turn be afraid and fail to fulfil their obligations. Bad behaviour encourages more bad behaviour.

### 2.3 TELL ANA’S STORY – 10 minutes

Say:

I am going to tell you Ana’s story, and we’ll see how a problem between the borrower and her loan officer gets solved. Listen carefully:

*Tell the story of Ana:*

#### Ana’s story

My name is Ana. During the past three months, I started having problems with my loan. My business did not do very well, and I did not have enough money to make the last two payments. My cousin was in the same situation last year and her loan officer came to her house and painted “delinquent borrower” on her wall. I was so afraid that the same thing would happen to me! Fear of having my house painted like that made me lock the door when I saw the man approach. He banged loudly on the door and yelled for me to come out. I couldn’t! Before he left, he threatened to send the police after me! I was so scared, but I knew I had to face my situation and talk to the loan officer. So, the next day, after I had calmed down, I went to the bank branch. I was very nervous. The loan officer scolded me for not opening my door to him, but in the end, we agreed that I would make the payments I missed in amounts I could afford with a new time schedule. Now, I have almost paid off my debt.

Ask:

- **What was Ana’s problem?** *[She had problems paying her loan.]*

- **What did she fear?** *[Graffiti on the house, facing the loan officer]*
- **What did Ana decide to do?** *[At first she hid, and then she went to explain her problem to the loan officer.]*
- **What happened when she talked to the loan officer?** *[He negotiated with her.]*
- **What do you think of Ana's solution?**
- **What are other things people do when they cannot pay their debts?** *[They hide, run away, take a loan from another institution.]*
- **And what happens to those people?** *[Others do not trust them anymore because they have more debt than they can manage.]*
- **So, what will you try to do next time you face the danger of not repaying your loan?**

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Thank the consumer and say:*

If you are facing a problem with your loan, go to your loan officer (or group) to find a solution that benefits everyone. The loan officer should listen to what you have to say. It is your right to be treated with respect, and your responsibility to treat others with respect.

*Ask:*

- **What are your questions about today's counselling?**

*Say:*

- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will discuss more about bank services.

**Counsellor completes consumer intake sheet for files.**

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Think about the loan collection methods that have been used on me, or that I have seen used on other people, and determine whether they are appropriate or not.
2. If I am victim of inappropriate debt-collection practices right now, I will speak to the appropriate person at my financial institution.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## MODULE B: FINANCIAL SERVICES TABLE OF CONTENTS

	Session title	Purpose:	Use if:
1	<i>Types of financial service providers</i>	<ul style="list-style-type: none"> <li>a. Explain the difference between formal and informal financial service providers.</li> <li>b. List and define different types of providers of financial services.</li> <li>c. Explain the advantages and disadvantages of each.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer does not know about the variety of financial service providers.</li> <li>b. Consumer does not know the differences between formal and informal services.</li> <li>c. Consumer does not know the advantages and disadvantages of each type.</li> </ul>
2	<i>Knowing and relating to your financial service provider</i>	<ul style="list-style-type: none"> <li>a. List questions to ask potential financial service providers.</li> <li>b. Gather information to assist in choosing a financial service provider.</li> <li>c. Manage a relationship with financial service providers.</li> <li>d. Recognise how making a complaint can benefit both the organisation and themselves.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer does not know about financial service providers.</li> <li>b. Consumer does not know how to choose a provider.</li> <li>c. Consumer does not know how to maintain a relationship with a service provider.</li> <li>d. Consumer makes unjustified complaints.</li> </ul>
3	<i>Types of financial products and services</i>	<ul style="list-style-type: none"> <li>a. List characteristics of microfinance products and services.</li> <li>b. Match financial needs with products and services.</li> <li>c. Discuss the risks associated with microfinance products and services.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer does not have a clear understanding of microfinance products and services available in the market and/or when to use them.</li> <li>b. Consumer does not demonstrate understanding of the various risks of microfinance products and services.</li> </ul>

# FINANCIAL SERVICES COUNSELLING SESSION 1

## TOPIC: TYPES OF FINANCIAL SERVICE PROVIDERS

### Purpose:

This is an introductory session to outline the range of financial service providers that may be available to consumers. In this session, the consumer will be able to:

- a. Explain the difference between formal and informal financial service providers.
- b. List and define different types of providers of financial services.
- c. Explain the advantages and disadvantages of each.

### Use if:

- a. Consumer does not know about the variety of financial service providers.
- b. Consumer does not know the differences between formal and informal services.
- c. Consumer does not know the advantages and disadvantages of each type.

### Materials:

Handout F1.1 – Definitions of formal and informal financial service providers

Handout F1.2 – Where do you or your neighbours obtain financial services? (blank)

Handout F1.3 – Where do you or your Neighbours obtain financial services? (example)

Handout F 1.4 – Advantages and disadvantages of financial service providers

Handout F1.5 – Types of microfinance service providers

Consumer intake sheet

Action plan

**Duration:** 30 minutes

\*\*\*\*\*

## 2 INTRODUCTION – 1 minute

*Say:*

In today's meeting, we will discuss financial service providers – the types as well as the advantages and disadvantages of each. We will list the variety of possible financial service providers in microfinance as well as discuss their characteristics and differences. By the end of today's session, you will begin to understand which type may suit a certain circumstance. In the next session, we will follow up and discuss choosing a service provider.

To start, let us first make a list of what we know.

## 2 CORE COUNSELLING SESSION:

### 2.1 TYPES OF FINANCIAL SERVICE PROVIDERS – 7 minutes

*Explain that a financial service provider, for the purpose of this session, is anybody or any organisation that provides financial services to microfinance consumers. Financial services include the provision of loans, insurance, transfers/remittances and the taking of savings. The counsellor may choose to focus only on the main types that might be available to the consumer if they feel that may better suit the consumer's needs.*

Ask:

- **Where are the places you (or your friends) can get a loan, keep your savings, buy insurance or make a transfer?** *[Allow the person to answer; counsellor should probe when necessary. List them on the handout provided.]*

*Lists might include: banks (postal banks, commercial banks, state banks, community banks, etc), insurance companies, friends and family, money lenders, microfinance institutions, rotating savings and credit organisations, cooperatives and credit unions, neighbourhood groups, savings box at home, pawn shops, retailers, etc.*

*Thank the consumer for their list. Say:*

*This is a great list. [Add any if obviously omitted. Examples provided below.]*

Where do you or your neighbours obtain financial services?			
Financial service provider			
1. Bank			
2. Insurance company			
3. Burial societies			
4. ROSCAs			
5. Moneylender			
6. Microlenders			
7. Employers			
8. Retailers			
9. Your mattress			
10. Pawn shops			
11. Cooperative societies			
12. NGO MFIs			
13. Savings collectors			
14. Mobile phone companies			
15.			
16.			



Ask:

- **Which of these are formal service providers? Informal? What might be the differences between them?** *[Counsellor should lead a discussion on the definitions below, found on Handout F1.1.]*

#### **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. These include local moneylenders, pawnbrokers, self-help groups and NGOs, telecommunication companies, 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. 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 credit unions and cooperative banks, which are often supervised by a government bureau or agency in charge of cooperatives and in some cases the ministries of information and communications.

*(**Note:** You may want to consider deleting the third category, "semi-formal," as a separate category if you think it will confuse consumers. In this case, all financial services will be either formal or informal. Your decision will depend on several factors, such as the diversity of financial services available in your area and the level of the consumers' experience with such services.)*

Ask the consumer:

- **Do you have any comments or questions about these different types of financial service providers?**

*Return to the list of different types of financial service providers. Explain:*

For each type of service provider that we identified, let's decide whether it is informal, formal or semi-formal.

*Use the three columns to the right of the list of the financial service providers: one column for formal, one for semi-formal and one for informal. Review the list of services, ask the consumer to tell you if each is formal, informal or semi-formal, and place an "x" or checkmark in the corresponding column, as shown in the example below. (Example can be found in Handout F1.3).*

Where do you or your neighbours obtain financial services?			
Financial service provider	Formal	Informal	Semi-formal
1. Bank	✓		
2. Insurance company	✓		
3. Burial societies		✓	
4. ROSCAs		✓	
5. Moneylender		✓	
6. Microlenders			✓
7. Employers		✓	
8. Retailers		✓	
9. Your mattress		✓	
10. Pawn shops			✓
11. Cooperative societies			✓
12. NGO MFIs		✓	
13. Savings collectors			✓
14. Mobile phone companies		✓	✓
15.			
16.			

## 2.2 CHARACTERISTICS OF SERVICE PROVIDER TYPES – 7 minutes

Say:

We will now move to understanding the differences among the types you have listed. Let us look back at our list.

*Counsellor should explain the types as described below, using local examples, and always asking the consumer first to explain what they know before providing the answers. It is only necessary to cover the types specific to your consumer's environment.*

Type	Feature
<b>Formal financial institutions</b>	
Private commercial banks	Usually have corporate shareholding structure. Regulated and supervised.
State-owned banks	May be commercial banks, agricultural banks, community banks, development banks. Regulated and supervised.
Microfinance banks	Usually have corporate shareholding structure. Principal consumers are small and micro-entrepreneurs. Often transformed from NGO structure. Regulated and supervised.

Non-bank financial institution	Includes finance companies, leasing companies, transformed NGOs. Often regulated and supervised.
<b>Cooperatives</b>	
Multipurpose cooperative	Often set up with government support. Main activity may be input supply or marketing. Often supervised through government ministry, NOT finance or banking. Sometimes federated.
Financial cooperative including credit unions	Member-owned, usually one person one vote. May be closed-bond (all members have same employer or profession) or open-bond (open to all). Primary focus on financial services. Often supervised through a government department. Sometimes federated.
<b>Non-governmental organisations (NGOs MFIs)</b>	
Microfinance NGO	May be established by local or foreign organisation. Usually registered as a not-for-profit society or trust. Principal product is credit.
Microfinance NGO transformed into a bank or NBFi	New entity is often a shareholding company. NGO is usually one of the many new shareholders. Usually regulated and supervised.
Multipurpose NGO	May be established by local or foreign organisation. Usually registered as a not-for-profit society or trust. Diversified set of services such as health, education, agriculture. May have separate department or legal entity for microfinance operations. Principal product is credit.
<b>Community-based financial organisations</b>	
Village-based entities such as village banks, self help groups	Village-based. Member-based. May or may not be registered. Small savings collected and intermediated. Might be linked with other associations. Can be financed from banks, unions, development banks.
<b>Informal village-based providers</b>	
ROSCA (Rotating Savings and Credit Association)	Unregistered. Time-bound. Members deposit fixed amount each period. Each period one member receives all funds. Rotates until everyone has received funds. No external funding.
ASCA (Accumulating Savings and Credit Association)	Unregistered. Time-bound. Usually fixed amount deposited each period. Funds lent to members with Interest. No external funding.
Moneylender	Fast, easy access. High interest rates. No external funding. Not registered.

Ask:

- **Do you have any questions on the basic features of the types of financial service providers?** *[Clarify any remaining issues]*

Say:

Now let us look at some advantages and disadvantages of the types of financial service providers.

### **2.3 ADVANTAGES AND DISADVANTAGES OF FINANCIAL SERVICE PROVIDERS - 10 minutes**

Say:

Now that we have discussed characteristics of various types of financial service providers, we will spend a few minutes discussing the advantages and disadvantages of the main types.

*The counsellor should lead a discussion asking questions and soliciting answers using the handout as a guide.*

Ask and discuss:

- **What do you think are the advantages of using formal financial service providers (such as banks and regulated institutions)? The disadvantages?**
- **Of informal financial service providers?**
- **Of the service providers available for you (the consumer) to use?**

Ask:

- **What do you notice as the main points?**

*[Allow consumer to think, and respond and ensure the following points are noted well.]*

- *Money kept as cash can be lost or stolen, and is difficult to recover.*
- *Banks have insurance that enables them to recover lost or stolen money.*
- *Banks have the most money to lend.*
- *When your money is deposited in the bank, you are less tempted to spend it.*
- *Banks are safe and reliable.*
- *Banks offer savings accounts tailored to both short-term and long-term savings goals.*
- *Banks pay interest on savings.*
- *Banks offer many convenient services, such as payment of remittances, salaries and pensions; money transfers to relatives; and remote banking through Automated Teller Machines (ATMs).*
- *(if applicable) Telecommunication companies are not regulated or supervised by the government for financial services, only for communications, therefore money transactions must be used with this in mind.*

### 3 CLOSING AND ACTION PLANNING - 5 minutes

Ask:

- **Before we wrap up today's session, what questions do you have about financial service providers?**

Say:

Remember to weigh all options and think not only about convenience but security, too. It is wise to protect your money and to have an avenue of recourse where available. This will be the topic of our next session: choosing a financial service provider.

*Distribute all handouts on types, characteristics and advantages and disadvantages.*

Say:

- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

**Counsellor completes consumer intake sheet for files.**

### **Definitions of formal and informal financial service providers**

#### **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. 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 credit unions and cooperative banks, which are often supervised by a government bureau or agency in charge of cooperatives.

Where do you or your neighbours obtain financial services?			
Financial service provider			

Where do you or your neighbours obtain financial services?			
Financial service provider	Formal	Informal	Semi-formal
1. Bank	✓		
2. Insurance company	✓		
3. Burial societies		✓	
4. ROSCAs		✓	
5. Moneylender		✓	
6. Microlenders			✓
7. Employers		✓	
8. Retailers		✓	
9. Your mattress		✓	
10. Pawn shops			✓
11. Cooperative societies			✓
12. NGO MFIs		✓	
13. Savings collectors			✓
14. Mobile phone company		✓	✓
15.			
16.			



### Advantages and disadvantages of financial service providers

Financial service	Advantages	Disadvantages
Bank	<ul style="list-style-type: none"> <li>• Security (money is safe)</li> <li>• Liquidity (for savings)</li> <li>• Large, long-term loans</li> <li>• Cost</li> <li>• Reliability</li> <li>• Privacy</li> <li>• Income (money earns interest)</li> <li>• Choice of products</li> <li>• Allows you to build a credit history</li> <li>• Operates within banking laws</li> <li>• Access to financial advice</li> </ul>	<ul style="list-style-type: none"> <li>• Can be far for rural residents</li> <li>• Restricted hours</li> <li>• Minimum deposit requirements may be too high</li> <li>• Unfriendly staff</li> <li>• Banks charge fees on many accounts</li> <li>• Long lines in bank take time</li> </ul>
MFI	<ul style="list-style-type: none"> <li>• Access</li> <li>• Proximity</li> <li>• Speed</li> <li>• If registered, operates within laws</li> <li>• Social aspect/group support</li> </ul>	<ul style="list-style-type: none"> <li>• Loan size is typically small</li> <li>• Cost of borrowing can be high</li> <li>• Some offer no savings service</li> <li>• Some require group membership</li> </ul>
Savings and credit associations	<ul style="list-style-type: none"> <li>• Access</li> <li>• Proximity</li> <li>• Frequency</li> <li>• Social aspect/group support</li> <li>• Lump sum of money at a specified time</li> </ul>	<ul style="list-style-type: none"> <li>• High risk (due to dishonest members or group conflicts)</li> <li>• Unreliable</li> <li>• Limited funds to meet borrowing needs</li> <li>• Lack of financial knowledge</li> </ul>
Retailers	<ul style="list-style-type: none"> <li>• Many available</li> <li>• Safe</li> </ul>	<ul style="list-style-type: none"> <li>• Poor customer service</li> <li>• Limited financial knowledge</li> <li>• Interest can be high</li> <li>• Banking not core business</li> </ul>
Mattress account	<ul style="list-style-type: none"> <li>• Money easily available</li> <li>• No bank costs</li> <li>• No transportation costs</li> <li>• Easy to manage</li> </ul>	<ul style="list-style-type: none"> <li>• Money doesn't grow</li> <li>• Less incentive to save</li> <li>• Money at risk for theft, fire</li> <li>• No access to financial experts</li> <li>• No access to other banking products</li> <li>• No credit record</li> <li>• Less control of spending</li> <li>• No transaction records</li> </ul>
Insurance company	<ul style="list-style-type: none"> <li>• Security</li> <li>• Peace of mind</li> <li>• Insurance expertise regarding variety of products</li> <li>• Operates within insurance laws</li> </ul>	<ul style="list-style-type: none"> <li>• High monthly payments</li> <li>• High increases each year</li> <li>• Products difficult to understand</li> <li>• Must read the conditions</li> <li>• Long waiting period for payment</li> </ul>
Moneylender	<ul style="list-style-type: none"> <li>• Money available immediately</li> <li>• Available at your doorstep</li> </ul>	<ul style="list-style-type: none"> <li>• Very expensive</li> <li>• Risky—operates by intimidation</li> <li>• Not protected by government laws</li> <li>• Easy to get into deep debt</li> </ul>

# Typology of Microfinance Service Providers Version 1.3<sup>1</sup>

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Formal financial institutions (FFIs)			
Type	Features	Advantages	Disadvantages
<b>1a. Private commercial bank</b>	<ul style="list-style-type: none"> <li>Usually has corporate shareholding structure</li> <li>Regulated and supervised</li> </ul>	<ul style="list-style-type: none"> <li>Able to offer clients a wide variety of financial services, including savings, credit, insurance and payments</li> </ul>	<ul style="list-style-type: none"> <li>Usually not interested in serving low-income people</li> <li>Even if interested, difficult to re-orient staff and systems for service provision to the poor</li> </ul>
<b>1b. State-owned bank</b>	<ul style="list-style-type: none"> <li>May be commercial bank, agricultural bank or development bank</li> <li>Regulated and supervised</li> </ul>	<ul style="list-style-type: none"> <li>May have large branch network, including secondary towns not served by private banks</li> </ul>	<ul style="list-style-type: none"> <li>Often not profitable so must be heavily subsidized to stay in business</li> <li>Usually has greater outreach than commercial banks but often does not serve the poor</li> </ul>
<b>1c. Microfinance bank</b>	<ul style="list-style-type: none"> <li>Usually has corporate shareholding structure</li> <li>Principal clientele: small and micro-enterprises</li> <li>Often has been transformed from NGO structure</li> <li>Regulated and supervised</li> </ul>	<ul style="list-style-type: none"> <li>Has “double bottom line”; i.e. profitability and services to lower-income clients</li> <li>May be able to offer the full range of services to clients</li> </ul>	<ul style="list-style-type: none"> <li>Not diversified, thus potentially more risky than a commercial bank serving a wide range of customers</li> </ul>
<b>1d. Non-bank financial institution</b>	<ul style="list-style-type: none"> <li>Includes many different types of organizations; e.g. finance companies, leasing companies and MFIs that have transformed from NGO structure but not become full-fledged banks</li> <li>Often regulated and supervised</li> </ul>	<ul style="list-style-type: none"> <li>Finance and leasing companies: focused on a small set of specialized products that may not be available from banks</li> <li>MFIs: focused on provision of services to people who cannot get bank access</li> <li>Minimum capital requirement lower than for banks</li> </ul>	<ul style="list-style-type: none"> <li>Usually not allowed to offer a full range of services, including savings</li> <li>Not diversified, thus potentially more risky than an entity serving a wide range of customers with a diverse set of products and services</li> </ul>

<sup>1</sup> This typology was developed by Anne Ritchie, Senior Financial Sector Specialist, World Bank, with review inputs from Henry Bagazonzya, Samantha de Silva, Yasser El-Gammal, Brigit Helms, and Liza Valenzuela. Comments are welcome and should be sent to [aritchie@worldbank.org](mailto:aritchie@worldbank.org).

## Types of Microfinance Service Providers

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Cooperatives (CFIs)			
Type	Features	Advantages	Disadvantages
<b>2a. Multi-purpose cooperative</b>	<ul style="list-style-type: none"> <li>· Often set up with govt. support</li> <li>· Main activity may be input supply or marketing</li> <li>· Often supervised through govt. ministry or department that lacks financial supervision skills</li> <li>· Sometimes federated</li> </ul>	<ul style="list-style-type: none"> <li>· Member-owned</li> <li>· Multiple services under one roof</li> </ul>	<ul style="list-style-type: none"> <li>· Governments have often used cooperatives for their own purposes, leading to low sense of ownership by members</li> <li>· Tend to have input supply and marketing expertise rather than financial expertise</li> <li>· Systems may not be adequate for accountability/transparency</li> <li>· Supervision often weak</li> </ul>
<b>2b. Financial cooperative, including credit unions</b>	<ul style="list-style-type: none"> <li>· Member-owned: usually one man, one vote</li> <li>· May be closed bond (e.g. all members have same employer or profession) or open bond (open to all)</li> <li>· Primary focus is on financial services</li> <li>· Often supervised through govt. ministry or department</li> <li>· Sometimes federated</li> </ul>	<ul style="list-style-type: none"> <li>· Member-owned and savings-based structure can lead to strong sense of ownership, which creates incentives for strong management and internal controls</li> <li>· Federated structure could provide access to services that primary cooperative can't afford such as technical assistance and external audit</li> </ul>	<ul style="list-style-type: none"> <li>· External finance may lead to borrower domination</li> <li>· Supervision often weak</li> <li>· Board and managers often lack necessary skills, especially financial skills</li> <li>· Systems may not be adequate for accountability/transparency</li> <li>· Financial cooperatives in many countries have been used as channel for subsidized services to clientele favored by govt.</li> </ul>

## Types of Microfinance Service Providers

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<b>Non-governmental organizations (NGO-MFIs)</b>			
<b>Type</b>	<b>Features</b>	<b>Advantages</b>	<b>Disadvantages</b>
<b>3a. Multi-purpose NGO</b>	<ul style="list-style-type: none"> <li>· May be established by local or foreign organization</li> <li>· Usually registered as a not-for-profit society or trust</li> <li>· Diversified set of services such as health, education, agriculture</li> </ul>	<ul style="list-style-type: none"> <li>· Multiple services under one roof</li> <li>· Focus on the poor</li> </ul>	<ul style="list-style-type: none"> <li>· Difficult to operate micro-finance using a business approach when other services have a social welfare approach</li> </ul>
<b>3b. Multi-purpose NGO with microfinance services separated from other services</b>	<ul style="list-style-type: none"> <li>· May be established by local or foreign organization</li> <li>· Usually registered as a not-for-profit society or trust</li> <li>· May be a separate department or separate legal entity</li> <li>· Principal product is credit</li> </ul>	<ul style="list-style-type: none"> <li>· Enables the NGO to retain both social and financial services but develop microfinance using a sustainable business model</li> <li>· Clients less likely to get mixed messages</li> </ul>	<ul style="list-style-type: none"> <li>· Difficult to acquire expertise in many diverse subject areas</li> <li>· Usually not allowed to offer savings services, other than “forced” savings</li> </ul>
<b>3c. Microfinance NGO</b>	<ul style="list-style-type: none"> <li>· May be established by local or foreign organization</li> <li>· Usually registered as a not-for-profit society or trust</li> <li>· Principal product is credit</li> </ul>	<ul style="list-style-type: none"> <li>· Specialization makes it easier to operate a business aimed at long-term sustainability</li> </ul>	<ul style="list-style-type: none"> <li>· Usually not allowed to offer savings services other than “forced” savings</li> <li>· Difficult to finance growth as it has little access to commercial refinance and no shareholder capital</li> </ul>
<b>3d. Microfinance NGO transformed into a bank or NBFIs (see FFI section)</b>	<ul style="list-style-type: none"> <li>· New entity is often a shareholding company</li> <li>· NGO is usually one of many shareholders in this new entity</li> <li>· Usually regulated and supervised</li> </ul>	<ul style="list-style-type: none"> <li>· Able to increase capital and finance growth by seeking outside investors</li> <li>· Easier to obtain commercial refinance</li> <li>· Often allowed to offer more services, such as savings</li> </ul>	<ul style="list-style-type: none"> <li>· Product mix still more limited than a commercial bank</li> <li>· NGO may be less able to ensure continued focus on poor, as NGO only owns % of company</li> <li>· Mixed ownership structure can complicate governance</li> </ul>

## Types of Microfinance Service Providers

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<b>Community-Based Financial Organizations (CBFOs)</b>			
<b>Type</b>	<b>Features</b>	<b>Advantages</b>	<b>Disadvantages</b>
<b>4a. Includes variety of village-based entities with names such as “village bank” and “self-help group”</b>	<ul style="list-style-type: none"> <li>· Member-based</li> <li>· Village-based</li> <li>· May not be registered</li> <li>· Small savings collected and intermediated</li> </ul>	<ul style="list-style-type: none"> <li>· Varies according to the model – see below for examples</li> </ul>	<ul style="list-style-type: none"> <li>· Varies according to the model – see below for examples</li> </ul>
<b>Example 1: CVECAs – West Africa</b>	<ul style="list-style-type: none"> <li>· Same features as above</li> <li>· Links with farmers’ associations that assist with credit appraisal</li> <li>· Village units clustered into unions which obtain refinance from development bank and manage overall finances</li> <li>· TA provided by independent group financed from margins on bank loans</li> </ul>	<ul style="list-style-type: none"> <li>· Members obtain access to finance for agricultural (as well as other) activities</li> <li>· Network is able to cover costs, especially on lending from savings (see disadvantage related to bank lending)</li> <li>· Agricultural bank that in the past failed to funnel funds profitably to rural farmers is now able to do so</li> </ul>	<ul style="list-style-type: none"> <li>· Long-term donor commitment needed due to long time frame and high cost to set up the system</li> <li>· Members desire to hold down interest rates has made it difficult to cover costs on lending from bank credit line and discouraged member savings</li> </ul>
<b>Example 2: Self-Help Groups (SHG) – India</b>	<ul style="list-style-type: none"> <li>· Similar to ASCA (see page 5), but intends to be permanent</li> <li>· External funds: SHGs borrow from banks and on-lend to members</li> <li>· Sometimes federated</li> </ul>	<ul style="list-style-type: none"> <li>· More flexible than ASCA</li> <li>· Savings sometimes leverage external funding (banks, MFIs), enabling larger loans</li> </ul>	<ul style="list-style-type: none"> <li>· Savings cannot be withdrawn unless member leaves SHG</li> <li>· May be difficult to achieve bank linkage without support from government</li> </ul>

## Types of Microfinance Service Providers

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Informal village-based providers			
Type	Features	Advantages	Disadvantages
<b>5a. Rotating Savings and Credit Association (ROSCA)</b>	<ul style="list-style-type: none"> <li>· Unregistered</li> <li>· Time-bound</li> <li>· Members deposit fixed amount each period</li> <li>· Each period, one member receives all funds</li> <li>· Rotates until everyone has received funds</li> <li>· No external funding</li> </ul>	<ul style="list-style-type: none"> <li>· Works well in remote rural communities</li> <li>· Well-known in many countries</li> <li>· Simple, easy to manage system</li> <li>· No written records</li> <li>· Enable people to obtain usefully large sums</li> </ul>	<ul style="list-style-type: none"> <li>· Amounts saved are generally small</li> <li>· Inflexible: can't deposit or withdraw funds as needed, so generally not available for emergencies</li> <li>· No lending</li> <li>· Savings tied up until member's turn to collect</li> </ul>
<b>5b. Accumulating Savings and Credit Association (ASCA)</b>	<ul style="list-style-type: none"> <li>· Unregistered</li> <li>· Time-bound</li> <li>· Usually a fixed amt. deposited each period</li> <li>· Funds lent to members with interest</li> <li>· No external funding</li> </ul>	<ul style="list-style-type: none"> <li>· Same advantages as for ROSCAs</li> <li>· More flexibility than ROSCAs for people who want loans</li> <li>· Members receive a return on their investment</li> </ul>	<ul style="list-style-type: none"> <li>· Amounts saved are small</li> <li>· Loans generally not suitable for agriculture or large investments, due to small loan size and risk</li> <li>· Savings tied up for the cycle</li> </ul>
<b>Example: "Enhanced ASCA": CARE Village Savings and Loan Program in Africa</b>	<ul style="list-style-type: none"> <li>· "Upgraded" ASCA model with capacity building for group development, governance, internal rules, cash control</li> <li>· Impermanent (payout at end of time period) yet permanent (groups re-start after payout)</li> <li>· Often no external funding</li> </ul>	<ul style="list-style-type: none"> <li>· Low cost</li> <li>· More flexible than basic ASCA</li> <li>· High returns to savings</li> <li>· Can work without written records</li> <li>· Credit available when needed without complex procedures</li> </ul>	<ul style="list-style-type: none"> <li>· Amounts saved are small</li> <li>· Loans generally not suitable for agriculture or large investments due to small loan size and risk</li> <li>· Savings tied up for the cycle</li> </ul>
<b>5c. Moneylender</b>	<ul style="list-style-type: none"> <li>· Fast, easy access</li> <li>· High interest rates</li> <li>· No external funding</li> </ul>	<ul style="list-style-type: none"> <li>· Available everywhere</li> <li>· Simple and accessible</li> <li>· Loans usually available when people need them (may be liquidity constraints during certain seasons)</li> </ul>	<ul style="list-style-type: none"> <li>· Interest rates generally too high for investment in business</li> <li>· Poor can end up in debt trap and lose critical livelihood assets, such as land</li> </ul>

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1.

2.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## FINANCIAL SERVICES COUNSELLING SESSION 2

### TOPIC: KNOWING AND RELATING TO YOUR FINANCIAL SERVICE PROVIDERS

#### Purpose:

This session leads a discussion on how to choose and maintain a relationship with financial service providers. In this session, the consumer will be able to:

- a. List questions to ask potential financial service providers.
- b. Gather information to assist in choosing a financial service provider.
- c. Manage a relationship with financial service providers.
- d. Recognise how making a complaint can benefit both the organisation and the consumer.

#### Use if:

- a. Consumer does not know about financial service providers.
- b. Consumer does not know how to choose a provider.
- c. Consumer does not know how to maintain a relationship with a service provider.
- d. Consumer makes unjustified complaints.

#### Materials:

Handout F2.1 – What I know about my financial service provider

Handout F2.2 – Things to know about your financial service provider

Handout F2.3 – Managing complaints with a financial service provider (blank)

Handout F2.4 – Managing complaints with a financial service provider (with answers)

Consumer intake sheet

Action plan

**Duration:** 30 minutes

\*\*\*\*\*

#### **1 INTRODUCTION – 1 minute**

*Say:*

In today's meeting, we will discuss how to choose and maintain a relationship with your financial service provider. We will discuss the information to collect about potential financial service providers, and also ideas for maintaining the relationship with the provider.

#### **2 CORE COUNSELLING SESSION:**

##### **2.1 WHAT DO YOU KNOW ABOUT FINANCIAL SERVICE PROVIDERS? – 10 minutes**



*Ask and discuss:*

- **What do you know about your current financial service provider(s)?** *[Allow the person to answer; counsellor should take notes on form provided.]*
- **When did you find out, before or after you made your choice or began your relationship?**
- **What do (did) you wish you knew before you enter(ed) into a relationship with your financial service provider?** *[Continue to write responses or mark them on the sheet provided.]*
- **Why is it important to have this information? What has or can happen if you do not have this information?**

*Thank the consumer, and review the list together, probe to get as much information as possible, compare to list of questions to ask, and discuss importance.*

*Ask the consumer:*

- **Do you have any comments or questions about what information you should have about a financial service provider, and when you should have this information?**

*Say:*

Great discussion! We have a list of questions prepared in addition to the ones you came up with to help you remember what questions to ask in the future.

*If possible, the counsellor should have on hand some documentation about financial service providers in the vicinity to distribute at this time. Distribute Handout F2.1, the list of questions to ask a financial service provider.*

*Say:*

Let's review a few ideas:

- Gather as much information as possible about potential financial service providers.
- Understand all policies and procedures and contracts. Get samples, take them home, read them, and ask about what you do not understand. Do not be afraid to ask questions.
- Check references; ask others about their experiences with the provider.
- Ask for product characteristics, prices/costs in writing.

Ask QUESTIONS! It is your right and responsibility!

## 2.2 MANAGING THE RELATIONSHIP WITH YOUR SERVICE PROVIDER – 7 minutes

*Say:*

Once we have chosen a provider, we have rights and responsibilities to manage that relationship. Managing means many things such as keeping it healthy, honouring agreements, making justified complaints, keeping up to date, knowing about changes in services, and even exiting it when it is no longer working for you.

*Ask and discuss:*

- **How do you interact with your financial service provider? How do you communicate?** *[In person, in the office, at your place of business, by text, by letter, by phone, etc.]*
- **How often?** *[Daily, weekly, monthly, never, only when there is a problem, when I repay my loan.]*
- **Is this satisfactory? What would you prefer? Why is this not happening? What can we do to make it happen?**
- **What else could improve the communication?**

*Say:*

Let us summarise the discussion on what might help you manage your relationship:

- Agree up front on how best for you to communicate. Personal meetings, text messages, written documents, in what language and how often.
- Agree what information you want and how often.
- Meet regularly with your bank representative. Talk to a manager if needed. Explain to your current representative that you will talk to a supervisor when you are not happy and have a justified complaint.
- Ensure you have all agreements and necessary information in writing and safely kept.
- Know your rights and responsibilities and how to exercise them.

## 2.3 MAKING A COMPLAINT – 10 minutes

*Say:*

I would like to take a few minutes to review how and when to make a complaint.

*Ask and discuss:*

- **When and why should we complain?**
- **What is a justified complaint?** *[A justified complaint is based on an agreement and/or a written contract; facts and our rights.]*

- **What experience have you had with a justified complaint? What examples can you share of a justified complaint?** *[Lack of respect among friends and neighbours, loaned items that are not returned, bullying among children, lying, breaking a promise, etc]*
- **What is an unjustified complaint?** *[An unjustified complaint is neither supported by our rights nor by an agreement or written contract. It is often based on lies, misunderstanding, or something the complainer wants but has no basis to ask for.]*

Say:

Let us take a few minutes to ensure we understand what constitutes a justified complaint and our right to make them. *(Counsellor should discuss the points on the handout with the consumers, read the scenario together and discuss the responses.)*

Ask:

- **What do you notice as the main points?**
- **What questions do you have?**
- **Have your previous complaints (if any) been justified?**
- **Do you think you can now make complaints appropriately and get the needed response? If not, what else can we discuss to help you?**

### 3 CLOSING AND ACTION PLANNING - 2 minutes

Ask:

- **Before we wrap up today's session, what questions do you have about knowing your financial service providers and managing a relationship?**

Say:

Remember to weigh all options, and to take many things into consideration before you choose. What is right for your neighbours may not be right for you! Think about your needs first and foremost, and consider reputation, convenience, costs and security too. Remember to stay involved, act responsibly and know your rights!

Say:

- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

**Counsellor completes consumer intake sheet for files.**

Handout F2.1

What I know about my financial service provider	Before	After	Wish I knew

## Things to know about your financial service provider

### Institutional information

Type of institution.

Registration? Regulated? Supervised? View documents as possible.

Age of institution.

Location of Head Office.

Location of nearest branch to home.

Location of nearest branch to workplace.

Reputation of institution – government reports, Consumers International reports, references.

Is there staff available to talk to me, explain things, in my language, at my education level?

What products and services does this institution offer? At Head Office? At the branch? At the ATM?

What types of products and/or services do I need?

Does this institution offer these services?

Can I grow with this institution? Will they serve my future needs?

What are the product characteristics?

- Loans – terms, application procedures, costs

- Savings – minimum balances, withdrawal limits (amounts and times), interest earned, costs, penalties, fees

- Insurances – coverage, costs, benefits, reputation

What are the costs associated with the products?

What can I earn from the savings products?

What do I need to do to start the relationship? What documents are needed? How long must I wait?

How much will it cost?

What is expected of me once I am a consumer?

How can I leave this institution? What do I need to do? How long will it take? What will it cost?

### Managing complaints with a financial service provider

#### Complaint quiz

Read:	Justified or unjustified	Why is this complaint justified or unjustified? Which right or responsibility is it based on?
One month after taking her loan, Martha went to make her first payment and was told she would have to pay a fine for being two weeks late. Thinking she had to make payments once a month, Martha misunderstood the terms of the loan contract. Martha got angry, and now she wants to make a complaint even though the loan officer insisted that he had explained everything when she signed the loan contract.		
Two days ago, Josefa went to the bank to deposit some money. The bank teller gave her a deposit slip, which showed both the sum she had deposited and the total amount she had in her account. Yesterday, Josefa went back to the bank to make another deposit, but this time, the deposit slip did not show the previous day's deposit. She wants to complain to the teller about this mistake.		
Rosa is two payments behind on her loan because her daughter has been sick. Members from her savings and credit group went to her house and painted "delinquent borrower" on the wall. She wants to complain to the credit officer and to her group about the painting on her house.		
Clara got a loan, which she told the loan officer she needed for her business. Instead, she used the loan money for her daughter's 15th birthday celebration. Now, she cannot pay back her loan, and the bank is going to take her goats, which she had put up as collateral in the contract. She wants to complain in an effort to save her animals.		

## Managing complaints with a financial service provider

Complaint quiz		
<b>Read:</b>	<b>Correct answer</b>	<b>Why is this complaint justified or unjustified? Which right or responsibility is it based on?</b>
One month after taking her loan, Martha went to make her first payment and was told she would have to pay a fine for being two weeks late. Thinking she had to make payments once a month, Martha misunderstood the terms of the loan contract. Martha got angry, and now she wants to make a complaint even though the loan officer insisted that he had explained everything when she signed the loan contract.	Unjustified!	<i>She wants to complain because she thought she had to pay monthly instead of every two weeks. Hers was an innocent mistake but now she has to pay a penalty for being late. This information is both written in the contract and was explained to Martha by her loan officer. It is her responsibility to <u>comply</u> with the terms of the loan and pay on time.</i>
Two days ago, Josefa went to the bank to deposit some money. The bank teller gave her a deposit slip, which showed both the sum she had deposited and the total amount she had in her account. Yesterday, Josefa went back to the bank to make another deposit, but this time, the deposit slip did not show the previous day's deposit. She wants to complain to the teller about this mistake.	Justified!	<i>She has the right to complain about errors the bank makes.  Because Josefa did make a deposit two days earlier, the teller likely made a mistake. She also has the prior deposit slip to demonstrate she is right!</i>
Rosa is two payments behind on her loan because her daughter has been sick. Members from her savings and credit group went to her house and painted "delinquent borrower" on the wall. She wants to complain to the credit officer and to her group about the painting on her house.	Justified!	<i>Rosa has the right to be treated with respect.  The group members, when collecting a debt, have the responsibility to treat others with respect.</i>
Clara got a loan, which she told the loan officer she needed for her business. Instead, she used the loan money for her daughter's 15th birthday celebration. Now she cannot pay back her loan, and the bank is going to take her goats, which she had put up as collateral in the contract. She wants to complain in an effort to save her animals.	Unjustified!	<i>Clara has the responsibility to provide truthful and complete information. She also has the responsibility to comply with the terms of her contract. She failed to meet both of these obligations.</i>

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

- 1.
- 2.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)



# FINANCIAL SERVICES COUNSELLING SESSION 3

## TOPIC: TYPES OF FINANCIAL PRODUCTS AND SERVICES

### Purpose:

This session outlines the range of financial products and services that may be available to microfinance consumers. In this session, the consumer will be able to:

- a. List characteristics of microfinance products and services.
- b. Match financial needs with products and services.
- c. Discuss the risks associated with microfinance products and services.

### Use if:

- a. Consumer does not have a clear understanding of microfinance products and services available in the market and/or when to use them.
- b. Consumer does not demonstrate understanding of the various risks of microfinance products and services.

### Materials:

Handout F3.1 – Definitions of financial products

Handout F3.2 – Risks associated with financial products and services (blank)

Handout F3.3 – Risks associated with financial products and services

Consumer intake sheet

Action plan

**Duration:** 26 minutes

\*\*\*\*\*

## 1 INTRODUCTION – 1 minute

*Say:*

In the last meeting, we talked about providers of financial services. In today's meeting, we will discuss products and services offered in microfinance. We will discuss the characteristics of the products and services that are available to you. By the end of today's session, you will begin to understand which ones may best suit different needs.

## 2 CORE COUNSELLING SESSION:

### 2.1 TYPES OF MICROFINANCE PRODUCTS AND SERVICES – 5 minutes

*Ask:*

- What are all the products and services that you (or your friends) have used from financial service providers that you know?

Allow the person to answer; counsellor should probe where necessary. Make a list of all mentioned. List should include savings accounts, current accounts, loans and insurance. It might also include payment services of banks and telecommunication companies, as well as debit and ATM cards in some circumstances.

Thank the consumer for their list.

Now ask:

- **Can you define each of the products on your list?**

Discuss each product on the list using Handout F2.1 as a guide. Ensure the consumer understands by asking them to explain each and relate their experience with each if any.

Definition of financial products					
Savings	Loans	Insurance	Current account	Payment services	Cards
Accounts hold deposits and pay interest. Different types of accounts are tailored to short- or long-term savings goals.  Interest rate varies with type of account and length of time money held in account.	Money lent to consumer for various purposes.  Type of loan and terms vary with purpose.	Consumer makes regular payments (called premiums) to insurance provider or MFI for purchase of protection in event of accident or loss.  Insurance products cover specific events, eg: <ul style="list-style-type: none"> <li>▪ Accident</li> <li>▪ Death</li> <li>▪ Hospitalisation</li> <li>▪ Loss of assets</li> </ul>	Bank account that enables consumer to make regular transactions— deposits and withdrawals.  May offer ATM and debit cards for easy withdrawals.	Bank transfers money from consumer account to designated recipient, eg: remittances to family members; person-to-person payments through a mobile phone; bill payment; government-to-person social payments.; salary deposits.	ATM cards used to withdraw money from an account at a special machine.  Debit card used either to take money from your account at special machines or to buy goods at stores using special point of sale devices.

Ask the consumer if they have any questions:

- **Do you have any comments or questions about these different types of financial products and services?**

## 2.2 MATCHING FINANCIAL NEEDS TO PRODUCTS AND SERVICES – 5 minutes

Say:

Now that we have discussed the types of products and services that are available, let us briefly discuss when they might be most useful.

Ask:

- **What products do you already use, and what do you use them for?**
  
- **What financial needs do you have, and which products do you think are most appropriate to fulfil those needs? Why?**

*Counsellor may have to probe by naming scenarios and asking consumers what product or service they might use for a specific need. Examples are included in the chart below, which is also found on Handout F3.1*

Financial products and services use chart					
Savings	Loans	Insurance	Current accounts	Payment services	Cards
<ul style="list-style-type: none"><li>▪ Marriage</li><li>▪ Festivals</li><li>▪ Sickness</li><li>▪ Old age</li><li>▪ Ceremonies</li><li>▪ Children's education</li><li>▪ Emergencies</li></ul>	<ul style="list-style-type: none"><li>▪ Business capital</li><li>▪ Business equipment</li><li>▪ House purchase</li><li>▪ House repair</li></ul>	<ul style="list-style-type: none"><li>▪ Health</li><li>▪ Maternity</li><li>▪ Hospitalisation</li><li>▪ Death</li><li>▪ Loss of Assets</li><li>▪ Drought</li><li>▪ Floods</li></ul>	<ul style="list-style-type: none"><li>▪ Day-to-day expenditure: rent, food, clothing, etc</li><li>▪ Direct deposit of salary or pension</li></ul>	<ul style="list-style-type: none"><li>▪ Sending money to parents</li><li>▪ Sending money to children</li><li>▪ Receiving money from government, children or other relatives</li><li>▪ Paying utility bills</li><li>▪ Paying school fees</li><li>▪ Paying loans</li></ul>	<ul style="list-style-type: none"><li>▪ Withdrawing funds</li><li>▪ Paying for goods and services</li><li>▪ Finding out account balances</li><li>▪ </li></ul>

Ask:

- **What are your questions with regard to financial products and services?**

## **2.3 RISKS ASSOCIATED WITH FINANCIAL PRODUCTS AND SERVICES - 10 minutes**

*Say:*

Now that we are familiar with products and services commonly available in microfinance, let us review a few risks that may be associated with some of the products.

*Complete the chart in Handout F3.2 together (see Handout F2.3 for examples):*

- **What are the risks you associate with each product?**
- **How can you prevent them?**
- **What can you do if they occur? How can you fix them?**

*Discuss each, and add based on personal experiences.*

*Ask:*

- **What are your questions and concerns about the risks of financial products and services?**

## **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Say:*

We hope that you now understand the range of products and services available to you, and that you have the information needed to choose wisely and mitigate any risks that might be involved.

*Say:*

- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will discuss details of savings and debt management in particular.

**Counsellor completes consumer intake sheet for files.**

### Definition of financial products

Savings	Loans	Insurance	Current account	Payment services	Cards
<p>Accounts hold deposits and pay interest. Different types of accounts are tailored to short- or long-term savings goals.</p> <p>Interest rate varies with type of account and length of time money held in account.</p>	<p>Money lent to consumer for various purposes.</p> <p>Type of loan and terms vary with purpose.</p>	<p>Consumer makes regular payments (called premiums) to insurance provider or MFI for purchase of protection in event of accident or loss.</p> <p>Insurance products cover specific events, eg:</p> <ul style="list-style-type: none"> <li>▪ Accident</li> <li>▪ Death</li> <li>▪ Hospitalisation</li> <li>▪ Loss of Assets</li> </ul>	<p>Bank account that enables consumer to make regular transactions—deposits and withdrawals.</p> <p>May offer ATM and debit cards for easy withdrawals.</p>	<p>Bank transfers money from consumer account to designated recipient, eg: remittances to family members; person-to-person payments through a mobile phone; bill payment; government-to-person social payments; salary deposits.</p>	<p>ATM cards used to withdraw money from an account at a special machine.</p> <p>Debit card used to either take money from your account at special machines or to buy goods at stores using special point of sale devices.</p>

### Financial products and services use chart

Savings	Loans	Insurance	Current accounts	Payment services	Cards
<ul style="list-style-type: none"> <li>▪ Marriage</li> <li>▪ Festivals</li> <li>▪ Sickness</li> <li>▪ Old age</li> <li>▪ Ceremonies</li> <li>▪ Children's education</li> <li>▪ Emergencies</li> </ul>	<ul style="list-style-type: none"> <li>▪ Business capital</li> <li>▪ Business equipment</li> <li>▪ House purchase</li> <li>▪ House repair</li> </ul>	<ul style="list-style-type: none"> <li>▪ Health</li> <li>▪ Maternity</li> <li>▪ Hospitalisation</li> <li>▪ Death</li> <li>▪ Loss of assets</li> <li>▪ Drought</li> <li>▪ Floods</li> </ul>	<ul style="list-style-type: none"> <li>▪ Day-to-day expenditure: rent, food, clothing, etc</li> <li>▪ Direct deposit of salary or pension</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sending money to parents</li> <li>▪ Sending money to children</li> <li>▪ Receiving money from children or other relatives</li> <li>▪ Paying utility bills</li> <li>▪ Paying school fees</li> <li>▪ Paying loans</li> </ul>	<ul style="list-style-type: none"> <li>▪ Withdrawing funds</li> <li>▪ Paying for goods and services</li> <li>▪ Finding out account balances</li> </ul>

Risks associated with financial products and services						
Product / Service	Savings	Loans	Insurance	Current accounts	Payment services	Cards
RISK	■	■	■	■	■	■
PREVENTION	■	■	■	■	■	■
CURE	■	■	■	■	■	■

Risks associated with financial products and services						
Product / Service	Savings	Loans	Insurance	Current accounts	Payment services	Cards
RISK	<ul style="list-style-type: none"> <li>May not be available when needed</li> </ul>	<ul style="list-style-type: none"> <li>Over-indebtedness</li> </ul>	<ul style="list-style-type: none"> <li>Costs</li> <li>Complicated contracts</li> </ul>	<ul style="list-style-type: none"> <li>Funds too readily available</li> <li>Low/no financial return</li> </ul>	<ul style="list-style-type: none"> <li>Some not regulated/supervised</li> <li>Transmission errors</li> <li>Loss of phone</li> </ul>	<ul style="list-style-type: none"> <li>Forget pin</li> <li>Pin insecurity</li> <li>Physical security at machines</li> <li>Loss of card</li> <li>Easy access to funds</li> </ul>
PREVENTION	<ul style="list-style-type: none"> <li>Read contracts well</li> <li>Have other options</li> </ul>	<ul style="list-style-type: none"> <li>Review contracts</li> <li>Conduct rigorous analysis</li> </ul>	<ul style="list-style-type: none"> <li>Contractual awareness</li> </ul>	<ul style="list-style-type: none"> <li>Safeguard bank books</li> </ul>	<ul style="list-style-type: none"> <li>Safeguarding</li> </ul>	<ul style="list-style-type: none"> <li>Be alert at machines</li> <li>Do not tell anyone PIN numbers</li> <li>Safeguard PIN and card</li> </ul>
CURE	<ul style="list-style-type: none"> <li>Discuss with providers</li> <li>Pay penalties</li> </ul>	<ul style="list-style-type: none"> <li>Discuss plan with provider</li> </ul>	<ul style="list-style-type: none"> <li>Documentation</li> </ul>	<ul style="list-style-type: none"> <li>Set guidelines for use</li> </ul>		<ul style="list-style-type: none"> <li>Immediately report any loss or misuse to bank and police</li> <li>Cancel card</li> </ul>

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

- 1.
- 2.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)



## MODULE C: BUDGETING OUTLINE

	Session title	Purpose:	Use if:
1	<i>Household financial needs</i>	<ul style="list-style-type: none"> <li>a. Distinguish between wants and needs.</li> <li>b. Match needs to income.</li> <li>c. Analyse how consumer's financial patterns change from month to month or season to season.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer views all of their expenses as necessary.</li> <li>b. Consumer claims to have no money for savings.</li> <li>c. Consumer has uncertain income/ expenses and wants to analyse their habits over the year.</li> </ul>
2	<i>Tracking income and expenses</i>	<ul style="list-style-type: none"> <li>a. Explain the difference between income and expenses.</li> <li>b. Distinguish between certain and uncertain income and expenses.</li> <li>c. Identify and classify household income sources and expenses.</li> <li>d. Complete a family calendar.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer does not know how much income they have in a week/month.</li> <li>b. Consumer does not know how much they spend in a week/month.</li> <li>c. Consumer does not anticipate uncertain income/expenses.</li> <li>d. Consumer is unfamiliar with a budget, and needs to first review their income and expenses.</li> </ul>
3	<i>What is budgeting?</i>	<ul style="list-style-type: none"> <li>a. Define the term "budget", and explain how a budget is useful.</li> <li>b. Identify the categories of a budget, and explain what they are.</li> <li>c. Assess their current money management strategies.</li> <li>d. Identify ways to improve their own money management through budgeting.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer does not know what the term budget means.</li> <li>b. Consumer does not understand the purpose of a budget.</li> <li>c. Consumer understands their income and expenses but does not understand budgeting as a tool.</li> <li>d. Consumer wants to improve their money management by budgeting.</li> </ul>
4	<i>Budgeting: what works and what doesn't</i>	<ul style="list-style-type: none"> <li>a. Identify some of the characteristics of successful budgeters.</li> <li>b. Identify some of the reasons why budgets fail.</li> <li>c. Identify ten of the most common problems that budgeters have.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer has never budgeted before, and wants to know helpful hints and things to avoid.</li> <li>b. Consumer has attempted to budget but has not been successful.</li> <li>c. Consumer does not understand why some of their behaviours are causing their budget to fail.</li> </ul>
5	<i>Develop a budget</i>	<ul style="list-style-type: none"> <li>a. Describe the steps to create a budget.</li> <li>b. Make a budget.</li> <li>c. Share new ideas about budgeting with friends and family members.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer has never developed a budget before.</li> <li>b. Consumer has already been tracking income and expenses.</li> <li>c. Consumer understands what a budget is but does not know how to make one for themselves.</li> </ul>

# BUDGETING COUNSELLING SESSION 1

## TOPIC: HOUSEHOLD FINANCIAL NEEDS

### Purpose:

This is an introductory session to determine the consumer's expenses and divide them into "wants" and "needs". In this session, the consumer will be able to:

- a. Distinguish between wants and needs.
- b. Match needs to income.
- c. Analyse how their financial patterns change from month to month or season to season.

### Use if:

- a. Consumer views all of their expenses as necessary.
- b. Consumer claims to have no money for savings.
- c. Consumer has uncertain income/expenses, and wants to analyse their habits over the year.

### Materials:

Handout B1.1 - Jane's expenses  
Handout B1.2 - Monthly expense worksheet  
Handout B1.3 - Seasonality calendar  
Counters  
Consumer intake sheet  
Action plan

**Duration:** 50 minutes

\*\*\*\*\*

### 1 INTRODUCTION – 5 minutes

*Say:*

We are going to talk about prioritising expenses. Very few people in the world have so much income that they can pay for everything they want to buy or do. Most of us must make difficult decisions and trade-offs, especially during times when our income does not cover all of our expenses.

There are no perfect answers when it comes to prioritising and choosing among expenses, but there are some general guidelines. Today, we will talk about how you currently make these decisions, and we will highlight some common ways to help you set your own personal financial priorities, and handle your financial difficulties in the future.

## 2 CORE COUNSELLING SESSION:

### 2.1 DISTINGUISHING BETWEEN WANTS AND NEEDS – 10 minutes

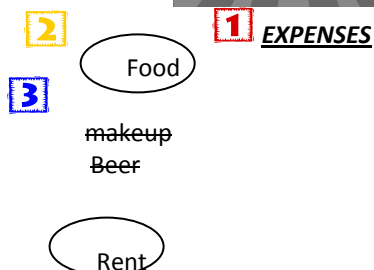
Give the consumer Handout B1.1 and ask:

- **What are some of the things you spend money on each month?**

Ask for specific examples, like food, rent, lotion, toilet paper, etc. As the consumer answers, write each answer on the worksheet below “EXPENSES”.

#### Handout B1.1

Jane's expenses



- List as many of your expenses as you can in one minute.
- Of all of the expenses that you listed, which three are the most important, or necessary? Why? (Circle them.)
- Of all of the expenses, which three are the least important? Why? (Cross them out.)

**What is the difference between the circled expenses and the crossed-out expenses?**

*NEEDS:* A basic need that you cannot do without

*WANTS:* Something optional or not needed for everyday survival

When you have 8-10 items, ask the consumer:

- **What are the three most important, or necessary, items in this group? Why?**
- **What are the three least important items for you? Why?**

Circle the three that the consumer finds to be most important. Cross out the three that they consider least important.

Ask:

- **What is the difference between the circled items and the crossed-out items?** *[The crossed-out items are optional – they are things people want, but can live without. The circled items are necessary for survival. The others may or may not be necessary for you.]*

## 2.2 MATCHING NEEDS TO INCOME - 15 minutes

Say:

We spend money on many things. Some of these things are necessary for our survival. These things are called **needs**. Others are things that we want, and when we buy them, we are happy. We call these things **wants**. Today, we are going to discuss the difference between the things that we want and the things that we need – an important part of making good spending decisions.

We are going to practice making spending decisions. As we make these decisions, keep in mind the difference between wants and needs.

Give them Handout B1.2.

Types of expenses (Monthly)	
Type of expense	Value
1. Transport	
2. School supplies	
3. Toilet paper	
4. Snacks	
5. Clothes	
6. Savings	

*Ask the consumer to fill in the value section of the worksheet:*

- **How much do you typically spend on transport each month? School supplies?** *[Go through the entire list and give each item a value. If there is an expense that does not apply to the particular consumer, cross it out and replace it with another of their expenses.]*

*When all values have been filled in, quickly add all values in your head. Then, tell the consumer that they have an amount of money that is less than would be needed to buy 100% of the items on the list. [For example, if the total is USD5, then give the consumer USD4 to spend.] That amount is their income, to spend as they want on the items on the list.*

*Tell the consumer that they can take several minutes to make their decisions. Then ask the consumer to show you how they spent their money. Ask:*

- **How did you decide to spend the money differently this time?**
- **What challenges did you face in deciding how much to purchase?**

*After the consumer answers, tell them that they have an even smaller amount of money to work with, and that they have five minutes to make their new decisions. [For example, if they had USD4 to spend in the first round, tell them they have USD3 in the second round.]*

*At the end of five minutes, ask:*

- **What was different this time?**
- **How did you decide which items not to purchase? How did you decide which things were necessary or “needs” – and which were optional or “wants”?**

## **2.3 SEASONAL CALENDAR ANALYSIS - 15 minutes**

*Say:*

By thinking about what you really need and what is only a want, you can make better spending decisions. However, we also need to think about when in our lives we might have more needs to help us plan.

*Give the consumer Handout B1.3 – Seasonality calendar chart. Explain the different parts of the seasonality calendar (months, income, expenses, savings and credit).*

*Place the counters on the table. Ask the consumer to look at the income line. Instruct them to place five counters on the months when they have the most income. Then, ask them to place one counter on the months when they have the least income. When finished, ask the consumer to place two or three counters on the other months, depending on how much they earn.*

*Repeat this for expenses, savings and credit.*

*When the entire seasonality calendar is filled, ask:*

- **Why is your income greater in \_\_\_\_\_ months? Why is it smaller in \_\_\_\_\_ months?**  
*[Repeat this question for expenses, savings, and credit.]*
- **How can thinking about the times when you have more income or expenses help you reach your goals?** *[You can make a plan to save more money in times when you have more income. In this way, maybe you can use your own money instead of borrowing money to cover expenses at times when you know you need to spend more money – like the beginning of school, or Christmas holiday. You can also wait to make some unnecessary purchases until a time when you have more money.]*

*Say:*

It is important, as a good money manager, to plan for expenses that are not always certain. There are many ways this can be done, including saving and postponing purchases until the money is available. As we see from the calendar, sometimes income can be uncertain too, so it is even more important to plan ahead.

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Say:*

Today, we talked about the importance of each of your expenses and prioritised them. We practised making spending decisions when your income is diminished. And we analysed how your income, expenses, savings and loans change throughout the year, requiring financial planning so that you are not surprised by the fluctuations.

Now, I would like you to go home with your worksheets, and share with your family what you have learned today about “wants” and “needs”.

- **What are your questions about today’s counselling?**

*Say:*

- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will discuss how to track your income and expenses.

**Counsellor completes consumer intake sheet for files.**

### Jane's expenses



### **1** EXPENSES

- List as many of your expenses as you can in one minute.
- Of all of the expenses that you listed, which three are the most important, or necessary? Why? (Circle them.)
- Of all of the expenses, which three are the least important? Why? (Cross them out.)

**What is the difference between the circled expenses and the crossed-out expenses?**

*NEEDS:* A basic need that you cannot do without

*WANTS:* Something optional or not needed for everyday survival



Types of expenses (monthly)		
Type of expense	Value	
1. Transport	<b>1</b>	<b>2</b> <b>3</b>
2. School supplies		
3. Toilet paper		
4. Snacks		
5. Clothes		
6. Savings		
<b>TOTAL</b>		

- Go through the list, estimate how much you spend on each of these things each month and calculate the total of all of these items.
- Now subtract USD1. How would you divide that amount among these expenses?
- Now subtract USD1 more. How would you divide that amount among these expenses?

**What challenges did you face when trying to decide how to spend less money?**

**How did you decide what was necessary and what wasn't?**

## Seasonality calendar

<b>Month</b> <b>1</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>
<b>Income</b> <b>2</b>												
<b>Expenses</b> <b>3</b>												
<b>Savings</b> <b>4</b>												
<b>Credit</b> <b>5</b>												

- Month: The period of time we are measuring. You can group months into seasons if your financial patterns are seasonal.
- Income: In the boxes where your income is the highest, make five circles. Where it is lowest, make one circle.
- Expenses: In the boxes where your expenses are the highest, make five circles. Where they are lowest, make one circle.
- Savings: In the boxes, your savings are the highest, make five circles. Where they are lowest, make one circle.
- Credit: In the boxes where you take out the most credit, make five circles. Where you take the least, make one circle. This is the money that you borrow, whether from a bank, a SACCO, a moneylender, or a friend.

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Think about my expenses in terms of "wants" and "needs" for one month.
2. Complete and analyse my seasonality calendar.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## BUDGETING COUNSELLING SESSION 2

### TOPIC: TRACKING INCOME AND EXPENSES

#### Purpose:

This is an introductory session to assess the money-management skills of your consumer, where the consumer will self-identify, and the counsellor will learn about the financial habits of the consumer. In this session, the consumer will be able to:

- a. Explain the difference between income and expenses.
- b. Distinguish between certain and uncertain income and expenses.
- c. Identify and classify household income sources and expenses.
- d. Complete a family calendar.

#### Use if:

- a. Consumer does not know how much income they have in a week/month.
- b. Consumer does not know how much they spend in a week/month.
- c. Consumer does not anticipate uncertain income/expenses.
- d. Consumer is unfamiliar with a budget, and needs to first review their income and expenses.



#### Materials:

Handout B2.1 - Family calendar  
Concept terms cards  
Consumer intake sheet  
Action plan

**Duration:** 30 minutes

\*\*\*\*\*

#### 1 INTRODUCTION – 5 minutes

*Say:*

In today's meeting, we will look at how you handle money. More specifically, we will talk about how you make money, how you spend money and your overall money habits. By the end of today's meeting, you will fully understand your financial habits, and we will identify good habits to continue and other habits to discontinue. You will also understand how your money flows in and out of the household, which will help you plan better, save more, and spend your money more wisely.

To start, let us first make sure that we agree on the meaning of the terms we will be using.

Together we will describe these terms. *[Put three cards on the table; as you put them down, read aloud.]*

INCOME

EXPENSES

MONEY HABITS

## 2 CORE COUNSELLING SESSION:

### 2.1 INCOME – 8 minutes

Ask:

- **Can you explain what income is?** *[Allow the person to answer.]*

*Thank the consumer for their explanation. Say:*

Income is money that we earn. Sometimes you are sure to receive an income, and other times you are not so sure. When income is certain, we expect it. For example, people who have a salary know that their salary comes on a specific date each month. When income is uncertain, then they do not always know when it is coming.

Ask:

- **Is your income certain or uncertain?** *[Allow the person to answer, and as they do, note the answer on the intake sheet.]*
- **What do you do to make money?** *[Allow the person to answer, and as they do, note the answer on the intake sheet.]*

FAMILY CALENDAR FOR KARIUKI						
January 2012						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2	3	4	5	6	7
PAY HOUSE RENT 1000					Get Paid 2000	
8	9	10	11	12	13	14
	Buy Supplies		Buy water 200		Get Paid 2000	
15	16	17	18	19	20	21
	Buy Supplies				Get Paid 2000	
22	23	24	25	26	27	28
	Buy Supplies		Buy Water 100		Get Paid LOAN PAYMENT DUE 500	
29	30	31				
	Buy Supplies	Pay Business Kiosk rent 500				
Notes:						
MUST FIND NEW SOURCE FOR BUTTONS!						



We had a chance to discuss your sources of income. The first step in understanding how to spend our money is to record your income. Let me show you. Here I have a family calendar for one month. *[Show the calendar to the consumer]*. First, it is important to know when money comes in. I will record here all the days when money is coming in. *[Note to counsellor: Write “money in”, not actual amounts! Explain that you first just want to see how often money is coming in, and you will come back to the figures later.]*

- **When does your money come in?** *[Allow the person to answer, and as they do, note it on the family calendar.]*

Look at income patterns using the calendar.

## 2.2 EXPENSES – 7 minutes

Say:

We will now move towards understanding the term “expenses”.

Ask:

- **Can you explain what expenses are?** *[Allow the person to answer.]*

Thank the consumer for that explanation. Say:

Expenses are all of the things that we have to pay for. Expenses can be “certain”, such as rent, food and school fees. Or they can be “once in a while” such as payment of hospital fees. It is important to know the types of expenses we have in a household and when we can expect to have to pay for them.

Ask:

- **Can you give me some examples of your certain expenses? Uncertain expenses?**

Encourage the person to write their answers on a piece of paper. You can stop when you have about 10-12 expenses. Then say:

- **Let us look together at all of your expenses. Some of them are similar to each other and some of them are different from each other. Can you group the expenses that you think are similar by circling them?**

When they have done this, ask them questions about why they grouped the expenses as they did. Then, ask if they can give each group a name. See below for an example. If they have trouble on their own, show them some examples of expenses that go together and a possible name for the category.

Necessary expenses	Expected events	Debt repayment	Optional expenses	Unexpected events	Business costs
Food	School fees	Group loan payment	Treats for children	Medicine for illness	Fabric

Rent	Child's wedding	Moneylender	New dress	Loss of property	Sewing supplies
------	-----------------	-------------	-----------	------------------	-----------------

Say:

Let us understand expenses in your household a little bit better and revisit the family calendar.

Ask:

- **Which expenses do you always have to pay and when (weekly or monthly)?** *[Allow the person to answer, and as they do, note the answer on the family calendar.]*
- **Which ones are just once in a while?** *[Allow the person to answer, and as they do, note the answer on the family calendar.]*
- **Which ones come unexpectedly and when?** *[Allow the person to answer, and as they do, note the answer on the intake sheet.]*

Say:

Your individual case shows us that you have to pay different expenses at different times.  
(Review the family calendar.)

Say:

As we look at your family calendar, we can see that you have many expenses.

## 2.3 Money habits - 5 minutes

Say:

Now that we have identified some of your income and expenses, let us also discuss what money habits are. Money habits are the ways that we spend and save our money. Some people spend money wisely: they plan for their income and think carefully before making a purchase. Other people do not allocate their money as well, because either they do not have the tools to help them do so, or they do not realise how planning for their money will benefit them in the end. Even the best money managers have a hard time maintaining good habits and fighting off bad habits, so it is a good idea for everyone to analyse their situation regularly. Let's go ahead and look at your individual situation now.

Ask:

- **Let us look again at your list of expenses: what do you do to ensure that you can cover all of them?** *[Go through each expense. Allow the person to answer, and as they do, note the answer on the intake sheet. Provide a response based on their answers.]*

Examples:

<i>If consumer says:</i>	<i>Then counsellor responds:</i>
<i>"I do not plan. I pay what I can as the expenses come." Or any other response indicating ad hoc/unplanned payment.</i>	As much as we can, it is important to plan our expenses ahead of time. For example, at the end of each month write a list of expenses for the following month. Then allocate your income towards each expense. If you see that your expenses are larger than your income, you will have to make decisions on what you can and cannot buy that month to avoid having to borrow.
<i>"I save." I put money aside or any indication of savings behaviour.</i>	That is great! How do you know how much to save? Where do you keep your savings? What do you use the savings for? When do you normally withdraw from your savings? We will learn more about this next time.
<i>"I plan regularly." I plan yearly or any other indication of planning behaviour.</i>	GREAT! Do you write your plan down? Who helps you with your plan? Do you stick to your plan? What causes you to go away from your plan? If it is written, can you bring your plan next time?
<i>"I borrow from my brother when I cannot pay my rent." Or any form of borrowing to cover expenses.</i>	How often do you do this? Do you pay back the loan? When? Do you pay any interest (any amount above the amount you borrowed)?

Say:

Thank you for sharing all this information. I have taken notes so that next time we can discuss these matters in more detail and learn more about how to have good money habits.

Ask:

- **Before we wrap up today's session, what questions do you have about your income, your expenses and your money habits?**



### 3 CLOSING AND ACTION PLANNING - 5 minutes

*Say:*

Today, we began to look at your money management skills. We talked about the meaning of “income” and “expenses”, we learned how to plan for when income or expenses are “certain” or “uncertain”, and finally, we learned how to ensure that your expenses are covered by your income.

We also looked at the family calendar as a tool to help us understand our income and expenses. I would like to give you a family calendar to take home. I would like you to work with your family to complete the calendar in detail. First, list all of your income and expenses. This time you can put all of your income and expenses in figures, rather than in words. So, put the exact amount of money you expect to earn/spend on each day of the month. If you expect no income or expenses, just leave that day blank. *[Hand a blank family calendar to the consumer.]*

➤ **What are your questions about today’s counselling?**

*Say:*

➤ **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will discuss more about money management in terms of budgeting.

**Counsellor completes consumer intake sheet for files.**

# FAMILY CALENDAR FOR \_\_\_\_\_

Month: \_\_\_\_\_

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				
		Notes:				

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Identify all of my certain and uncertain income and expenses for one month.
2. Complete the family calendar.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## BUDGETING COUNSELLING SESSION 3

### TOPIC: SETTING FINANCIAL GOALS

\*\*\*\*\*

Say:

Imagine that your brother calls you and says “come meet me now,” and then the phone cuts out. What would you do? You don’t know where he is. He does not even live in the same town. He could be in your very neighbourhood or on the other side of the country!

- **What are your chances of finding your brother?** *[Very small!]*
- **What would help you to find him?** *[Knowing where he is, how long it will take to get there, what kind of transportation you may need (walking, bike, car), etc.]*

Say:

You may not realise that you are already an experienced planner, but you plan things like this every single day, whether it is meeting with a friend, doing chores, handling your business, or any of the other little tasks of daily life. They all require planning, but we are so good at it that we don’t even think about it anymore! All we need to learn is how to translate the skills we use for something as simple as meeting a brother into planning for our financial futures.

Just as you would have a hard time meeting your brother, you will also have a hard time meeting success without first laying out specific goals and directions to yourself. Financial goals are very closely linked to savings goals, as savings are the cornerstone of financial security. Go to session 2 in the Savings section to learn more about setting and planning for your goals.

***Please continue to Savings, Session 2***

***“Setting savings goals and developing a savings plan”***

## BUDGETING COUNSELLING SESSION 4

### TOPIC: WHAT IS BUDGETING?

#### Purpose:

This is an introductory session to budgeting as a tool for better money management. Before beginning this session, the consumer should be already tracking their income and expenses (see Session 2). In this session, the consumer will be able to:

- a. Define the term “budget”, and explain how a budget is useful.
- b. Identify the categories of a budget, and explain what they are.
- c. Assess their current money-management strategies.
- d. Identify ways to improve their own money management through budgeting.

#### Use if:

- a. Consumer does not know what the term budget means.
- b. Consumer does not understand the purpose of a budget.
- c. Consumer understands their income and expenses but does not understand budgeting as a tool.
- d. Consumer wants to improve their money management by budgeting.

#### Materials:

Handout B4.1 – Budget calendar  
Handout B4.2 – Budget worksheet  
Budget terms and definitions  
Consumer intake sheet  
Action plan

**Duration:** 35 minutes

\*\*\*\*\*

#### 1 INTRODUCTION – 5 minutes

*Say:*

In today’s meeting, we will look at budgeting. More specifically, we will look at the format for a budget, define the terms that it uses, and discuss ways that it can help you to manage your money. By the end of today’s meeting, you will be able to make a budget for yourself and your family. By planning the flow of money in and out of your household, you will gain more control of your spending and be able to save more as well.

## **2 CORE COUNSELLING SESSION:**

### **2.1 WHAT IS BUDGETING – 5 minutes**

*Say:*

Last time, we discussed your income and expenses. Income and expenses are two key components of a budget.

- **How has it been, tracking your income and expenses, since the last time we saw each other?**
- **Did you have any problems doing your tracking? Do you have any questions?** *[It is important to make sure that the consumer has actually done this before continuing with the session.]*

*Once you have confirmed that the consumer has in fact been tracking their income and expenses, ask:*

- **Have you heard of the word budget before? Do you know what it is?** *[Allow the person to answer.]*

*Thank the consumer for their explanation. Say:*

A budget is a summary of estimated income, and how it will be spent over a defined period of time. A budget can be a very useful tool when trying to manage your money better. It is a spending plan that you create for yourself. When making a budget, you think about the income you expect to have in a certain period, and then you decide ahead of time how you will spend it. This could be on necessary living expenses, savings or investments.

### **2.2 EXAMPLE OF A BUDGET - 10 minutes**

*If the consumer is literate with prior knowledge of budgeting, take out Handout B4.2. If the consumer is semi-literate or illiterate, take out Handout B4.1. Say:*

Let us look at an example of a budget together.

*Ask:*

- **What do you notice about this budget? What information is provided?** *[Different types of income sources, amount of income by source, total planned income, types of expenses, amount of expenses, total planned expenses, total savings, unexpected expenses]*

Explain each of these terms while showing the consumer:

<i>Term</i>	<i>Definition</i>	<i>Example</i>
<i>Income</i>	<i>Money coming in from different sources.</i>	<i>Sales from your boutique, sale of a goat, salary from employer.</i>
<i>Debt payments</i>	<i>Principal and interest that is owed to a lender - (include all sources - institutions, family, friends, etc).</i>	<i>Calculate the amount of principal due (weekly, monthly, bimonthly) as well as the interest. If you have multiple debts, calculate each individually.</i>
<i>Necessary household spending</i>	<i>Expenses for the household that are not optional.</i>	<i>Food, clothing, school fees, transportation, health care, rent, etc.</i>
<i>Optional spending</i>	<i>Expenses that are not needed, and will only be made once all necessary items have been purchased.</i>	<i>Soda, new clothes, church offering, etc.</i>
<i>Unexpected</i>	<i>An expense that arises, which is out of the usual and not planned for.</i>	<i>Doctor's visit, replacing a broken household item, unplanned guests, etc.</i>
<i>Savings</i>	<i>The amount of your income that you are putting aside for future use.</i>	<i>Savings is under "expenses" because you are taking it from your income. Even though you are not spending it yet, you must account for it when deciding how much you can spend on other things.</i>
<i>Profit</i>	<i>The money left over when your income is greater than your expenses.</i>	<i>Profit could be used to reinvest in a business, buy an optional expense or put into savings.</i>
<i>Loss</i>	<i>The money that is owed when your expenses are greater than your income.</i>	<i>When you have a loss, you will need to borrow money or take from your savings to cover the difference. When you are planning your budget, you should always avoid a loss.</i>

## 2.3 PURPOSE OF BUDGETING – 10 minutes

Say:

- **Now that you know what a budget is, how do you think it could be useful to you? Or to anyone trying to manage their money?** *[It 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 organise and manage your money more effectively, helps you plan for your future and meet your financial goals.]*

Say:

That is great! I can see that you really understand the budget. Now let's talk more about budgeting for you and your family.

Ask:

- **How do you currently manage your income and expenditures to meet your family's needs?**
- **What can you do to improve budgeting in your household?**

*Allow the consumer to list as many solutions as they can. Make sure the four below are said:*

**Ways to improve budgeting**

- List all income sources.
- List all expenses.
- Plan ahead to prevent spending more than your income.
- Save surpluses to meet future expenses when income is low.

*If the consumer is interested in making a budget for themselves, move on to the next session, "What makes for good budgeting" or "Developing a budget".*

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

Say:

Today, we began to look at the budget. First, we defined it as a spending plan for your income during a defined period. We looked at an example of a budget, defined the terms in it, and talked about examples of the items that go into each category.

Now that you have seen what a budget looks like, I would like you to discuss creating a budget with your family.

- **What are your questions about today's counselling?**

Say:

- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*


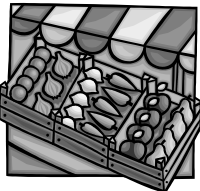



Say:

During our next meeting, we will discuss more about what makes a good budget and why some budgets fail.

**Counsellor completes consumer intake sheet for files.**



## Handout B4.1 Budget calendar

	Month 1	Month 2	Month 3
<b>INCOME</b> 			
<b>SPENDING</b>			
Business 			
Household 			
Loans 			
Savings 			
<b>TOTAL</b>			

## Handout B4.2 Budget worksheet

	Month 1	Month 2	Month 3
<b>1</b> INCOME (Money in)			
Total income			
<b>2</b> EXPENSES (Money out)			
<b>3</b> Debt payments			
<b>4</b> Business spending			
<b>5</b> Necessary household spending			
<b>6</b> Savings			
Total expenses			
<b>7</b> PROFIT/LOSS			

- **Income:** List all sources of income. This could be from a business, selling crops, gifts from family, etc.
- **Expenses:** All of the things that you spend money on.
- **Debt payments:** Business or personal loan repayments from banks, moneylenders, friends, etc.
- **Business expenses:** Buying stock, transportation of stock, buying seeds and farming tools, rent for business, salary of employees, equipment, etc.
- **Necessary household spending:** Food, clothes, school fees, medicine, home improvements, etc.
- **Savings:** The money you intentionally put aside for future personal use, future opportunities, or unexpected emergencies.

- **Profit:** The money left over when your income is greater than your expenses.
- **Loss:** The money that you have to borrow or pull from savings when your expenses are greater than your income.

***Setting savings goals will help you to save more money!***

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Review the different elements of a budget and estimate a realistic budget for myself and my family.
2. Follow up with a counselling session on developing my own budget.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## BUDGETING COUNSELLING SESSION 5

### TOPIC: BUDGETING: WHAT WORKS AND WHAT DOESN'T

#### Purpose:

This is a session for those that are new to budgeting, or even those who have been budgeting for a while but are encountering problems with their budgets. Before beginning this session, the consumer should already be tracking their income and expenses (see Session 2). In this session, the consumer will be able to:

- a. Identify some of the characteristics of successful budgeters.
- b. Identify some of the reasons why budgets fail.
- c. Identify ten of the most common problems that budgeters have.

#### Use if:

- a. Consumer has never budgeted before, and wants to know helpful hints and things to avoid.
- b. Consumer has attempted to budget but has not been successful.
- c. Consumer does not understand why some of their behaviours are causing their budget to fail.

#### Materials:

Handout B5.1 - Good budgets vs budgets that fail  
Consumer intake sheet  
Action plan

**Duration:** 35 minutes

\*\*\*\*\*

### 1 INTRODUCTION – 5 minutes

#### Say:

Anyone who has budgeted before knows that it can be difficult sometimes! Budgeting requires self-discipline, organisation and planning. We are going to talk about some of the things that successful budgeters do, some of the things that unsuccessful budgeters do, and then discuss some of the most common problems that budgeters encounter. This session is useful to ALL budgeters, whether you are about to make your very first budget, you have been struggling with a failed budget or you just want some refreshers on good budgeting.

### 2 CORE COUNSELLING SESSION:

#### 2.1 CHARACTERISTICS OF SUCCESSFUL BUDGETERS – 15 minutes

*The consumer will need this session either if they are new to budgeting or if they have been budgeting but have not been successful or want to improve further. If they are new to budgeting, ask:*

- **What would you like to learn more about today? Terms? Calculations?** *[Take note of the answer, and focus particularly on the sections that will address their concerns. If they do not fully understand all of the parts of the budget or the terms, go back to session 4 “What Is budgeting?” If they understand the parts of the budget, move on to the activity below.]*

*If they have been budgeting but are encountering problems, ask:*

- **Which part of budgeting are you having difficulty with? Maintaining self-control? Planning unrealistically?** *[Take note of the answer and focus particularly on the section that will address their concerns.]*

*Say:*

I’m going to read a phrase to you. Then I’m going to ask you to tell me if you think that this is something that will HELP you while budgeting or if it something that will HURT your budgeting.

1. I am creating a budget because it will help me reach my goals.

HELPFUL – Having a goal keeps you on track.

2. I am budgeting because I need to but I really do not want to.

HARMFUL – If you do not see how it can help you, you will not be able to follow it well.

3. I have a goal that I want to reach very quickly, so I am cutting almost half of my expenses and saving 75% of my income.

HARMFUL – Trying to save TOO much can put a big strain on your finances and tempt you to give up entirely. You are more likely to meet your goals if they are realistic.

4. I have many goals, but my budget cannot support all of them so I am focusing on just one for now.

HELPFUL – Your budget can help you see that sometimes it is not possible to achieve all of your goals at one time. Often, you will be more successful by focusing on one at a time.

5. I want to save to expand my business but my wife wants to make home improvements instead.

HARMFUL – When many people are affected by one budget, it is necessary that you all agree on the goals you set and decisions that are involved in budgeting. Open, calm communication can help resolve some of these issues.

6. I found it very hard to save until I decided to start my own business. Now it is easy because I want this more than I want to spend money on personal items.

HELPFUL – If you are excited about the reason that you are saving and budgeting, you are more likely to follow your plan.

7. Even though I am successful with my budget, I often make changes to it as my situation changes.

HELPFUL – No one has the exact same income or expenses every week or every month. A good budgeter re-evaluates and makes changes often.

8. I have a budget, but I often estimate my income and expenses because I don't write down my income and expenses regularly.

HARMFUL – It is almost impossible to know what your financial situation actually is if you are not keeping detailed records.

9. I have found that I don't always need a budget. I only use one when I know I have financial problems, like in slow seasons or around the holidays.

HELPFUL – A budget is not necessarily something that you cannot live without. If you only have trouble at some moments and not at others, then you can pick it up or leave it as you want.

10. I always follow my budget, but something always comes up that throws it off. Either one of my children gets sick or I have to take a sudden trip. They are things that can't be avoided and then my budget goes out the window.

HARMFUL – Emergencies are an important part of a budget. No one knows what will happen ahead of time, and so creating an emergency fund is essential.

*If the consumer gets any incorrect, be sure to explain the correct answer and allow them to ask any questions. If they need further explanation, refer to Handout B5.1 – What makes for good budgeting.*

## **2.2 COMMON BUDGET PROBLEMS – 10 minutes**

*Say:*

Now you know some of the things that make a good budget, and other reasons why some budgets fail. Let us continue to talk about the 10 most common budget problems. I am going to say a word, and you tell me if it is a problem to have “too much” or “too “little”. Ready?

<b>Is it a problem to have too much or too little:</b>	<b>Correct answer:</b>	<b>Reason:</b>
Income	Too little	Not enough income to meet basic needs is a challenge to budgeting. Budgeting is about working with the resources that you have, even if they are not as much as you would like.
Debt	Too much	Debt payments are too large. Paying off debt should be a priority. You may need to try to work out a new payment plan with your lenders if you find that your payments are not manageable as they are.
Spending	Too much	Too much spending will prevent you from saving, or even make you

		borrow. Spending should be controlled as closely as possible.
Self-control	Too little	Your budget will not be useful if you do not follow it.
Goals	Both – too few, too many	Ambitious people set too many goals for too few resources. However, if you have no goals, budgeting will be difficult due to a lack of motivation.
Experience	Too little	Budgeting is perfected with experience. Almost everyone fails in the beginning because they have set unrealistic expectations or have not yet learned what their spending habits are. Experience comes with time and careful review of your budget.
Awareness of spending	Too little	Not knowing what you spend or what you earn, makes budgeting impossible.
Review of budget	Too little	Your budget will need to change from week to week or month to month. Be sure to review it often.
Communication with family	Too little	If you have set a budget for your family but you do not tell them of your decisions or why you have made them, they will have a hard time following it.
Agreement among family members	Too little	If you and other family members are using the same budget but do not agree on the spending decisions, it will be difficult to follow.

*Again, if the consumer answers any of the following incorrectly, explain why having too little or too much of something can cause problems in a budget.*

*Ask:*

- **Before we wrap up today's session, what questions do you have about budgeting?**

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Say:*

Today, we looked at some of the reasons why budgeting can be difficult. Budgeting is one of the most important tools that you can learn to help you meet your financial goals, but it is not always easy. It will take time to get good at it.

Imagine a baby just learning to walk. Maybe you are a parent or you have younger brothers or sisters. When they first tried to take a step and failed, did you think that they would never learn? That they would just crawl for the rest of their lives? Of course not! All babies fall, but they also eventually take those first steps, then a few more, and then a few more. Budgeting is the same. No one is born budgeting. It is something that is learned, that takes time, and that takes some mistakes!

- **What are your questions about today's counselling?**

*Say:*

- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action plan form for the consumer as a reminder.]*

**Counsellor completes consumer intake sheet for files.**



## Handout B5.1 Good budgets vs budgets that fail

### A. What makes for good budgeting

1. **Using the budget to support your goals.** Poor budgets often function as cross-purposes with a household's goals and directions. Not surprisingly, poor budgets tend to create frustration, dissension and discouragement.
2. **Keeping a central goal in mind.** This could be an event that you are planning for or an improvement that you would like to make. Having one main goal will help you to stay motivated and increase your chances of success.
3. **Examine your budget regularly.** By reviewing your budget every month, you will see where you are actually putting your priorities and where you are not. You may say that you want to save up to invest in your business but in actuality you spend more on new clothes than you do on savings. Reviewing your budget makes you aware.
4. **Embrace goals that you find to be powerful and compelling.** It is difficult to maintain the discipline and self-control required to maintain a budget if you are not truly passionate about your goal.
5. **You do not need to use a budget all the time for it to be helpful.** By starting a budget, you are not entering into a major commitment. You may want to do it for just one month to pinpoint problems, make corrections and achieve goals more readily.
6. **Do regular budget maintenance.** Say for example that you found a budget that works very well for you and you can maintain easily. But what if your income changes? Or your expenses? It is important to modify your budget as you need to, whether it be the changing of a season or your family's situation. Just because it has worked in the past does not mean that you should continue with it. Find a budget that works best for you and your family.

### B. Why do budgets fail?

1. **Not really wanted.** Quite often, budgets are used without inspiration or motivation. They are forced upon the budgeter by circumstance. If you do not really want to budget, then it won't help.
2. **Not agreed upon.** When several people share a budget, which is often the case for families, there is a high chance of disagreements and dissatisfactions. These can result in failures of a budget. Even one angry person can sometimes ruin the budget for all.
3. **Not realistic.** A budget that pursues unrealistic goals or fails to make reasonable assumptions regarding the use of income and expenses is doomed to failure. While occasional misjudgements can be expected, they should not be so plentiful or so flagrant that following the budget becomes useless. Many poor budgeters court disaster by using budgets that leave too little room for miscalculations.
4. **Not well-designed.** Budgets need to be balanced and flexible. It is impossible to follow your budget perfectly every month because there are always things that arise that you could never have planned for. Give yourself some room in your budget to be able to react to these events.
5. **Not well supported.** If you are not tracking your income and expenses, how could you possibly fill out your budget at the end of the month? No one can remember every time they spend or receive money, so you need to establish a system for keeping track of the ins and outs of your money.

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Reflect on the reasons that I have been having trouble with my budget.
2. Be aware of the traps that I want to avoid, and remind myself of the positive behaviours that help budgets succeed!

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## BUDGETING COUNSELLING SESSION 6

### TOPIC: DEVELOPING A BUDGET

#### Purpose:

This is a session for those who have never developed a budget before. Before beginning this session, the consumer should be already tracking their income and expenses (see Session 2). In this session, the consumer will be able to:

- a. Describe the steps to create a budget.
- b. Make a budget.
- c. Share new ideas about budgeting with friends and family members.

#### Use if:

- a. Consumer has never developed a budget before.
- b. Consumer has already been tracking income and expenses.
- c. Consumer understands what a budget is but does not know how to make one for themselves.

#### Materials:

Handout B4.1 - Budget calendar      or      Handout B4.2 - Budget worksheet  
Handout B6.1 - Uncertain income & expense worksheet  
50 small objects (counters)  
Consumer intake sheet  
Action plan

**Duration:** 55 minutes

\*\*\*\*\*

### 1      INTRODUCTION – 5 minutes

*Say:*

Congratulations! Developing a budget is an important step towards taking control of your financial situation and reaching your goals. Today, we are going to talk about the steps involved in developing a budget, then we will actually make the budget, and finally we will talk about sharing your new ideas with friends and family.

### 2      CORE COUNSELLING SESSION:

#### 2.1      CREATING A BUDGET STEP-BY-STEP – 10 minutes

*Let us talk about the steps to develop a budget, but first I want to share a story with you. Listen carefully to the way that Gladys develops her budget.*

Gladys has the dream of opening up her own shop. She has not been able to save very much, so she decided that she needs some help. Gladys' friend recommended that she create a budget, and said that she could help Gladys. The first thing that Gladys does is think about the new shop she wants to open. She has to take a loan, but she wants to save as much as she can first. She wants to save USD150 in six months.

Right now, Gladys sells vegetables in the market. Her income is irregular though, so she cannot simply save USD25 each month. She talks to her husband about all of their income and expenses. She has her income from the market and he works as a driver. Then, they talk about how much their normal expenses are, like food and rent. They will also need to buy something for her sister who will be having a baby within the month. Business is doing well right now. She knows that business will slow down soon though, so she needs to save as much as she can now. She will also be paying school fees for her children, so money will be even tighter.

Once she and her husband have talked about all of their income and expenses for the coming month, they write them down. Gladys makes sure that her expenses are not greater than her income, and she includes her monthly savings goal of USD30.

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.

*Say:*

➤ **Do you have any questions about the story?**

*If not, then say:*

Gladys went through many steps to create her budget. Let's go through them one by one, and I'll ask you to tell me what Gladys did in this step:

1. Review financial goals: **[Answer: wants to start her own shop.]**
2. Estimate amount of income by source: **[Answer: her own income and her husband's.]**
3. List all expenses and amount needed for each one: **[Answer: She thought about her daily expenses like food and rent, as well as additional items like the gift for her sister.]**
4. Make sure your expenses are not more than your income: **[Answer: Gladys made sure she was not planning this month already in debt!]**
5. Decide how much you will save: **[Answer: Gladys decided to try to save USD30 this month.]**

6. Review and adjust as needed: [**Answer:** This is done at the end of the month. Gladys decided to make some changes based on the month before.]

## 2.2 MAKING YOUR OWN BUDGET – 15 minutes






There are two different budgets that you can use based on the literacy level of the consumer. If they are literate, go to Handout B4.2 - Budget worksheet. Follow the instructions at the bottom of the page and assist the consumer in filling out the budget. Then continue on to the Irregular income and expense worksheet.

If the consumer has a low literacy level, use Handout B4.1 - Budget calendar. Give the consumer 50 small objects. Tell them to place up to five 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 one object represents the smallest amount of income or expenditure and five objects represent the largest amount of income or expenditure.

For example: the shop owner's income is very high right after the harvest season because many people have extra money (four circles). After two months, his income drops slightly (three circles). A few months later, it drops more. It is the least amount of money he receives all year (one circle.)

See example below. Demonstrate how to fill in the income row and one of the expenses rows before giving the consumer a worksheet. Give the consumer a few minutes for this activity. Assist as needed.

**Budget calendar**

	Month 1	Month 2	Month 3
<b>INCOME</b> 	○○○○○	○○○○○	○○○
<b>SPENDING</b>			
Business 	○○○	○○○	○○
Household 	○○○	○○○	○○○
Loans 	○	○	
Savings 		○	○

### 2.3 IRREGULAR INCOME AND EXPENSES – 10 minutes

Once you have finished with the budget, explain how to calculate irregular income and expenses with worksheet B6.1.

#### *Irregular income:*

Income	Number of times received per year	Amount	Annual amount	Monthly income (divide annual amount by 12)
<b>1</b> Selling goats	<b>2</b> 2	<b>3</b> USD300	<b>4</b> USD600	<b>5</b> USD50

#### *Irregular Expenses:*

Expense	Number of times paid	Cost per time paid	Annual cost	Monthly cost (divide annual cost by 12)
<b>1</b> School fees	<b>2</b> 1	<b>3</b> USD36	<b>4</b> USD36	<b>5</b> USD3

### 2.4 ANALYSE YOUR BUDGET - 10 minutes

When the consumer has 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 following is mentioned:*

- **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.

- **Do you think you should change anything now that you know more about managing irregular income and expenses?**
- **What did you do to make sure you will have enough income to meet your expenses?**
- **Is this something that you can share with your family today? What exactly will you talk about with them?**

*Listen to the consumer 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.

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Say:*

Today, we talked about the steps required to make a budget. Then we practiced making a personalised budget together.

I would like you to go home with your budget and share with your family what you have learned today about budgeting. Your family will be a very important part of shaping your budget. Their *acceptance* is also very important when trying to stick to your budget, so their opinions will be very important.

- **What are your questions about today's counselling?**

*Say:*

- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will discuss more about saving.

**Counsellor completes consumer intake sheet for files.**



## Handout B6.1 Uncertain income and expenses worksheet

### Uncertain income

Joseph raises goats. He has budgeting problems because he only sells his goats twice a year for USD300 each time. He has either a lot of money or none at all. How can he figure out how much money he can allow himself each month so that his money will be last even when he is not selling anything?

Income	Number of times received per year	Amount	Annual amount	Monthly income (divide annual amount by 12)
<b>1</b> Selling goats	<b>2</b> 2	<b>3</b> USD300	<b>4</b> USD600	<b>5</b> USD50

- First, list the source of income.
- Then, list how many times it comes in a given period (in this case, it is a year.)
- The total amount that you receive each time.
- USD300 two times per year means that his total yearly amount is USD600.
- If he wants to know how much he has by month, he divides USD600 by 12 months. He may spend USD50 per month to maintain the same amount all year.

### Uncertain expenses

Just like income, there are uncertain expenses, like school fees or health insurance premiums. How can you figure out how much you should be putting aside for your uncertain expenses?

Expense	Number of times paid	Cost per time paid	Annual cost	Monthly cost (divide annual cost by 12)
<b>1</b> School fees	<b>2</b> 1	<b>3</b> USD36	<b>4</b> USD36	<b>5</b> USD3

- First, list the uncertain expense.
- Then, list how many times you pay it (in this case, it is once a year.)
- The total you pay is USD36.

- You only pay once a year, so the annual total is still only USD36.
- If you want to know how much to put aside per month, divide USD36 by 12 months. That equals USD3 per month. Now continue this with all of your other uncertain expenses!

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Identify all regular and irregular income and expenses for one month.
2. Review and/or modify budget with family members.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## MODULE D: SAVINGS OUTLINE

	Session title	Purpose:	Use if:
1	<i>What are savings and why should I save?</i>	<ul style="list-style-type: none"> <li>a. Define savings.</li> <li>b. Describe and categorise savings goals.</li> <li>c. Describe strategies for overcoming savings difficulties.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer does not save at all.</li> <li>b. Consumer does not know what they are saving for.</li> </ul>
2	<i>Setting savings goals and developing a savings plan</i>	<ul style="list-style-type: none"> <li>a. Set short- and long-term goals.</li> <li>b. Rank the importance of their savings goals.</li> <li>c. Develop a savings plan for their family.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer is having difficulty saving due to lack of direction/motivation.</li> <li>b. Consumer has more goals than they can work toward at one time.</li> <li>c. Consumer has a goal but needs help planning.</li> </ul>
3	<i>Savings options</i>	<ul style="list-style-type: none"> <li>a. Identify the three main types of savings methods.</li> <li>b. Compare and contrast the three types of savings methods.</li> <li>c. Rate each method by riskiness.</li> <li>d. Choose a preferred method of savings based on personal needs.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer does not have a safe place to save.</li> <li>b. Consumer is unfamiliar with any of the formal, semi-formal or informal methods.</li> <li>c. Consumer has had bad luck using informal methods.</li> </ul>
4	<i>Savings products</i>	<ul style="list-style-type: none"> <li>a. Identify how their personal goals will affect the way they should be saving.</li> <li>b. Match savings goals with specific savings products.</li> <li>c. Identify the appropriate use for each type of savings account.</li> </ul>	<ul style="list-style-type: none"> <li>a. Consumer is interested in learning about their savings options.</li> <li>b. Consumer is interested in learning the terms that banks often use.</li> <li>c. Consumer does not know how to match their savings goals to bank products.</li> </ul>

# SAVINGS COUNSELLING SESSION 1

## TOPIC: WHAT ARE SAVINGS AND WHY SHOULD I SAVE?

### Purpose:

This is an introductory session to savings. Saving money is an essential part of preparing your future, no matter what your financial goals are. In this session, the consumer will be able to:

- a. Define savings.
- b. Describe and categorise savings goals.
- c. Describe strategies for overcoming savings difficulties.

### Use if:

- a. Consumer does not save at all.
- b. Consumer does not know what they are saving for.

### Materials:

Handout S1.1 - Savings goal categories  
Consumer intake sheet  
Action plan

**Duration:** 30 minutes

\*\*\*\*\*

## 1 INTRODUCTION – 5 minutes

### Say:

Today we are going to discuss savings. Saving your money is one of the most important things you can do to gain some security in your financial situation. Whether you just want to smooth your consumption, be prepared for emergencies or start your own business, savings can help you arrive at your goals while creating minimal risks.

We will first define what savings is, because it can mean many different things to different people. Next, we will talk about *why* it differs (some savings methods are better suited to certain goals than others), and all of the reasons why people save.

## 2 CORE COUNSELLING SESSION:

### 2.1 WHAT ARE SAVINGS? – 15 minutes

### Ask:

- **Do you currently save?**
- **What do “savings” mean to you?**

*Listen to their answer and add any of the following that the consumer does not say.*

**What are savings?**

- Money that is put away in the present for use in the future.
- Investments in jewellery, animals or land that can be sold when cash is needed.
- A way of building assets (property, which can be sold for cash if needed).

*Say:*

Savings are a fundamental part of money management. Savings can come in different forms, and can help you to reach many different financial goals, whether you want to be able to better handle shocks like illness in the family or be able to grow your business more.

*Give the consumer Handout S1.1. Follow the instructions on the bottom, and allow the consumer to categorise all of the savings goals on the list. Also, allow the consumer to add to the list if there is a savings goal that is not already included.*

*When they have finished, ask:*

- **What have you noticed about the differences between savings goals?**
- **Can you save for these goals in the same way or do they require different strategies?**

## **2.2 SAVINGS DIFFICULTIES – 5 minutes**

*Say:*

Anyone who has tried to save money before knows that it is not always an easy thing to do, and again, it is often difficult for a number of reasons.

*Ask:*

- **What is it that makes it hard for you or your family to save?**

*Say:*

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:

- **What do you think can be done to overcome these savings barriers?**

Say:

When trying to save, even if you remember nothing else that we say here today, remember this: follow the two rules!

**Two rules of saving**

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

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

Say:

Today, we talked about what savings are and some of the different reasons why people save. We also talked about some of the reasons that make saving difficult, and what you can do to overcome these difficulties.

- **What are your questions about today's counselling?**

Say:

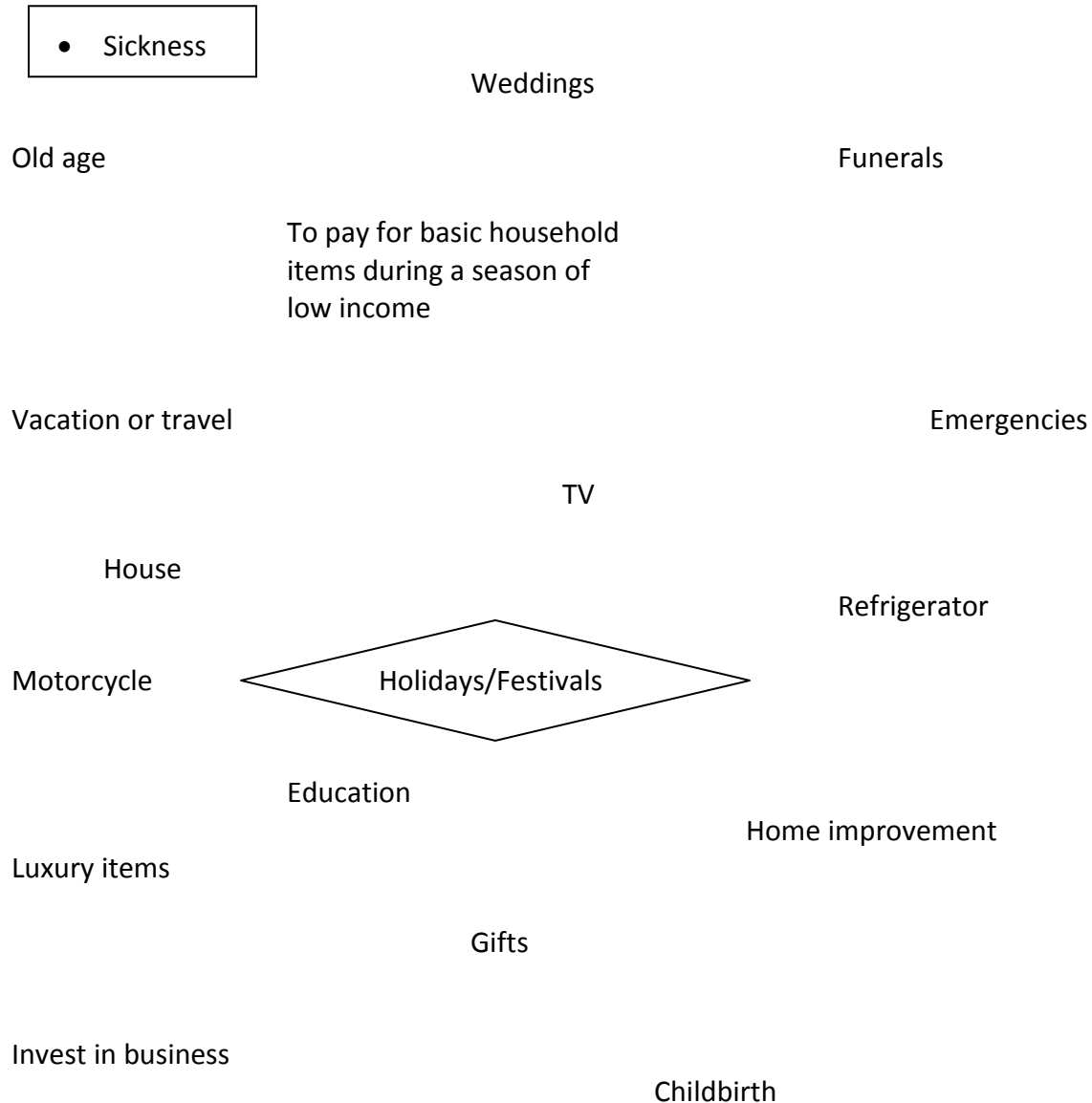
- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

Say:

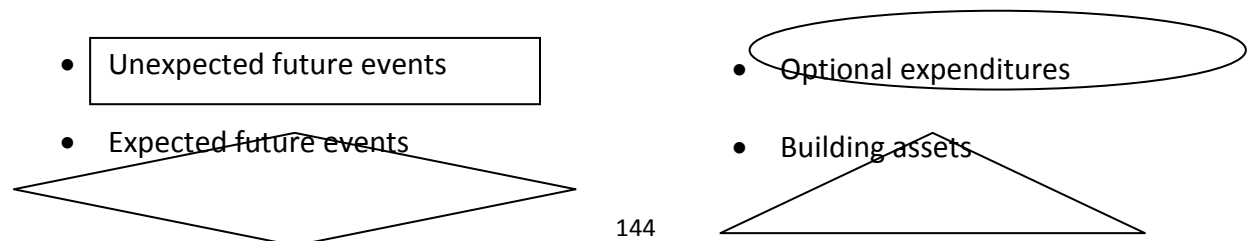
During our next meeting, we will talk more about creating savings goals and developing a savings plan.

**Counsellor completes consumer intake sheet for files.**

## Handout S1.1 Savings goal categories



These are all reasons that people might save money for, but they are not all quite the same as each other. In fact, there are four different categories. For each savings goal above, either mark the number or draw the shape that corresponds to the savings category.





## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Think about what my savings goals are and categorise them as "Unexpected future event", "Expected future event", "Optional expenditures" or "Building assets".
2. Come back for the next session on goal planning with my top three most important savings goals.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## SAVINGS COUNSELLING SESSION 2

### TOPIC: SETTING SAVINGS GOALS AND DEVELOPING A SAVINGS PLAN

#### Purpose:

This session will help the consumer decide what kinds of things they can be saving for, and which ones are most appropriate for them. This session will also teach them about savings plans and establishing timelines for their savings goals. In this session, the consumer will be able to:

- a. Set short- and long-term goals.
- b. Rank the importance of their savings goals.
- c. Develop a savings plan for their family.

#### Use if:

- a. Consumer is having difficult saving due to lack of direction/motivation.
- b. Consumer has more goals than they can work toward at one time.
- c. Consumer has a goal but needs help planning.

#### Materials:

Handout S2.1 - Savings and planning worksheet  
Consumer intake sheet  
Action plan

**Duration:** 30 minutes

\*\*\*\*\*

### 1 INTRODUCTION – 5 minutes

*Say:*

Today, we are going to talk about savings goals. Having a clearly defined goal is very important. Having a clearly defined plan, and something to work toward, can have a big effect on the outcome.

Imagine that your friend serves you a new dish, and it is very tasty! You would like to try making it yourself.

- **Would you have better results by just trying to copy it based on what you tasted? Or asking your friend for the ingredients and instructions?** *[Of course the answer is 'with the instructions'! That's what a savings plan is. You are writing yourself instructions for success. What do you want and how are you going to get it?]*

### 2 CORE COUNSELLING:

#### 1.1 SHORT- AND LONG-TERM SAVINGS GOALS - 20 minutes

Ask:

- **Do you currently save?** *[If no, ask why. You may also consider returning to Session 1 “What are savings and why save?”]*
- **Do you have any savings goals?** *[Allow the consumer to list as many as they want. Either write down the person’s answers, or simply remember them in your head.]*

Explain:

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.

There are two types of savings goals. There are short-term goals, which can be accomplished in less than one year. Then there are long-term goals, which will take longer than one year to achieve.

*Going back to the consumer’s goals, ask which ones are short-term and which ones are long-term. If their goals are all short-term, ask them if they have any long-term goals. If they only have long-term goals, ask if they have short-term goals, which will permit them to reach their long-term goals.*

<b>Savings goals and planning worksheet</b>				
<b>Savings goal</b>	<b>Lump sum needed</b>	<b>When needed?</b>	<b>Amount of savings required per week or month</b>	<b>Ranking of importance</b>
<b>Short-term</b>				
Education fees	USD40	In five months	USD8/month	
Emergency fund	USD50	In four months	USD12.50/month	
<b>Long-term</b>				
New roof	USD240	In 36 months	USD7/month	
<b>Total savings required</b>	USD330		USD25/month	

*Once you have at least two short-term goals and one long-term goal, give the participant Handout S2.1 - Savings and goal planning worksheet, to begin their goal planning. Above is an example, but the consumer will receive a blank one to fill out their own goals.*

*Ask the consumer to write their first goal on the worksheet. Then ask:*

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

*Continue like this with all of the goals that the consumer has mentioned. Then ask:*

- **Which goal is most important? Next in importance? And so on...**

*Once you have ranked all of the consumer's goals, ask:*

- **How do you feel when setting goals for yourself and your family?**
- **How do you think this exercise could help you and your family to save more money?**

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Say:*

Today, we talked about some of your savings goals and how to create a plan that will help you achieve those goals.

- **What are your questions about today's counselling?**

*Say:*

- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will talk more about different savings options available to you.

**Counsellor completes consumer intake sheet for files.**

## Handout S2.1 - Savings goals and planning worksheet

	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
	<b>Lump sum needed</b>	<b>Needed in how many months?</b>	<b>Amount of savings required per week or month</b>	<b>Ranking of importance</b>
<b>1</b> Short-term				
<b>2</b> Long-term				
<b>7</b> Total savings required				

- Short-term goals: list your goals that will take you less than one year to achieve.
- Long-term goals: list your goals that will take you more than one year to achieve.
- Lump sum needed: the total amount that is needed for your goal.
- When would you like to have all of the money saved up?
- Divide the amount that you need (**3**) by the number of months you have to save for it (**4**).
- Put a “1” next to your most important goal, a “2” next to the second most important, and so on.
- Add up the lump sum that you need as well as your monthly savings needs. You may see that you can save more each month, or you cannot save enough for all of your goals. In this case, look at how you ranked your goals and see how you can readjust your plan.

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Review my short- and long-term goals with my family.
2. Return for my next counselling session with a savings plan that the whole family has agreed upon.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

# SAVINGS COUNSELLING SESSION 3

## TOPIC: SAVINGS OPTIONS

### Purpose:

This session will help the consumer to decide what the options for saving are, and which ones best suit their needs. In this session, the consumer will be able to:

- a. Identify the three main types of savings methods.
- b. Compare and contrast the three types of savings methods.
- c. Rate each method by riskiness.
- d. Choose a preferred method of savings based on personal needs.

### Use if:

- a. Consumer does not have a safe place to save.
- b. Consumer is unfamiliar with any of the formal, semi-formal or informal methods.
- c. Consumer has had bad luck using informal methods.

### Materials:

Handout S3.1 - Formal, semi-formal and informal savings

Handout S3.2 - Advantages and disadvantages of savings methods

Consumer intake sheet

Action plan

**Duration:** 45 minutes

\*\*\*\*\*

## 1 INTRODUCTION – 5 minutes

*Say:*

Today, we are going to talk about the many different options that you have when it comes to saving. Saving should be a priority for everyone, as it is key to helping you prepare for unexpected events, invest in your future, or even just allows you to buy some nice things for yourself or your family.

Though there are many savings options, they are not all created equal. Each savings option has good things about it, and it has bad things about it. Today, we are going to talk about what these different options are, what their advantages and disadvantages are, and how they rate in your opinion.

## 2 CORE COUNSELLING:

### 2.1 FORMAL, SEMI-FORMAL AND INFORMAL SAVINGS METHODS – 10 minutes

Say to the consumer:

- **What are some of the ways you know that people save?** [Write down the consumer's answers. Probe for all answers including: under the mattress, home bank, ROSCAs, merry-go-rounds, MFIs, formal banks, etc.]

Say:

Saving in each of these ways is very different. In fact, we can break types of savings into three categories: informal, semi-formal, and formal.

Give the consumer Handout S3.1 - Formal, semi-formal and informal savings.

Before you go through the matching exercise, go over the definitions of "formal", "semi-formal" and "informal" savings options at the bottom of the worksheet. Make sure that the consumer understands the difference between the three.

Formal	Semi-formal	Informal
<ul style="list-style-type: none"><li>▪ Bank</li><li>▪ Credit union</li><li>▪ Regulated MFIs</li><li>▪ Post Office Savings Bank.</li></ul>	<ul style="list-style-type: none"><li>▪ Groups: savings and credit associations, village banks, solidarity groups, self-help groups</li><li>▪ Savings collector</li><li>▪ Non-regulated MFI or cooperative.</li></ul>	<ul style="list-style-type: none"><li>▪ At home (in cash)</li><li>▪ In kind (gold, jewellery, livestock, land)</li><li>▪ Other.</li></ul>

**(Note: For this handbook, formal financial institutions are defined as those that are registered and regulated by the Central Bank. Semi-formal refers to institutions that are registered by various bodies including ministry of social services, NGO bodies etc but are not regulated by the Central Bank, while informal are those that are not registered.)**

Once you have completed the worksheet, ask the consumer:

- **Which of these services have you used before?**
- **How do they work?**

## 2.2 COMPARING SAVINGS METHODS – 15 minutes

Discuss the advantages and disadvantages with the consumer. Use Handout S3.2 as a guide for conversation, but don't give it to the consumer yet. Make sure to probe, and use this conversation to gauge how familiar they are with each of the services. Ask:

- **What are some of the advantages of formal institutions like banks?** [Note on the worksheet which ones they are aware of. At the end, you can discuss the other advantages.]



- **What are some of the disadvantages of formal institutions?** *[Continue with notes.]*
- **What are the advantages of semi-formal institutions, like ROSCAs?**
- **What are the disadvantages of semi-formal institutions?**
- **What are the advantages of informal savings, like saving under your mattress?**
- **What are the disadvantages of informal savings?**

*When the consumer has listed all the advantages and disadvantages that they know of, share Handout S3.2 with them. Explain all of the advantages and disadvantages that they did not list.*

Savings service	Risk rating	Advantages	Disadvantages
<b>Formal</b>			
Banks Post Office Credit union Regulated MFI	5	<ul style="list-style-type: none"> <li>▪ Safest option</li> <li>▪ Less temptation to withdraw and spend</li> <li>▪ May earn interest</li> <li>▪ Access to wider range of savings products (certificates of deposit, current account, pension funds, etc)</li> <li>▪ Helps to manage money</li> <li>▪ Can save time on bill payments.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Low remuneration</li> <li>▪ Minimum deposit required to open account may be barrier</li> <li>▪ May charge fees</li> <li>▪ Long lines and delays inside bank</li> <li>▪ Can be confusing</li> <li>▪ Less accessible to poor and those who cannot read and write.</li> </ul>
<b>Semi-Formal</b>			
Savings with group (village bank, non-regulated savings and credit association, etc.) ROSCAs Deposit collectors		<ul style="list-style-type: none"> <li>▪ Easy access</li> <li>▪ Savings often linked to credit</li> <li>▪ May earn dividends on loans made with savings</li> <li>▪ Group rules about frequency and amount of deposits encourages saving</li> <li>▪ Discipline.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Safety not guaranteed</li> <li>▪ May or may not earn interest</li> <li>▪ May have limited or no access to loans</li> <li>▪ Limited access to savings or withdrawals subject to group approval.</li> </ul>
<b>Informal</b>			
At home (in cash)	1	<ul style="list-style-type: none"> <li>▪ Easy access</li> </ul>	<ul style="list-style-type: none"> <li>▪ Not safe</li> <li>▪ Too easy to spend and 'waste' on non-</li> </ul>

In kind (gold, jewellery, livestock, land, etc)	<ul style="list-style-type: none"> <li>▪ Value might increase over time</li> <li>▪ Must sell to access cash—decreases temptation.</li> </ul>	<p>essential items</p> <ul style="list-style-type: none"> <li>▪ Difficult to liquidate in case of emergency</li> <li>▪ Value could decrease over time</li> <li>▪ Risk of theft or death (in case of animals).</li> </ul>
---	--	--

## 2.3 EVALUATING FORMAL, SEMI-FORMAL AND INFORMAL SAVINGS METHODS – 10 minutes

*When you have discussed everything on the list, ask the consumer:*

- **What bad things can happen to your savings?** *[Savings get stolen or lost, lose value, get used to pay my own bad debts or the bad debts of others, used by family members, not available due to problems with the bank or MFI.]*
- **Of all of the savings services we have talked about today, which ones are the safest? Which are the least safe? Why?**

*Ask the consumer to give a “risk rating” for each savings service on the handout. One is low safety, three is kind of safe, and five is very safe!*

*Note that the perception of risk will vary with each person, but generally the formal services are the least risky and the informal services are the most risky.*

*Once the consumer has finished their ratings, ask them to explain why they chose the ratings they did. Then say:*

- **Knowing all of the advantages, disadvantages and riskiness of each saving method, which one do you think is the best option for you? For which purposes? Why?**
- **How will this type of savings method help you to reach your short- and/or long-term goals?**

Thank the consumer for their great work today.

## 3 CLOSING AND ACTION PLANNING - 5 minutes

*Say:*

Today, we identified and discussed some of the different ways that people save, and the advantages and disadvantages of each one. We also talked about the riskiness for each one, and the kind of savings service that would best fit you to reach your goals.

- **What are your questions about today’s counselling?**

*Say:*

- **Thank you for coming in today. Can we schedule our next meeting?** [Write this down on the action-plan form for the consumer as a reminder.]

*Say:*

During our next meeting, we will talk more about creating savings goals and developing a savings plan.

**Counsellor completes consumer intake sheet for files.**

### Formal, semi-formal and informal savings

1 Formal	2 Semi-formal	3 Informal

*Below are examples of savings methods. Write each savings method in the column of the correct category: either formal, semi-formal or informal.*

- |   |  |
|---|--|
| ▪ Village banks                                   | ▪ In kind (gold, jewellery, livestock, land) |
| ▪ Bank  | ▪ Post Office                                |
| ▪ At home (in cash)                               | ▪ Regulated MFI                              |
| ▪ Solidarity groups                               | ▪ Credit union                               |
| ▪ Savings collector                               | ▪ Self-help groups                           |
| ▪ Savings and credit associations or cooperatives | ▪ Non-regulated MFI                          |

- 
- **Formal** methods are regulated by a government agency to ensure the safety of savings. Usually, formal savings services pay interest on savings. Some institutions insure savings. That means that if the institution loses your money, the government will reimburse you for part or all of your losses.
  - **Semi-formal** methods fall in the middle between the formal and informal. Semi-formal savings institutions offer organised services but are not supervised or regulated by the government. They include savings collectors, village banks and other microfinance-group mechanisms.
  - **Informal** savings vehicles are ones that you manage yourself, usually at home. You may keep your savings in cash, or jewellery or livestock. Savings of this nature do not have oversight from a government agency.

### Handout S3.2 Advantages and disadvantages of savings methods

Savings service	Risk rating	Advantages	Disadvantages
<b>Formal</b>			
Banks		<ul style="list-style-type: none"> <li>▪ Safest option</li> </ul>	<ul style="list-style-type: none"> <li>▪ Low remuneration</li> </ul>
Post Office		<ul style="list-style-type: none"> <li>▪ Less temptation to withdraw and spend</li> </ul>	<ul style="list-style-type: none"> <li>▪ Minimum deposit required to open account may be barrier</li> </ul>
Credit union		<ul style="list-style-type: none"> <li>▪ May earn interest</li> </ul>	<ul style="list-style-type: none"> <li>▪ May charge fees</li> </ul>
Regulated MFI		<ul style="list-style-type: none"> <li>▪ Access to wider range of savings products (certificates of deposit, current account, pension funds, etc)</li> <li>▪ Helps to manage money</li> <li>▪ Can save time on bill payments.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Long lines and delays inside bank</li> <li>▪ Can be confusing</li> <li>▪ Less accessible to poor and those who cannot read and write.</li> </ul>
<b>Semi-formal</b>			
Savings with group (village bank, non-regulated savings and credit association, etc)		<ul style="list-style-type: none"> <li>▪ Easy access</li> <li>▪ Savings often linked to credit</li> <li>▪ May earn dividends on loans made with savings</li> <li>▪ Group rules about frequency and amount of deposits encourages saving</li> </ul>	<ul style="list-style-type: none"> <li>▪ Safety not guaranteed</li> <li>▪ May or may not earn interest</li> <li>▪ May have limited or no access to loans</li> <li>▪ Limited access to savings or withdrawals subject to group approval.</li> </ul>
ROSCAs		<ul style="list-style-type: none"> <li>▪ Discipline.</li> </ul>	
Deposit collectors			
<b>Informal</b>			
At home (in cash)		<ul style="list-style-type: none"> <li>▪ Easy access.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Not safe</li> <li>▪ Too easy to spend and 'waste' on non-essential items</li> </ul>
In kind (gold, jewellery, livestock, land, etc)		<ul style="list-style-type: none"> <li>▪ Value might increase over time</li> <li>▪ Must sell to access cash—decreases temptation.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Difficult to liquidate in case of emergency</li> <li>▪ Value could decrease over time</li> <li>▪ Risk of theft or death (in case of animals).</li> </ul>

*Look at the list carefully and give each savings method a “risk rating” from 1 to 5, with 1 being not risky at all, and 5 being very risky!*

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Review the savings methods handouts, discuss my options with my family, and decide which savings service will help us to meet our financial goals.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

# SAVINGS COUNSELLING SESSION 4

## TOPIC: SAVINGS PRODUCTS

### Purpose:

This session will help consumers to decide which bank products can help them to reach their savings goals. If they are unfamiliar with banking, the choices and terms can be overwhelming. This session is designed to help them to understand the terms that bankers use and decide which features will benefit them the most. In this session, the consumer will be able to:

- a. Identify how their personal goals will affect the way they should be saving.
- b. Match savings goals with specific savings products.
- c. Identify the appropriate use for each type of savings account.

### Use if:

- a. Consumer is interested in learning about their savings options.
- b. Consumer is interested in learning the terms that banks often use.
- c. Consumer does not know how to match their savings goals to bank products.

### Materials:

Handout S4.1 - Formal institution savings products  
Consumer intake sheet  
Action plan

**Duration:** 40 minutes

\*\*\*\*\*

## 1 INTRODUCTION – 5 minutes

*Say:*

Today we are going to talk about some of the savings products that are typically available at banks. We have spoken before about different kinds of savings goals, and for this reason, there are different kinds of savings products. There is no one “best” account, as you will soon discover.

## 2 CORE COUNSELLING:

### 2.1 LINKING GOALS TO SAVING – 5 minutes

*Say:*

Let’s talk about your savings goals first.

Ask:

- **What are your short-term savings goals?** *[If the consumer does not have any short-term goals or does not understand the question, start with the previous counselling session “Savings goals”.]*
- **What are your long-term savings goals?** *[Either write down the person’s answers or simply remember them in your head.]*

Thank you for these examples. As you remember, a short-term savings goal is one you expect to reach within one year. A long-term savings goal is one you expect to reach perhaps in two or three or even more years.

Explain the following:

Whether you are saving to build a house in several years or to pay school fees for next term, you are putting money aside.

- **How do you think your savings goal will influence how you save?**  
*[For short-term goals, you put aside as much money as you can within a defined period. When that period is over, you withdraw your savings to meet the goal—to pay the school fees or attend a family wedding, for example. Then, you start saving all over again for a different goal. For long-term goals, you may save a smaller amount on a regular basis over a longer period. You hope not to withdraw it for months, or even years, and just keep saving until you reach your goal.]*

Say:

Having goals is a big step toward financial empowerment.

## 1.2 MATCHING GOALS TO PRODUCTS – 15 minutes

Ask:

- **Do you remember the three reasons for saving?** *[Personal use, emergencies and future opportunities.]*

Banks understand that you have different reasons for saving, and, therefore, you need different products to help you reach your goals.

Ask:

- **What features of a savings account will help you save when you are saving for the long term?** *[High interest rates, limited withdrawals.]*



Now, let us say you are saving for your child's school fees that are due every three months.

- **What features do you want your savings account to have?** *[Unlimited deposits and withdrawals, frequent access.]*

You can see that different savings goals require different savings products. Let us now learn about the typical type of savings product available at financial institutions.

*Give the consumer Handout S4.1 and go through all of the terms with them. Help the consumer fill in the "Uses" column, which will be "emergencies", "personal use" and "future opportunities". Also, help them come up with examples of savings goals that fit with each type of savings account.*

Formal institution savings products		
Type of savings product	How it works	Uses
Regular or passbook savings	<ul style="list-style-type: none"> <li>Voluntary timing and amount of deposits.</li> <li>Flexible withdrawals.</li> <li>May or may not pay interest.</li> </ul>	<b>EMERGENCIES (or unexpected opportunities)</b> <ul style="list-style-type: none"> <li>Sickness, injuries, unexpected travel, etc.</li> <li>If only one product can be offered, this type of product often is the one that best meets consumer demand.</li> </ul>
Contractual savings (Also known as "accumulated deposit, fixed-term account")	<ul style="list-style-type: none"> <li>Regular deposits of fixed amount over a predetermined period. Consumer can decide how much to save for how long (choosing from a preset range of terms).</li> <li>Access to savings restricted until contract is fulfilled.</li> <li>Penalty is paid for early withdrawal.</li> <li>Interest usually higher than regular savings account.</li> <li>Can borrow against your savings.</li> </ul>	<b>PERSONAL USE</b> <ul style="list-style-type: none"> <li>New clothes, household supplies, home repairs, luxury items.</li> </ul>
Time deposit	<ul style="list-style-type: none"> <li>Fixed sum for a predetermined term and rate of interest.</li> <li>Requires minimum deposit.</li> <li>Inflexible.</li> <li>Pays a higher interest rate than either a passbook or a contractual savings product for same amount of savings.</li> </ul>	<b>FUTURE OPPORTUNITIES</b> <ul style="list-style-type: none"> <li>For larger needs expected in future such as marriage, or a major capital purchase.</li> </ul>

## 2.3 LINKING STORIES TO ACCOUNTS – 10 minutes

Say:

I'm going to read some scenarios about different people trying to save. You tell me which account is best suited for this type of goal. Ready?

### Scenario #1

Elena wants to save for her daughter's wedding next year. She has almost nothing saved now, but if she puts aside USD5 every week for a year, she will have just enough for the wedding. So, she can't be tempted to dip into these savings for anything else.

*[Answer: Contractual savings account]*

### Scenario #2

Maria has just completed a learning session on savings for emergencies. Now she is determined to save every month, even if she can only afford a small deposit. She doesn't know what she might need the money for now, but she doesn't want an unexpected illness or accident to ruin her family.

*[Answer: Passbook savings will allow her to make small deposits whenever she can, and withdraw money when she needs to. Since she does not know when she might need to withdraw money for an emergency, she probably wouldn't want restricted access that would force her to pay a penalty if she takes money out before her contract period is up.]*

### Scenario #3

Anita just received USD200 from her son who is working abroad. She could spend this money on any number of important things, but she really wants to put it away for her daughter's university education. Although her daughter won't go to university for another three years, Anita knows that she will need a lot of money.

*[Answer: Since Anita does not plan to spend this money for three years, a time-deposit account will earn the highest interest and keep her money safe from temptation to spend it on other things, as penalties are charged for early withdrawals.]*

### Scenario #4

Nina needs a place to save a portion of her sales earnings from her used-clothing stall. She needs to save for the monthly delivery of clothing bales. She wants to be able to save weekly and withdraw the amount she needs every month to buy a new bale of clothing.

*[Answer: Passbook savings operate like a current account for regular deposits and withdrawals. Nina will trade access to her account for income and growth, as these accounts typically pay a very low interest rate.]*

*Return to the subject of the consumer's goals. Ask:*

- **Now that you know the differences very well between these three types of savings accounts, which account do you think will help you to achieve your goals?**
- **Do you think that you could make use of more than one account? Why?**

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Say:*

Today, we talked about the different kinds of savings accounts available, and how they are suited to different purposes. We talked about the features of the accounts, and how some features vary in order to work best with specific savings goals.

- **What are your questions about today's counselling?**

*Say:*

- **Thank you for coming in today. Can we schedule our next meeting?** [Write this down on the action-plan form for the consumer as a reminder.]

*Say:*

During our next meeting, we will discuss more about \_\_\_\_\_.

**Counsellor completes consumer intake sheet for files.**

## Handout S4.1 Formal institution savings products

Formal institution savings products		
Type of savings product	How it works	Uses
Regular or passbook savings	<ul style="list-style-type: none"> <li>Voluntary timing and amount of <i>deposits</i>. <b>1</b></li> <li><i>Flexible withdrawals</i>. <b>2</b></li> <li>May or may not pay <i>interest</i>. <b>3</b></li> </ul>	
Contractual savings (Also known as “accumulated deposit, fixed-term account”)	<ul style="list-style-type: none"> <li>Regular deposits of fixed amount over a predetermined period of time. Consumer can decide how much to save for how long (choosing from a preset range of terms).</li> <li><i>Access</i> to savings restricted until contract is fulfilled. <b>4</b></li> <li><i>Penalty</i> is paid for early withdrawal. <b>5</b></li> <li>Interest usually higher than regular savings account.</li> <li>Can borrow against your savings.</li> </ul>	
Time deposit	<ul style="list-style-type: none"> <li><i>Fixed sum</i> for a predetermined term and rate of interest. <b>6</b></li> <li>Requires minimum deposit. <b>7</b></li> <li>Inflexible.</li> <li>Pays a higher interest rate than either a passbook or a contractual savings product for same amount of savings.</li> </ul>	

- **Deposits:** the money that you put into your account.
- **Flexible withdrawals:** you may take your money out as often as you like - there are no restrictions.
- **Interest:** the bank will pay a small percentage of the amount of money you put in the bank. The more you deposit the more money you get back from them as interest. The percentage the bank pays varies by bank and by type of account.
- **Access:** your ability to get to your money. Some accounts allow you to take your money at any time, and others make you wait a certain period of time.
- **Penalty:** a fee that is charged for not following the terms of your account. For example, if you promise not to withdraw any money for six months, but need to withdraw anyway, you will pay an extra charge.
- **Fixed sum:** an amount that you decide you can save regularly. You are required to save this amount for a certain amount of time, and you will receive interest on it.
- **Minimum deposit:** the amount of money that you need to be able to open an account.

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Talk to my family members about our savings goals and match them with a savings account.
2. Go to a local bank and discuss my options for opening a savings account.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## MODULE E: DEBT MANAGEMENT OUTLINE

	Session title	Purpose:	Use if:
1	<i>What is debt management?</i>	a. Define a loan. b. Distinguish between loans and personal money.	a. Consumer has never borrowed money before. b. Consumer does not understand that borrowed money is not theirs, though it is in their possession.
2	<i>The costs of borrowing</i>	a. Identify the costs of borrowing. b. Distinguish between direct and indirect costs.	a. Consumer does not understand indirect costs. b. Consumer does not know the difference between one kind of loan and another.
3	<i>Comparing loans</i>	a. Identify the sources of credit available to them. b. Articulate what they like and dislike about different lenders. c. Make a list of the questions they will ask when shopping for a loan.	a. Consumer views all loans as the same. b. Consumer is unhappy with loan provider but does not know where else to go.
4	<i>How much debt can I afford?</i>	a. Analyse their ability to take on a loan. b. Analyse the overall debt they can afford.	a. Consumer is considering taking on a new loan. b. Consumer is considering taking on a very large loan.
5	<i>Loan non-repayment: what is it and how does it happen?</i>	a. Determine what makes a delinquent borrower. b. Identify the reasons that someone would not be able to repay a loan. c. Identify strategies to avoid loan non-repayment.	a. Consumer has become a delinquent borrower. b. Consumer is worried about not being able to repay a loan. c. Consumer wants to know how to avoid delinquency.
6	<i>Understanding the danger of non-payment of debt</i>	a. Identify what non-payment of debt means. b. Describe some of the dangers and consequences that come with defaulting on loans. c. Describe strategies to avoid defaulting on loans.	a. Consumer is worried about non-payment of debt. b. Consumer has several loans and may be over-indebted.
7	<i>Dealing with over-indebtedness</i>	a. Brainstorm ideas for controlling debt. b. Keep track of their loan payments. c. Create their own payment calendar.	a. Consumer, or person close to consumer, is over-indebted. b. Consumer cannot keep track of their loan payments.

# DEBT MANAGEMENT COUNSELLING SESSION 1

## TOPIC: WHAT IS DEBT MANAGEMENT?

### Purpose:

This is an introductory session to debt management. Taking out loans is something that almost everyone does, but this session is to make sure that the consumer understands what exactly taking out a loan means. In this session, the consumer will be able to:

- a. Define a loan.
- b. Distinguish between loans and personal money.

### Use if:

- a. Consumer has never borrowed money before.
- b. Consumer does not understand that borrowed money is not theirs, though it is in their possession.

### Materials:

Consumer intake sheet  
Action plan

**Duration:** 35 minutes

\*\*\*\*\*

## 1 INTRODUCTION – 5 minutes

### Say:

Let me tell you a story of two neighbours, Joseph and William. They are very good friends, as are their families, especially their two little girls who are five and six years old. The girls spend so much time together that, of course, if one of them gets sick, the other one always gets sick too. The girls both go to the doctor and get the proper medication. Joseph pulls USD10 out from his savings to buy the medication. William, who has no savings, must borrow USD10 from a moneylender. Fortunately, both of the girls are taking the medicine and recovering very quickly.

### Ask:

- **What is the difference between Joseph's situation and William's situation?** *[Joseph does not have to worry because he uses his savings to pay for the medicine. William, however, has no savings and must find a way to repay the moneylender.]*



Say:

William has taken out a loan, so he is now in debt. And that is the topic of today's counselling session. What is debt, and how does borrowing affect us?

## 2 CORE COUNSELLING SESSION:

### 2.1 WHAT IS A LOAN? – 15 minutes

Say that you want the consumer to fill in the blank:

➤ A loan is \_\_\_\_\_.

After the consumer has given their definition, supplement it with this formal definition.

#### 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.

Say:

Money you borrow is different from money you have from earnings or savings. Let's do an activity. For each statement I read, tell me whether you think it is true or false. I will read the statement twice.

#### True/false statements

2. Loan money belongs to the person who borrows it. **FALSE.**
3. A loan can help you start or expand a business when you don't have enough of your own money. **TRUE.**
4. If you must close your business, you do not have to repay your loan. **FALSE.**
5. If a thief takes all of your money, you do not have to repay your loan. **FALSE.**
6. Using your own money to start a business is less expensive than borrowing money. **TRUE.**
7. There are no consequences for missing a loan payment as long as you eventually pay. **FALSE.**
8. How much a person should borrow depends on their income. **TRUE.**



*Congratulate the consumer on answering the true/false statements. Ask:*

- **What are the three reasons we borrow?** *Hint: It is the same three reasons that people save! [Personal use (or consumption), emergencies and future opportunities (or investments).]*

*Explain that for all the major costs in life, we have a choice of saving or borrowing for it. That's why we will be looking closely at savings versus loans.*

*Ask:*

- **Have you borrowed before? For what reason(s)?** *[Allow the consumer to tell about their history of taking out loans.]*
- **What do you think the differences between the three different reasons for taking out a loan are? In other words, are you just as likely to get a loan for one as the others?** *[Loans for crises and personal consumption do not bring in new revenue, and must be paid back from other revenue sources. Try to avoid borrowing for these purposes.]*

## **2.2 WHAT IS THE DIFFERENCE BETWEEN YOUR OWN MONEY AND A LOAN? – 10 minutes**

*Ask:*

- **What are some differences between using your own money and using borrowed money?**

*Make sure the consumer identifies the following:*

### **Using your own money and using borrowed money: what is the difference?**

- A loan costs money.
- A loan comes with obligations for the borrower, including repayment with interest and, in some cases, group membership.
- You are freer when you use your own money.
- By borrowing, you get a greater lump sum than you might have using your own capital.
- Borrowing allows you to get money more quickly than if you rely on your ability to save little by little.

*Ask consumer to think about the positive and negative aspects of borrowing money. Ask:*

- **In your opinion, what is the main advantage of taking a loan?** *[Access to more money than you have in savings; access to money quickly when you need it for emergencies; both enable you to take advantage of investment opportunities or solve an immediate problem or crisis.]*
- **What is the main disadvantage of taking a loan?** *[The cost of loans with interest and fees; the responsibility of repaying your loan on time, the requirements of group membership in the case of a group loan.]*

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Say:*

Today, we talked about what “debt” really is, and how taking loans out is different than using your own money.

*Ask:*

- **What are your questions about today’s counselling?**

*Say:*

Thank you for coming in today.

*Ask:*

- **Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will talk more about the costs of borrowing money.

**Counsellor completes consumer intake sheet for files.**

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Think about which of my belongings are still debts that need to be paid off.
2. Thinking about which of my belongings are really mine.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## DEBT MANAGEMENT COUNSELLING SESSION 2

### TOPIC: THE COSTS OF BORROWING

#### Purpose:

This is a continuation of the first session on debt management. Taking out a loan often means more costs than the loan and interest due. This session takes a look at the additional costs often associated with borrowing. In this session, the consumer will be able to:

- a. Identify the costs of borrowing.
- b. Distinguish between direct and indirect costs.

#### Use if:

- a. Consumer does not understand indirect costs.
- b. Consumer does not know the difference between one kind of loan and another.

#### Materials:

Handout D2.1- Comparing two loans  
Handout D2.2- Cost to the borrower  
Consumer intake sheet  
Action plan

**Duration:** 30 minutes

\*\*\*\*\*

#### 1 INTRODUCTION – 5 minutes

##### *Say:*

Today, we are going to talk about the costs of borrowing money. Taking out a loan can be a complicated business. When dealing with formal institutions, you may not be familiar with all of the terms. There may be fees that you are not used to. Or there may be costs associated with the loans that you hadn't considered before. The purpose of today's session is to explain all of the costs associated with loans, and how to calculate exactly how much a certain loan will end up costing you.

## 2 CORE COUNSELLING SESSION:

### 2.1 IDENTIFYING THE COSTS OF BORROWING – 10 minutes

Give the consumer Handout 2.1 - Comparing two loans, and say:

Let's start by examining the cases of two women who have taken out loans.

	Phyllis's story	Phoebe's story
	Phyllis has a five-week loan of USD100 from her credit association. Every Thursday morning she closes her shop and walks down the street to the programme office to attend her association meeting. There, she makes her loan payment, which includes principal, 2% interest and 1% insurance per week. She also makes her required savings deposit of USD5.	Phoebe has a loan of USD100 from a different lending institution. She attends a required meeting of her borrower group once a week. Because the meeting is far from her shop, she takes a bus each way which is USD1 round trip. On meeting day, Phoebe is away from her business the entire afternoon, so she pays an employee USD1 to keep the shop open for her. Her lending institution does not require savings, but she did pay an application fee of USD2. When she received her loan, the lender had already deducted USD4 for an administration fee. Now, every month she pays principal and interest at 3% per week.
<b>1</b>	Principal: USD20	Principal: USD20
<b>2</b>	Interest: USD2	Interest: USD3
<b>3</b>	Time lost: One morning per week – shop closed	Time lost: One afternoon per week - USD1 to employee
<b>4</b>	Transportation costs: None	Transportation costs: USD1
<b>5</b>	Required savings: USD5	Required savings: None
<b>6</b>	Administrative fees/costs: Insurance - USD1	Administrative fees/costs: USD2 Application Fee USD4 Administration Fee
<b>7</b>	Other costs:  Weekly total: USD28 Grand total: USD140 plus revenue lost by closing shop (Note: USD25 of the USD140 are savings)	Other costs:  Weekly total: USD25 Grand total: USD125 + USD6 = USD131

Ask:

- **What are the differences in the costs that Phyllis and Phoebe pay for their loans?**
- **What items on these lists require direct cash payment by the borrower to the lender?**  
[principal, interest, fees, administrative costs]

- **Which expenses does the borrower have *because of the loan* but that are not paid to the lender?** *[Travel costs, losses in sales, employee wages to keep shop open during owner's absence.]*

## 2.2 DIRECT VERSUS INDIRECT COSTS – 5 minutes

Say:

It is very easy to overlook the indirect costs of taking out a loan, and indirect costs can cause people to default on their loans when they normally wouldn't. Let us define direct and indirect costs:

### Definition of terms

#### **Direct costs:**

Money you pay to the lender for the loan. Includes interest, fees, insurance and late penalties. Usually these costs are included in your regular weekly or monthly payment.

#### **Indirect costs:**

Expenses you may have to pay because you have the loan, such as bus fare to attend meetings or to go to the bank. Can include wages you pay a worker to keep your business open when you are attending a meeting, or income you lose if you close your business to attend a meeting.

*(**Note:** The distinction between direct and indirect costs can be very confusing. It is not necessary for the consumer to master these terms. They do need to know how to include all costs when comparing different loans. Categories of cost to borrowers are included in Handout D 2.2 as adapted from CGAP<sup>7</sup> training materials.)*

## 2.3 IDENTIFY THE COSTS OF YOUR OWN LOAN– 5 minutes

Ask:

- **Have you taken out a loan before? Or known someone who has?**
- **Among the loan expenses, were there any surprises for you (or the person you know)? Were there any expenses that you did not think of in relation to your loan?**
- **How can you reduce your cost of borrowing?** *[Plan ahead; consider all the costs of borrowing before choosing a lender; compare the lenders, and choose the one that you can best afford.]*

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<sup>7</sup> Consultative Group to Assist the Poor

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Say:*

Today, we talked about the costs of borrowing, both direct and indirect costs.

*Ask:*

- **What are your questions about today's counselling?**

*Say:*

- **Thank you for coming in today. Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will talk more about different loan products.

**Counsellor completes consumer intake sheet for files.**

## Handout D2.1 - Comparing two loans

	Phyllis's story	Phoebe's story
	Phyllis has a five-week loan of USD100 from her credit association. Every Thursday morning, she closes her shop and walks down the street to the programme office to attend her association meeting. There, she makes her loan payment, which includes principal, 2% interest and 1% insurance per week. She also makes her required savings deposit of USD5.	Phoebe has a loan of USD100 from a different lending institution. She attends a required meeting of her borrower group once a week. Because the meeting is far from her shop, she takes a bus each way. On meeting day, Phoebe is away from her business the entire afternoon, so she pays an employee USD1 to keep the shop open for her. Her lending institution does not require savings, but she paid an application fee of USD2. When she received her loan, the lender had already deducted USD4 for an administration fee. Now, every month she pays principal and interest at 3% per month.
1	Principal:	Principal:
2	Interest:	Interest:
3	Costs of time lost:	Costs of time lost:
4	Transportation costs:	Transportation costs:
5	Required savings:	Required savings:
6	Administrative fees/costs:	Administrative fees/costs:
7	Other costs:	Other costs:

- **Principal:** What is the weekly/biweekly/monthly payment?
- **Interest:** What is the percent/amount that you pay on top of the principal for the loan?
- **Time lost:** What costs are associated with the time that you lose (ie closing your shop)?
- **Transportation costs:** Does it cost anything to get to your loan-payment site?
- **Required savings:** Will you be making savings deposits in addition to your loan payment?
- **Administrative fees/costs:** What additional fees are associated with the loan or lending institution?
- **Other costs:** What other costs are involved in Phyllis and Phoebe's loans that aren't listed above?



FINANCIAL COSTS
<p>Money, cash, paid to the MFI for the loan:</p> <ul style="list-style-type: none"> <li>• Interest.</li> <li>• FEES- loan or membership.</li> <li>• Commissions.</li> <li>• Discounting.</li> <li>• Group-fund or insurance-fund contributions.</li> <li>• SAVINGS REQUIREMENTS.</li> </ul>
TRANSACTION COSTS
<p>Money paid out to access a loan and not paid directly to the MFI; costs other than those paid to the financial institution but often imposed by lenders through the delivery system:</p> <ul style="list-style-type: none"> <li>• Transportation costs involved in receiving and repaying a loan.</li> <li>• Fees paid to obtain financial documents or business registration.</li> <li>• Costs of needed professional services (for example, lawyers, business plan consultant).</li> <li>• Photos for mandatory identification cards.</li> <li>• Cost of maintaining a bank account that is a requisite for obtaining a loan.</li> <li>• Communication costs.</li> <li>• Bribes.</li> </ul>
OPPORTUNITY COSTS
<p>Non-cash costs incurred by the borrower associated with forgone opportunities related to accessing the loan; frequently greater than the financial and transaction costs:</p> <ul style="list-style-type: none"> <li>• Forgone income because money isn't available to be used elsewhere.</li> <li>• Attendance at meetings and the corresponding absence from the business.</li> <li>• Missed procurement or investment opportunities.</li> <li>• Extra time spent processing a loan because of lost or misplaced documents by either MFI or borrower.</li> <li>• Costs of holding savings rather than using the money directly in the business.</li> <li>• Group guarantee responsibilities.</li> <li>• Time spent by borrower collecting needed information to access loan.</li> </ul>

<sup>8</sup> Adapted from Delinquency Management and Interest Rates Setting for MFIs course by CGAP

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1.

2.

3.

4.

5.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## DEBT MANAGEMENT COUNSELLING SESSION 3

### TOPIC: COMPARING LOANS

#### Purpose:

This is an introductory session to the different types of lenders available. Each lending institution is different, and this session will allow the consumer to begin drawing conclusions about the appropriateness of each lender to their specific situation and needs. In this session, the consumer will be able to:

- a. Identify the sources of credit available to them.
- b. Articulate what they like and dislike about different lenders.
- c. Make a list of the questions they will ask when shopping for a loan.

#### Use if:

- a. Consumer views all loans as the same.
- b. Consumer is unhappy with loan provider but does not know where else to go.

#### Materials:

Handout D3.1 - Comparing lenders  
Consumer intake sheet  
Action plan

**Duration:** 30 minutes

\*\*\*\*\*

### 1 INTRODUCTION – 5 minutes

*Say:*

Obviously, there are several sources of credit we can go to. Some are more difficult to get a loan from than others. Some can be expensive. Some require you to spend time in groups and some don't. Some require you to save before you can borrow. Each is a little different. Today we are going to identify the choices we have, and what we like and dislike about each.

### 2 CORE COUNSELLING SESSION:

#### 2.1 YOUR EXPERIENCE WITH LOANS – 20 minutes

*Say:*

I want to begin by talking about your experience with loans to date.

Ask:

- Have you ever borrowed from a friend or family member?
- Have you ever borrowed from a microfinance institution or a credit union?
- Have you ever borrowed from an informal savings and credit group?
- Have you ever borrowed from a moneylender?
- Have you ever borrowed from a bank?

*Note their answers on the intake sheet. For the next activity, take out Handout 3.1 - Comparing lenders, and identify three different types of lenders. If the consumer has used more than three, ask which three they like the best. If they have used fewer than three, ask if there are other lenders they would consider looking into.*

	Lender #1	Lender #2	Lender #3
<b>1</b> Interest rate	○ ○ ○ ○ ○	○ ○	○ ○ ○ ○
<b>2</b> Chance of getting loan			
<b>3</b> Type of loans offered			
<b>4</b> Distance from my home			
<b>5</b> Frequency of repayment			
<b>6</b> Availability of other services			
<b>7</b> Grace period			

*When the consumer has completed the worksheet, ask:*

- Which lender has the most counters or circles?

Say:

Look at the bottom right corner of your handout. Here is a list of questions that you should ask your lender before taking out a loan. If you ask these questions, you should not be surprised by anything. Let's read them together.

*Read the questions below with the consumer, and make sure that the consumer doesn't have any questions.*

For loans:

- What types of loans are available?
- What are the collateral requirements?
- What are the savings requirements?
- What is the interest rate?
- What fees are charged?
- How long does it take to get a loan?
- How many times do you actually have to go to the loan office to complete the application?

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Say:*

Today, we talked about the many different sources of loans, and compared the attributes of all of them.

➤ **What are your questions about today's counselling?**

*Say:*

Thank you for coming in today.

*Ask:*

➤ **Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will talk more about how much debt you personally are able to take on.

**Counsellor completes consumer intake sheet for files.**

### Important factors to consider when choosing a lender

Using counters, or simply making circles in each box, rate each lender based on the following attributes. The lender that is rated very highly will receive five counters, or five drawn circles, and the lender rated the lowest will receive one counter or one drawn circle.

Attributes	Lender #1	Lender #2	Lender #3
<b>1</b> Interest rate			
<b>2</b> Chance of getting loan			
<b>3</b> Type of loans offered			
<b>4</b> Distance from my home			
<b>5</b> Frequency of repayment			
<b>6</b> Availability of other services			
<b>7</b> Grace period			

- *How competitive is the interest rate?*
- *How likely is it that you will receive a loan from this lender?*
- *How much flexibility is there with your loan? Are different products available? Can you negotiate the terms and conditions?*
- *Convenience can be very important when making regular payments.*
- *Who has a frequency that you prefer? For some this could be weekly, for others it could be monthly.*
- *Who has other useful products at the same institution? Savings? Insurance? Other?*
- *Who has a grace period that suits your needs?*

#### Ask the right questions before taking a loan!

- What types of loans are available?
- What are the collateral requirements?
- What are the savings requirements?
- What is the interest rate?
- What fees are charged?
- How long does it take to get a loan?
- How many times do I have to go to the loan office to complete the application?
- Who can I go to if I have a problem?

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Calculate all of the costs of my current loan(s), including indirect costs.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## DEBT MANAGEMENT COUNSELLING SESSION 4

### TOPIC: HOW MUCH DEBT CAN I AFFORD?

#### Purpose:

This is a session on being aware of your own capacity to take on loans. It is important to know what your financial limits are. It is very easy to go from a manageable amount of debt, to over-indebtedness, and everyone should know exactly what this amount is for them. In this session, the consumer will be able to:

- a. Analyse their ability to take on a loan.
- b. Analyse the overall debt they can afford.

#### Use if:

- a. Consumer is considering taking on a new loan.
- b. Consumer is considering taking on a very large loan.

#### Materials:

Handout D4.1 - Christine's story  
Consumer intake sheet  
Action plan

**Duration:** 1 hour

\*\*\*\*\*

#### 1 INTRODUCTION – 5 minutes

*Say:*

Few of us think we have enough money for our necessities, our children's education and other things that we want. Many of us have businesses that we would like to expand if we had the money to invest. We can borrow money to make up the shortfall, but we have to be careful how much debt we take on. If we never borrow, we might never make progress. But if we borrow too much, we might not be able to repay.

#### 2 CORE COUNSELLING SESSION:

##### 2.1 ANALYSE ABILITY TO TAKE ON A LOAN – 20 minutes

*Explain that you will now read a story about Christine. Give the consumer Handout D4.1 - Christine's story.*



### Christine's story

Christine and her husband, William, live with their four children. Christine is a dressmaker and William raises sheep and goats. Their oldest son, Peter, is 20 years old, and drives his own motorcycle taxi. The three younger children are still in school.

Christine is paying off a loan that she used to purchase a new sewing machine. She only has three more months of USD30 payments to finish the loan. But Peter has 10 more USD70 payments on the loan he took to purchase his motorcycle. Now, Christine and William are trying to decide if they can take another loan to purchase a refrigerator for their home. The refrigerator is on sale this month. Christine is convinced that having it will save her time on food shopping and preparation, and give her more time to spend on her business. Can they afford it?

Christine earns USD250 per month. Her expenses average USD220 each month, so she usually has USD30 left over to spend on sweets for her children or lotion for herself. William sells animals twice per year and earns USD840 each time. Each time he receives the USD840, he pays USD720 for the veterinarian, food and school fees, and he puts USD120 in his bank account. Their son Peter earns USD300 per month. His expenses and helping his parents with rent and food add up to around USD260, so he usually has USD40.

*Encourage consumer to help you figure out how to fill in the blank table as you read the story. Ask them to come up with the totals too. When you finish, the table should look like the completed version below. If the consumer is illiterate or semi-literate, substitute numbers for Xs or counters that represent money.*

Christine's household income and expenses				
	Christine	William	Peter	TOTAL
Monthly income	USD250	USD140	USD300	USD690
Monthly expenses	USD220	USD120	USD260	USD600
Monthly cash available	USD30	USD20	USD40	USD90

**\*Note to trainer:** Explain these mathematical points if participants need:

- William makes USD840 twice per year. His annual income is  $(USD840 \times 2) / 12$ , or USD140 per month.
- William's monthly expenses are  $(USD720 \times 2) / 12$ , or USD120 per month.
- William's monthly cash available is  $(USD840 - USD720) / 12$ , or USD20 per month.
- (Next page) You may need to explain and show how interest is calculated: 10% (monthly interest rate) of USD100 (loan amount or "principal") is USD10 (monthly interest).  $USD10 \times 6$  months is USD60 (total interest).  $USD60$  (interest) +  $USD100$  (principal) is  $USD160$ , and  $USD160 / 6$  is approximately USD27 (monthly loan payment).

*Explain:*

Christine and William want to borrow USD100 at 10% interest per month for six months to pay for the refrigerator. Their loan payment will be approximately USD27 per month.

*Explain:*

Although each family has to decide how much debt they 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 USD125, the total of all your loan payments should not be more than USD25 per month.

Using this 20% guideline, let us figure out together if Christine and William should borrow the USD100 for the refrigerator. We know that Christine already has a loan payment of USD30 per month. Peter's payment is USD70. The new loan would add USD27 to their monthly payments.

*Ask:*

- **What do you think Christine and Peter should do?**
- **The family has enough income to make the loan payment, but what is the risk for them?**  
*[They will have no money for emergencies; they may have to use money from Peter; William only earns his money twice a year, and if there is any problem, their cash flow might not allow the loan repayment.]*
- **What are Christine and William's options?** *[1) They could wait until Christine and Peter's loans are paid off; 2) They could use William's savings towards the refrigerator, and take a smaller loan; 3) They could set up a savings plan or account for the refrigerator and wait until they save the USD100 they need.]*

*Ask:*

- **What would be the total amount the family owes each month if we add the new loan?**  
*[USD127]*
- **What is 20% of their total income?** *[USD138]*
- **What do you think about Christine and William taking on more debt?**

- **What is the problem with spending all of their available cash on loan payments?** *[They will have no cushion in cases of emergency, like sudden illness, replacement of an income-generating asset, etc.]*

## **2.2 HOW MUCH DEBT CAN I AFFORD? – 20 minutes**

Now, let's see if we can do the same calculations for our own household. Think about your reason for taking a loan. Estimate your own monthly income, expenses, and monthly cash available. Then, calculate 20% of your income. Decide if this loan would be right for you.

*If consumer is not sure of their income and expenses, just tell them to estimate for practice. Then they can return home and discuss the estimations with their family.*

*When consumer has had a chance to finish the exercise, ask:*

- **Now that you have looked at your income and expenses, what kind and amount of loan do you think you can afford?**
- **What is your plan for making your loan payment? Will you set aside a little money each day or each week for the payment?**
- **Could you save the amount of the principal instead of taking out a loan?**

## **2.3 ADVICE FOR POTENTIAL ADVISERS – 10 minutes**

*After five minutes, ask consumer to share their ideas. Summarise their ideas, and make sure the following points are covered:*

### **The “rules of thumb” for taking a loan**

- 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 your loan payments.
- The total of your loan payments should not exceed 20% of your usual income.
- Try to limit borrowing for personal consumption.
- Remember that not all income-generating projects start putting money in your pocket immediately. Business costs are often high and frequent in the beginning of a project. Make sure that you know exactly where the money for your loan repayments will be coming from.

*Thank the consumer for their great work!*

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Say:*

Often, people take on too much debt and have trouble making repayments. We have developed some advice for them. Look at your worksheet again, and read the bullets at the bottom.

*Once the consumer has had a chance to do this, ask:*

- **What questions do you have about the borrowing advice?**
- **What are your questions about today's counselling?**

*Say:*

Thank you for coming in today.

*Ask:*

- **Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will talk about how you can deal with being over-indebted. When you do not know the formula for the amount of debt you can take on, it is easy to become over-indebted. So, in the next session, we will talk about some of the strategies to fight this.

**Counsellor completes consumer intake sheet for files.**

## Christine's story

Christine and her husband, William, live with their four children. Christine is a dressmaker and William raises sheep and goats. Their oldest son, Peter, is 20 years old, and drives his own motorcycle taxi. The three younger children are still in school.

Christine is paying off a loan that she used to purchase a new sewing machine. She only has three more months of USD30 payments to finish the loan. But Peter has 10 more USD70 payments on the loan he took to purchase his motorcycle. Now, Christine and William are trying to decide if they can take another loan to purchase a refrigerator for their home. The refrigerator is on sale this month. Christine is convinced that having it will save her time on food shopping and preparation, and give her more time to spend on her business. Can they afford it?

Christine earns USD250 per month. Her expenses average USD220 each month, so she usually has USD30 left over to spend on sweets for her children or lotion for herself. William sells animals twice per year and earns USD840 each time. Each time he receives the USD840, he pays USD720 for the veterinarian, food and school fees, and he puts USD120 in his bank account. Their son Peter earns USD300 per month. His expenses and helping his parents with rent and food add up to around USD260, so he usually has USD40.

Christine's household income and expenses				
	Christine	William	Peter	TOTAL
Monthly income				
Monthly expenses				
Monthly cash available				

### The "DOs and DON'Ts" for taking a loan

- DO try to limit borrowing for personal consumption.
- DON'T let debt prevent you from paying for basic expenses such as food, school fees, and other necessary items.
- DO keep track of the amount and frequency of your loan payments.
- DON'T allow the total of your loan payments to exceed **20%** of your usual income.
- DO make sure you will have enough income at the time that your loan payments are due.

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Calculate the amount of debt that my family has already, and calculate the amount of debt that we can take on.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## DEBT MANAGEMENT COUNSELLING SESSION 5

### TOPIC: LOAN NON-REPAYMENT – WHAT IS IT, AND WHY DOES IT HAPPEN

#### Purpose:

This is an introductory session to delinquency, or loan non-repayment. In this session, the consumer will be able to:

- a. Determine what makes a delinquent borrower.
- b. Identify the reasons why someone would not be able to repay a loan.
- c. Identify strategies to avoid loan non-repayment.

#### Use if:

- a. Consumer has become a delinquent borrower.
- b. Consumer is worried about not being able to repay a loan.
- c. Consumer wants to know how to avoid delinquency.

#### Materials:

Handout D5.1 - Avoiding loan non-repayment  
Consumer intake sheet  
Action plan

**Duration:** 55 minutes

\*\*\*\*\*

### 1 INTRODUCTION – 5 minutes

Ask:

- **How many adults do you know who have never borrowed any money? Whether it is from a bank, a group, a moneylender, friends, family, etc. *[It should not be many people.]***

Say:

With so many people borrowing all of the time, it is inevitable that some people will NOT be able to pay back their loans. Many different things can cause loan non-repayment, and that is what we are going to examine together today.

### 2 CORE COUNSELLING SESSION:

#### 2.1 DEFINITION OF DELINQUENT – 20 minutes

Ask:

- **Have you ever heard the word “delinquent”?**
- **What does it mean to you?**

Say:

Delinquent actually refers to someone who has failed to fulfil an obligation. A delinquent borrower, therefore, is someone who has not fulfilled their obligation as a borrower. They promised to repay a loan, and have failed to do so. Another word for not repaying a loan is “default”. A delinquent borrower has defaulted on a loan.

Ask:

- **How late does a person need to be with their loan payment to be considered “delinquent”? Is it two days? Is it two months?** *[You become delinquent after just one day!]*
- **Is it more serious to be two days late or two months late?** *[It’s more serious to be two months late. The borrower is clearly having difficulty repaying, and the longer time goes on, the higher the interest payments and fees go up.]*
- **Have you ever known, or heard of, a delinquent borrower? Or perhaps you have been delinquent before yourself?** *[If the consumer seems comfortable talking about it, ask them to share their stories, or concerns, about delinquent borrowers. If they do not seem comfortable, do not oblige them to speak, and move on to the next activity. Alternatively, you could add a story/experience of your own.]*

## 2.2 REASONS FOR LOAN NON-REPAYMENT – 10 minutes

For the next question, write down the consumer’s answers on a piece of paper. Supplement the consumer’s list with the reasons below in case the consumer does not list them all.

- **What are some of the reasons that people do not repay their loans?** *[Business does poorly; spending loan meant for business on personal items; money is stolen; borrower falls ill and cannot work; natural disaster; risky business practices such as selling on credit; failure to keep track of loan repayments; failure to set money aside for loan repayments.]*

Say:

Let’s look at your list and determine which were caused by decisions that the borrower made, and which were simply bad luck or bad timing. We’ll mark the bad decisions with a ☹, and the bad luck with an “X”.

Reasons for loan non-repayment	
Business does poorly	Spending loan meant for business on personal items
Money is stolen	Borrower falls ill and cannot work
Risky business practices such as selling on credit	Natural disaster
Failure to keep track of loan repayments	Failure to set money aside for loan repayments

Thank the consumer for completing the activity.



### **2.3 AVOIDING LOAN NON-REPAYMENT – 15 minutes**

*Take out Handout D5.2 - Avoiding loan non-repayment. Say:*

I am going to read you some stories of borrowers who have become delinquent. Then, I am going to give you three possible options, which the borrowers could have done to avoid loan non-repayment. Are you ready?

*Read the problem on the handout, and allow the consumer to select the best alternative: A, B, or C. Circle the correct letter.*

<p>Problem: Lucy borrows USD500 to purchase a small used refrigerator for her home that costs USD300. Her original plan was to use the extra USD200 to buy maize in bulk to trade, and earn enough to pay the first three instalments of her loan. But her sister Rita convinced Lucy to give her the USD200 instead, and promised to repay the whole amount before Lucy's first instalment was due. Rita disappeared with the money. What could Lucy have done differently?</p>	<p>A. Given her sister the money in exchange for some collateral of greater value.</p>
	<p><b>B. Refused the sister's request and suffered her anger.</b></p>
	<p>C. Given her sister USD100 and invested the remaining USD100 to earn the money she needs to repay her loan.</p>
<p>Problem: Anya borrows USD100 for her vegetable business. Sales are strong, and she is excited to be making money. She celebrates by buying a new dress for herself and a new football for her son. But at the end of the month when she has to make a loan payment, she only has half the amount needed. What could she have done differently?</p>	<p><b>A. Set aside the amount of her loan payment first before buying presents.</b></p>
	<p>B. Made her purchases and planned to borrow the other half due from her sister.</p>
	<p>C. Taken a bigger loan at the beginning so she could both start her business and buy presents</p>
<p>Problem: Ruth has a loan from her village bank to operate a small shop. Her business is small but steady, and she has always made her loan payment on time. But when her son was injured in an accident, she took an emergency loan from her village bank to pay his medical bills. Then, she closed the shop to stay at home with him, and found she could not pay the two loans she had. What could she have done differently?</p>	<p>A. Found someone else to stay with her son so she could keep the shop open.</p>
	<p><b>B. Sold something of value (eg jewellery, animals) to pay the medical bills instead of taking another loan.</b></p>
	<p>C. Doubled the prices in her shop to raise the money needed for the medical bills.</p>
<p>Problem: Graciela becomes ill and has to stay at home in bed for several weeks. Because she cannot work during that time, she earns less and cannot make her loan payment. Once she is able to work again, she owes more because of the late fees. With less working capital, she earns less. She is in a downward spiral, and fears she will have to close her business. What could she have done differently?</p>	<p>A. Talked to family members to see what money they could put towards the loan payment so she can avoid the late penalties when she is sick.</p>
	<p><b>B. Saved a little each week or each day above and beyond what she needs for her loan payment to protect herself in such situations.</b></p>
	<p>C. Asked some of her customers to make the loan payment for her.</p>

Say:

As you can see, there are often many different ways to handle situations. There are also ways that you can prepare ahead of time to minimise your risk when it comes to loans.

Ask:

- **What questions do you have about borrowing?**
- **What questions do you have about loan non-repayment?**

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

Say:

Loan non-repayment is a very common problem. There are very few people who don't know someone who has become a delinquent borrower at one point if not been delinquent themselves! But as we have seen today, loan non-repayment can happen for many reasons: some of them our own fault and some of them outside of our control. The most important thing to learn here is how to avoid delinquency. Be aware of risky situations, prepare yourself in advance, and try to think of all of your choices before you become a delinquent borrower!

Once the consumer has had a chance to do this, ask:

- **What questions do you have about the loan non-repayment?**
- **What are your questions about today's counselling?**

Say:

Thank you for coming in today.

Ask:

- **Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

Say:

During our next meeting, we will talk about how you can deal with being over-indebted. When you do not know the formula for the amount of debt you can take on, it is easy to become over-indebted. So, in the next session, we will talk about some of the strategies to fight this.

**Counsellor completes consumer intake sheet for files.**

### Handout D5.1 - Reasons for loan non-repayment

- *What are some of the reasons why people are unable to repay their loans? List as many reasons as you can.*
- *Once you have finished your list, mark each reason with a ☹ if it is simply bad luck or bad timing. Mark an “X” if it is something that was brought on by a decision the person made.*

1.

2.

3.

4.

5.

6.

7.

8.

9.

10.

## Handout D5.2 - Avoiding loan non-repayment

Read the problems below, and select the best alternative for the borrower. Though A, B, and C are all possibilities, choose the one with the fewest financial consequences to the borrower.

<b>Problem</b>	<b>What could they have done differently?</b>
<b>Problem:</b> Lucy borrows USD500 to purchase a small used refrigerator for her home that costs USD300. Her original plan was to use the extra USD200 to buy maize in bulk to trade, and earn enough to pay the first three instalments of her loan. But her sister Rita convinced Lucy to give her the USD200 instead, and promised to repay the whole amount before Lucy's first instalment was due. Rita disappeared with the money. What could Lucy have done differently?	A. Given the sister the money in exchange for some collateral of greater value.
	B. Refused the sister's request and suffered her anger.
	C. Given her sister USD100 and invested the remaining USD100 to earn the money she needs to repay her loan.
<b>Problem:</b> Anya borrows USD100 for her vegetable business. Sales are strong, and she is excited to be making money. She celebrates by buying a new dress for herself and a new football for her son. But at the end of the month when she has to make a loan payment, she only has half the amount needed. What could she have done differently?	A. Set aside the amount of her loan payment first before buying presents.
	B. Made her purchases and planned to borrow the other half due from her sister.
	C. Taken a bigger loan at the beginning so she could both start her business and buy presents.
<b>Problem:</b> Ruth has a loan from her village bank to operate a small shop. Her business is small but steady, and she has always made her loan payment on time. But when her son was injured in an accident, she took an emergency loan from her village bank to pay his medical bills. Then, she closed the shop to stay at home with him, and found she could not pay the two loans she had. What could she have done differently?	A. Found someone else to stay with her son so she could keep the shop open.
	B. Sold something of value (eg jewellery, animals) to pay the medical bills instead of taking another loan.
	C. Doubled the prices in her shop to raise the money needed for the medical bills.
<b>Problem:</b> Graciela becomes ill, and has to stay at home in bed for several weeks. Because she cannot work during that time, she earns less and cannot make her loan payment. Once she is able to work again, she owes more because of the late fees. With less working capital, she earns less. She is in a downward spiral and fears she will have to close her business. What could she have done differently?	A. Talked to family members to see what money they can put towards the loan payment so she can avoid the late penalties when she is sick.
	B. Saved a little each week or each day above, and beyond what she needs for her loan payment to protect herself in such situations.
	C. Asked some of her customers to make the loan payment for her.

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Identify all of the reasons that could cause me to default on my own loan, and create strategies to avoid them.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## DEBT MANAGEMENT COUNSELLING SESSION 6

### TOPIC: UNDERSTANDING THE DANGERS OF NON-PAYMENT OF DEBT

#### Purpose

This session is focused on the consequences that come with failing to repay loans. In this session, the consumer will be able to:

- a. Identify what non-payment of debt means.
- b. Describe some of the dangers and consequences that come with defaulting on loans.
- c. Describe strategies to avoid defaulting on loans.

#### Use if:

- a. Consumer is worried about non-payment of debt.
- b. Consumer has several loans and may be over-indebted.

#### Materials:

Handout D6.1 - The story of Peter  
Consumer intake sheet  
Action plan

**Duration:** 40 minutes

\*\*\*\*\*

### 1 INTRODUCTION – 5 minutes

*Say:*

It is not uncommon for people to have several different loans at a time, from several different sources. It is also not uncommon for these loans to become unmanageable. Eventually, people start taking out loans to pay for other loans are unable to make their payments, and really begin to understand the dangers of debt. Today, we are going to talk more about how people allow their loans to build up, what can happen when they do, and what they can do to avoid this.

### 2 CORE COUNSELLING SESSION:

#### 2.1 THE STORY OF PETER– 20 minutes<sup>9</sup>

*Give the consumer Handout D6.1 - The story of Peter, to look at as you read the following story.*

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<sup>9</sup> *The story of Peter* begins in this Session 6 on Debt management counselling, and is related to the continuation of the story in Session 7 on further elements of Debt management counselling.. Counsellors using Session 7 alone should first review Session 6.

### The story of Peter

Peter is very happy because he is getting a loan from his ROSCA today. He is also on his way to the MFI to submit another loan application for USD200 to help him repay his bank loan. He is confident because it is less than he asked for the last time. It should be no problem!

Peter sees his friend and business partner, Thomas, and tells him about the application. Thomas asks, "But how can you only borrow USD200? You have payments at the bank!" Peter is suddenly distressed. He says: "But Thomas, I thought you said you could find the money to make the next payment!" Thomas apologises, and says that he just couldn't manage it, and that Peter needs to take a loan of at least USD400 in order to make his other loan payments. Peter knows he can't afford the payments for a USD400 loan, but Thomas says: "Don't worry so much! I'll come up with the money later. See you Peter!"

Peter goes to the MFI and runs into his friend Daniel. Feeling slightly desperate, he asks Daniel to lend him USD10. Daniel hesitates and says: "Peter, you know I always want to help you but you haven't paid me back from the last time I lent you USD10." Peter tells him not to worry, and that he is getting money from his ROSCA today.

Daniel is shocked. "You are borrowing from the ROSCA too?" Peter quickly explains that he needs to since sales are not so good these days and he has several loan payments. Then he suggests that Daniel come with him to get a loan. "It is easy to get money from a ROSCA. It will help us both!" Daniel says that he will think about it. Peter insists that Daniel come with him. At times, he wonders if taking out all of these loans is the right thing to do but when he sees everyone doing it, he knows it must be okay. Now that Daniel is coming with him too, he doesn't feel as bad about having to borrow from him too.

Ask:

- **So, what has Peter done?** *[Borrowed from three institutions, plus his friends.]*
- **Why does he borrow from so many lenders?** *[He borrows from one to pay the debt of another.]*
- **How does Peter seem to think about the various lenders he is borrowing from?** *[He thinks that it is easy to borrow from anyone and that it is not a problem to use one loan to pay another.]*
- **What do you think will happen to Peter?** *[Eventually he will default, or be unable to pay, on one or more of his loans. He may be asked to leave the ROSCA or give up his possessions in*



*order to repay the loans. He will also develop a reputation as a bad borrower and not be able to borrow again.]*

## **2.2 CONSEQUENCES OF LOAN NON-REPAYMENT – 10 minutes**

*Say:*

Now that we've talked about a hypothetical situation, let's talk more about what you have seen in your own life.

*Ask:*

- **Have you ever known someone who has defaulted on a loan?**
- **If someone defaults on a loan given out to them by their group, what usually happens?**  
*[The member could be kicked out of the group, they could be harassed by the group, their savings or other property could be taken to help repay the loan, the group could forgive the loan and help the member to improve their financial situation, the member could be reported to the authorities, etc.]*
- **What is the best way to deal with a group member defaulting on a loan?**
- **How do families react after one has borrowed from several members of the family and not paid them back?**
- **How do you think your husband/wife and children would react if you had to sell family possessions in order to repay a loan?**
- **How do you think that local merchants view you once you gain a reputation of a “bad borrower”?**

*Say:*

As you can see, defaulting on loans can have some very bad consequences. It is best to avoid defaulting from the beginning. Let's make a list of things that can be done to avoid this:

<b>Avoiding loan default</b>
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 loan payment. Consider making improvements to your business practices to sell more products and services.

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Say:*

Defaulting on loans is very serious. You can alienate yourself from your banking institutions, from your friends, even from your family. Loans should be used to help your progress, not to hold you back. Taking out too many loans will do just that. Be sure to calculate your capacity to take on debt (Session 4 of Debt management) every time you take on a new loan!

*Once the consumer has had a chance to do this, ask:*

- **What questions do you have about the loan non-repayment?**
- **What are your questions about today's counselling?**

*Say:*

Thank you for coming in today.

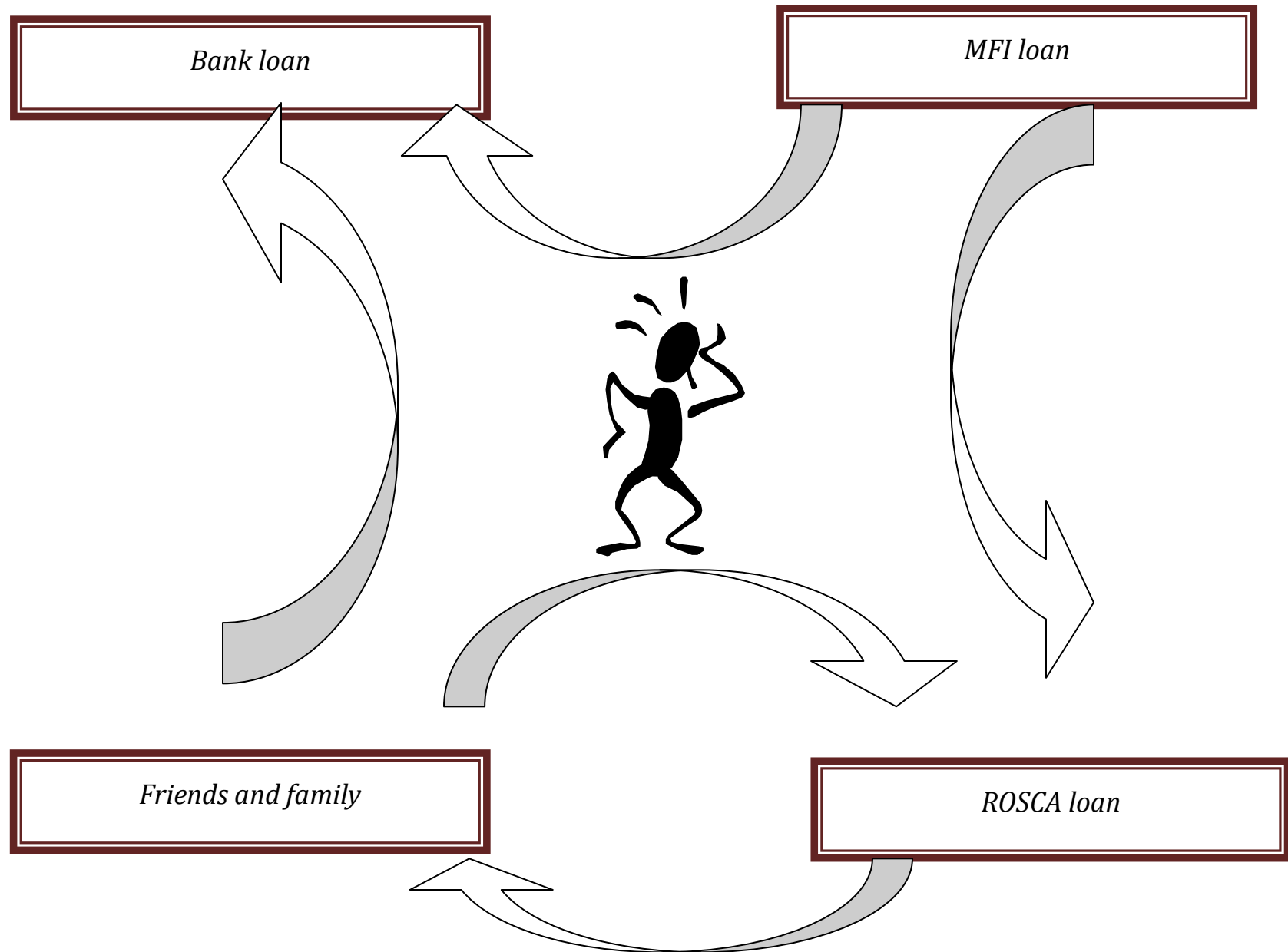
*Ask:*

- **Can we schedule our next meeting?** *[Write this down on the action- plan form for the consumer as a reminder.]*

*Say:*

During our next meeting, we will continue to talk about the dangers of over-indebtedness and strategies for paying off all of your debt.

**Counsellor completes consumer intake sheet for files.**



## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Reflect on my personal debt situation, and identify any behaviours that could lead to loan non-repayment and its consequences.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(date)

## DEBT MANAGEMENT COUNSELLING SESSION 7

### TOPIC: DEALING WITH OVER-INDEBTEDNESS - ASSESSING DEBTORS' FINANCIAL CONDITIONS TO DETERMINE STRATEGIES FOR LOAN REPAYMENT

#### Purpose:

This is a session regarding strategies to overcome over-indebtedness. Consumers who are in debt often feel as though their situation is hopeless and that they will never be able to handle their loan payments. This session will teach them some methods to make their debt payments manageable. In this session, the consumer will be able to:

- a. Brainstorm ideas for controlling debt.
- b. Keep track of their loan payments.
- c. Create their own payment calendar.

#### Use if:

- a. Consumer, or person close to consumer, is over-indebted.
- b. Consumer cannot keep track of their loan payments.

#### Materials:

Handout D7.1 - Monthly calendar for loan repayment  
Handout D7.2 - Take control of your debt  
Consumer intake sheet  
Action plan

**Duration:** 55 minutes

\*\*\*\*\*

#### 1 INTRODUCTION – 5 minutes

*Say:*

In this session, we will talk about ways to control your debt. Being indebted is definitely a question of being disciplined about your money, but one of the hardest parts of being in debt is the mental stress that you feel. Getting yourself organised and having a plan can do a lot to give you some peace of mind about your financial situation, or at least your financial future. Today, we are going to talk about some strategies to control debt, how to keep track of your loan payments, and then we will create a payment calendar for you and your family.

## 2 CORE COUNSELLING SESSION:

### 2.1 BRAINSTORMING IDEAS FOR CONTROLLING DEBT– 20 minutes

*Say:*

As we've seen from previous sessions, going into debt can have many risks. You can lose your friends, lose your assets to pay off loans, lose your credit standing and be kicked out of your institutions. Just think about Peter, who found himself in debt to three different institutions. Imagine that he eventually defaulted on all three loans AND owed money to friends and family.

*Ask:*

- **What can Peter do (apart from running away)?<sup>10</sup>**

*Compare consumer's answers to Handout D7.2 – Take-control-of-your-debt checklist. Add additional points if the consumer comes up with any new ideas.*

#### **Take-control-of-your-debt checklist**

- ☐ Make a list of all loans, repayment amounts and repayment dates.
- ☐ Pay the minimum amount due on each loan.
- ☐ Explore the possibility of consolidating all your loans into one loan. In this case, you would need access to a loan large enough to pay off the others. Then you would have only one loan to manage.
- ☐ Use any extra cash to pay off the most expensive loan first.
- ☐ When you pay off the most expensive loan, continue applying the same payment amount to the next loan.
- ☐ Set aside money for loan payments regularly (each day or each week if your income stream enables you to do this).
- ☐ Look for ways to cut down expenses to free up a little more money for debt servicing.

*Then ask:*

- **What questions do you have about any of the items on this checklist?**

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<sup>10</sup> THE STORY OF PETER begins in Session 6 on Debt management counselling, and is related to the continuation of the story in Session 7 on further elements of Debt management counselling. Counsellors using Session 7 alone should first review Session 6.

## 2.2 KEEP TRACK OF LOAN PAYMENTS DUE – 20 minutes

Say:

Let us put ourselves in Peter's position and take control of his debt. Our first task is to write down all of his debts. Below are the amounts we have discovered that Peter has borrowed:

Peter's three Loans						
	Principal	Interest + fees	Term	Payment amount	Payment frequency	Total due
<b>Loan 1</b>	<b>USD300</b>	<b>3%/month + USD6 fees</b>	<b>6 months</b>	<b>USD60/month</b>	<b>1<sup>st</sup> Tuesday of month</b>	<b>USD360</b>
<b>Loan 2</b>	<b>USD100</b>	<b>6%/month</b>	<b>2 months</b>	<b>USD14/week</b>	<b>Weekly on Thursday</b>	<b>USD112</b>
<b>Loan 3</b>	<b>USD100</b>	<b>5%/month</b>	<b>4 months</b>	<b>USD30/month</b>	<b>3<sup>rd</sup> Thursday of each month</b>	<b>USD120</b>

*Handout 7.1 - Monthly calendar for loan repayment, to each pair. Explain that the worksheet has four blank calendars, each representing one month.*

Monthly calendar								
Month 1								
WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due

*Using the information about Peter's loans, help the consumer to fill in the payments Peter owes for the first month on the calendar marked "Month 1." A completed calendar will look like this:*

Monthly calendar								
Month 1								
WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due
<b>1</b>		<b>USD60</b>		<b>USD14</b>				<b>USD74</b>
<b>2</b>				<b>USD14</b>				<b>USD14</b>
<b>3</b>				<b>USD14</b> <b>USD30</b>				<b>USD44</b>
<b>4</b>				<b>USD14</b>				<b>USD14</b>

Allow the consumer to do it alone, but be sure to correct any miscalculations before continuing. Then ask:

- **In which week does Peter owe the most?** *[Week 1]*
- **In which week does he owe the least?** *[Weeks 2 and 4]*
- **Will he have more money to spend on himself and his family during those weeks?** *[No, because he needs to save towards the larger loan payment that comes due the following week.]*
- **According to the loan terms, which loan is scheduled to be repaid first?** *[Loan #2 is scheduled to be paid in full after eight weeks]*
- **Once that loan is repaid in full, Peter will have an extra USD14 each week. What would you advise him to do with the extra USD14?** *[If he applies it to the other loans, he will be able to pay them off sooner.]*

Move on to the following three months on Handout 8.1 “Take control of your debt”. Then ask:

- **After month 2, what happens to the total amount that Peter owes?** *[His total amount due goes from USD146 to USD90 per month.]*
- **If Peter continues to set aside the USD14 per month he was using to pay off loan #2, how much would he have to apply towards his total amount due in months 3 and 4?** *[USD14 per week X 4 weeks in a month is USD56.]*
- **After month 4, what happens to Peter’s debt?** *[Loan #3 is paid in full, and he has only two monthly payments of USD60 remaining.]*
- **How does a payment calendar like this one help Peter?** *[It helps him to plan how much he owes each week and to anticipate the hard weeks when his payments due are high. It also helps him to see how he can slowly pay down his debt over time. Upon freeing yourself from all loan payments, you can use this same chart to plan for savings.]*

## **2.3 CREATE YOUR OWN PAYMENT CALENDAR – 5 minutes**

Distribute blank copies of Handout 7.1, *Monthly calendar for loan repayments*, to the consumer, and ask them to fill out the monthly calendars based on one of their loans (or their husband’s, wife’s, etc.)

Allow them to fill this out on their own, asking questions about their loans and repayment schedules if they have trouble.

After a few minutes, ask the consumer:

- **How can you use this type of calendar at home?**



*Ask the consumer to review Handout 7.3, their personal loan repayment calendar with their family at home, and fill out one of the payment calendars for all of the loans in the household.*

### **3 CLOSING AND ACTION PLANNING - 5 minutes**

*Say:*

Although being over-indebted can be very hard, both physically and mentally, it does not mean that there are not ways to work out of it. As you can see from our session today, as long as you have the determination and the discipline, you can find ways to get out of debt.

*Ask:*

- **What questions do you have about the getting out of debt?**

*Say:*

Thank you for coming in today.

*Ask:*

- **Can we schedule our next meeting?** *[Write this down on the action-plan form for the consumer as a reminder.]*

**Counsellor completes consumer intake sheet for files.**

**Answer sheet to Handout D7.1 - Monthly calendar for loan repayment**

Month 1

WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due
<b>1</b>		<b>USD60</b>		<b>USD14</b>				<b>USD74</b>
<b>2</b>				<b>USD14</b>				<b>USD14</b>
<b>3</b>				<b>USD14</b> <b>USD30</b>				<b>USD44</b>
<b>4</b>				<b>USD14</b>				<b>USD14</b>

Month 2

WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due
<b>1</b>		<b>USD60</b>		<b>USD14</b>				<b>USD74</b>
<b>2</b>				<b>USD14</b>				<b>USD14</b>
<b>3</b>				<b>USD14</b> <b>USD30</b>				<b>USD44</b>
<b>4</b>				<b>USD14</b>				<b>USD14</b>

Month 3

WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due
<b>1</b>		<b>USD60</b>						<b>USD60</b>
<b>2</b>								<b>USD0</b>
<b>3</b>				<b>USD30</b>				<b>USD30</b>
<b>4</b>								<b>USD0</b>

Month 4

WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due
<b>1</b>		<b>USD60</b>						<b>USD60</b>
<b>2</b>								<b>USD0</b>
<b>3</b>				<b>USD30</b>				<b>USD30</b>
<b>4</b>								<b>USD0</b>

## Handout D7.1 - Monthly calendar for loan repayment

Example: Peter's three loans						
	Principal	Interest + fees	Term	Payment amount	Payment frequency	Total due
<b>Loan 1</b>	<b>USD300</b>	<b>3%/month + USD6 fees</b>	<b>6 months</b>	<b>USD60/month</b>	<b>1<sup>st</sup> Tuesday of month</b>	<b>USD360</b>
<b>Loan 2</b>	<b>USD100</b>	<b>6%/month</b>	<b>2 months</b>	<b>USD14/week</b>	<b>Weekly on Thursday</b>	<b>USD112</b>
<b>Loan 3</b>	<b>USD100</b>	<b>5%/month</b>	<b>4 months</b>	<b>USD30/month</b>	<b>3<sup>rd</sup> Thursday of each month</b>	<b>USD120</b>

Month 1

WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due
<b>1</b>								
<b>2</b>								
<b>3</b>								
<b>4</b>								

Month 2

WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due
<b>1</b>								
<b>2</b>								
<b>3</b>								
<b>4</b>								

Month 3

WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due
<b>1</b>								
<b>2</b>								
<b>3</b>								
<b>4</b>								

Month 4

WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due
<b>1</b>								
<b>2</b>								
<b>3</b>								
<b>4</b>								

## Handout D7.2 – Take-control-of-your-debt checklist

### Take-control-of-your-debt checklist

- ☐ Make a list of all loans, repayment amounts and repayment dates.
- ☐ Pay the minimum amount due on each loan.
- ☐ Explore the possibility of consolidating all your loans into one loan. In this case, you would need access to a loan large enough to pay off the others. Then you would have only one loan to manage.
- ☐ Use any extra cash to pay off the most expensive loan first.
- ☐ When you pay off the most expensive loan, continue applying the same payment amount to the next loan.
- ☐ Set aside money for loan payments regularly (each day or each week if your income stream enables you to do this).
- ☐ Look for ways to cut down expenses to free up a little more money for debt servicing.

### Handout D7.3 - Monthly calendar for loan repayment

My loans						
	Principal	Interest + fees	Term	Payment amount	Payment frequency	Total due
<b>Loan 1</b>						
<b>Loan 2</b>						
<b>Loan 3</b>						

Month 1

WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due
<b>1</b>								
<b>2</b>								
<b>3</b>								
<b>4</b>								

Month 2

WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due
<b>1</b>								
<b>2</b>								
<b>3</b>								
<b>4</b>								

Month 3

WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due
<b>1</b>								
<b>2</b>								
<b>3</b>								
<b>4</b>								

Month 4

WEEK	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total due
<b>1</b>								
<b>2</b>								
<b>3</b>								
<b>4</b>								

## CONSUMER ACTION PLAN

TODAY'S DATE:

COMPLETION DATE:

DATE OF NEXT VISIT:

As a result of today's counselling session, I \_\_\_\_\_ agree to:  
(name)

1. Fill out my monthly calendar for loan repayment, and discuss it with my family.
2. If the payments are beyond my ability, I will show the calendar to my lenders, and try to work out a repayment schedule adjustment.

Visit us, call us, or send back the form on \_\_\_\_\_ at \_\_\_\_\_!  
(date) (time)

\_\_\_\_\_  
(signature)



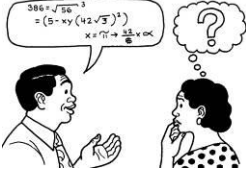


\_\_\_\_\_  
(date)

# Tips & tools

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## Consumer Protection Tips & Tools

### Consumer rights

 <p><i>Picture 1: Right to be treated with respect</i></p>	<p>You have the right to be <b>treated with respect</b>.</p> <p>In this picture, you see the loan officer demonstrating respect to a consumer by welcoming her warmly.</p>
 <p><i>Picture 2: Right to decide which services to use</i></p>	<p>You have the right to <b>decide</b> which products or services you want to use.</p> <p>In this picture, you see a loan officer offering a consumer a house improvement loan, a loan for a motorcycle and a savings account.</p> <p>However, the consumer is only interested in opening a savings account. It is your right to decide which products or services to take.</p>
 <p><i>Picture 3: Right to receive clear, truthful and timely information</i></p>	<p>You have the right to receive clear, truthful, and timely <b>information</b>. In this picture, we see the loan officer using complex terms. The consumer is confused about that information. It is your right to receive truthful information in terms that you understand.</p>
 <p><i>Picture 4: Right to be heard</i></p>	<p>You have the right to be <b>heard</b>. In this picture, we see how the consumer is explaining something to the loan officer, and we see how the loan officer is listening carefully to what she says, and even taking notes.</p>
 <p><i>Picture 5: Right to privacy</i></p>	<p>You have the right to privacy. Your personal information should be kept <b>confidential</b> between you, the loan officer and your group members. In this picture, you see that the loan officer is thinking about sharing the consumer's information with someone else, but this thought is crossed out. A loan officer cannot disclose personal information without the consumer's consent.</p>



## Consumer responsibilities

 <p><i>Picture 6: Responsibility to treat individuals with respect</i></p>	<p>You have the responsibility to <b>treat others with respect</b>. In this picture, we see how the consumer is warmly greeting the loan officer when she arrives at the group meeting.</p>
 <p><i>Picture 7: Responsibility to evaluate the costs of a product</i></p>	<p>You have the responsibility to <b>evaluate</b> the costs of the financial products you might be interested in. In this picture, we see the consumer is analysing whether or not she can repay a loan, and how it will benefit her and her family. It is your responsibility to analyse the product's costs and benefits.</p>
 <p><i>Picture 8: Responsibility to comply with terms and conditions of the chosen product</i></p>	<p>You have the responsibility to <b>comply</b> with the terms and conditions of the product you choose. In this picture, we see the consumer is paying her loan on time. It is your responsibility to meet your commitments.</p>
 <p><i>Picture 9: Responsibility to provide truthful and timely information</i></p>	<p>You have the responsibility to <b>provide truthful and timely information</b>. In this picture, we see the loan officer asking the consumer whether she has a big house. The consumer is answering honestly saying that her house is a small one. It is your responsibility to be honest with the financial institution and your group.</p>
 <p><i>Picture 10: Responsibility to protect other people's personal information</i></p>	<p>You have the responsibility to keep any financial information you have about your family, friends or neighbours <b>confidential</b>. This is especially important for those in group savings and lending programmes. In this picture, the members share their information within the group, but they keep this information to themselves and do not share it outside the group.</p>

*Template for a complaint letter*

**Your address**

**(Your email address if sending via email)**

**Date**

**Name of contact person (if available)**

**Title (if available)**

**Name of institution**

**Address**

Dear **(contact person)**

Re: **(problem)**

**(State your history with the institution, ie length of time as consumer, which accounts you have, loan history, etc.)**

I am disappointed because **(explain the problem)**...

To resolve the problem, I would like...

I look forward to your reply and a resolution to my problem, and will wait until **(set a time limit)** before seeking help from a consumer protection agency or the Better Business Bureau. Please contact me at the above address or by phone at **(home and/or office numbers with area code)**.

Sincerely,

**Your name**

*Questions to ask the loan officer*

**Borrower's checklist**

Check	Questions to ask the loan officer	Answers
	What is the interest rate?	
	How often must the loan principal and interest be paid? How many payments will I have to make?	
	What is the amount of each payment?	
	Is there a savings requirement for this loan? What is the amount of savings required, and how often must deposits be made?	
	Does the loan require insurance? How much is the insurance payment, and how often must it be made?	
	What fees does the institution charge the borrower to obtain a loan?	

## A loan contract -Sample 1

Reproduced with permission from Faulu Kenya Deposit Taking Microfinance Limited ("Faulu DTM").

Name of Borrower	
Postal Address	
Ministry/Department	Town:
Employee Number	Payroll No.
Date of Employment	Year of Birth <sup>11</sup>
Gross Pay	Net Pay
Postal Address	
Telephone Number: Office:	Mobile:
I.D. No.	
Next of Kin	Relationship

Loan Amount applied for:	Sh.s.	Repayment period:	weeks/months
My current/previous loan Sh.s.			
Purpose of applying for loan:			
1.	Sh.s.		
2.	Sh.s.		
3.	Sh.s.		

### LETTER OF OFFER

The Microfinance Institution[MFI], a limited liability company, registered under the Companies Act and of Post Office Box Number ----- which expression includes its successors and assigns is pleased to confirm its willingness to make available to the Borrower a credit facility (the "Loan") outlined below on the terms and conditions set out in this letter and subject to the satisfactory completion of any security documentation and in consideration of the loan extended to the Borrower and formalized in this Agreement the Borrower willingly enters into this Agreement.

#### 1.0 Covenant to Pay

The Borrower hereby pledges to repay the loan approved herein together with the interest, penalties (if any) together with other charges including but not limited to the registration fees and insurance in accordance with the terms and conditions.

#### 2.0 Loan Terms<sup>12</sup>

1.1 Loan Amount: Sh.s. \_\_\_\_\_

1.4 Total number of loan repayments: \_\_\_\_\_

1.2 Loan Term (Weeks/Months): \_\_\_\_\_

1.5 Frequency of payment: \_\_\_\_\_

1.3 Interest Rate: \_\_\_\_\_ %

1.6 Set up Fees: \_\_\_\_\_

1.7 Penalty Rate: \_\_\_\_\_ % above Interest Rate. The loan shall be repaid without arrears. A penalty which will be an additional amount on the interest shall be payable upon default.

#### 3.0 Event of Default

The following shall comprise of an Event of Default:

<sup>11</sup> Applicants should be no more than 50 years

<sup>12</sup> Subject to a maximum of 24 months

- 3.3 Not paying a scheduled loan payment, interest or any part of such payment; and  
 3.4 Leaving the employment of the Government or specified Government Ministry where currently employed;

**4.0 Other Covenants**

- 4.1 The MFI reserves the right to attach any benefits due to the Borrower in the event of their leaving employment without prejudice to any other remedies available in law until payment in full of any outstanding loan.
- 4.2 Any forbearance, indulgence or relaxation by The MFI shown or granted to the Borrower in enforcing any terms and conditions of this Agreement shall not in any way affect, diminish, restrict, waive or prejudice the rights or powers of The MFI under this Agreement.
- 4.3 That for the duration of this loan the Borrower shall not offer the assets offered as collateral security for any other loan pledge or any other facilities of a commercial nature or sell or dispose of the assets or otherwise transfer title to the assets to a third party. Any deviation from this provision shall be treated as a breach of contract and shall entitle The MFI to seize the assets without any notice.
- 4.7 In the Event of Default the Borrower agrees to immediately pay the outstanding loan balance plus any interest and/or penalties due together with all costs incurred by The MFI in enforcing this Agreement.
- 4.8 Interest shall accrue daily on the outstanding loan balance and shall be subject to change at the discretion of the MFI.
- 4.9 The Borrower agrees to abide by all policies, rules and regulations of the MFI.

**Guarantors<sup>13</sup> for Loans Above Kshs 100,000**

Name \_\_\_\_\_ Ministry \_\_\_\_\_  
 ID Number \_\_\_\_\_ Date of employment \_\_\_\_\_ Net pay \_\_\_\_\_  
 Tel Office \_\_\_\_\_ Mobile \_\_\_\_\_  
 Signature \_\_\_\_\_

Name \_\_\_\_\_ Ministry \_\_\_\_\_  
 ID Number \_\_\_\_\_ Date of employment \_\_\_\_\_ Net pay \_\_\_\_\_  
 Tel Office \_\_\_\_\_ Mobile \_\_\_\_\_  
 Signature \_\_\_\_\_

**(Attach copy of ID of guarantors)**

I, \_\_\_\_\_ the Borrower, certify that I have read and understood the terms and conditions of this Letter of Offer which has been explained to me and I do hereby confirm that I shall abide by all such terms and conditions. I also authorize my employer to deduct monthly installments as per the agreements herein from my salary until the loan has been fully repaid and to recover any outstanding installments and/or interest against my terminal dues or any other benefits due to me in the event of termination of employment before the loan is fully repaid.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Signed in the presence of the MFI Officer:

Name: \_\_\_\_\_ Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Signed on behalf of the Employer by: \_\_\_\_\_ (Name)

\_\_\_\_\_ (Position) Stamp: \_\_\_\_\_

\_\_\_\_\_

NB: Please attach copy of your National Identity Card, a passport photograph and original payslips together with the certified copies for 3 months. The photograph and payslips to be certified by the Personnel Department.

This form shall be completed in duplicate.

\*\*\*\*\*

### *A Loan contract - Sample 2*

**ABC SACCO**

**PO box:** .....

**Tel:** .....

**Agreement no:** \_\_\_\_\_

**Agreement date:** \_\_\_\_\_

By this agreement made between **ABC SACCO**, ..... (hereafter called “the SACCO” which shall include any duly authorised agent, successor in title and permitted assign) of one part and

\_\_\_\_\_ of \_\_\_\_\_ (hereafter called “the borrower”) of the other part, the SACCO agrees to loan and the borrower agrees to take on the loan described in the schedule to this agreement (hereinafter called “the schedule”) on the terms set out in this agreement.

SCHEDULE
DESCRIPTION OF LOAN
LOAN AMOUNT: .....
PURPOSE OF THE LOAN:.....

<b>REPAYABLE</b>
<p><b>Instalment of USD _____ due on the _____</b></p> <p><b>_____ day of each month commencing _____</b></p> <p><b>The final instalment of USD _____ being due on _____</b></p>
<p><b>PLEDGED COLLATERAL:</b></p> <p><b>1.</b></p> <p><b>2.</b></p> <p><b>3.</b></p>

In signing this agreement, the borrower **ACKNOWLEDGES** that (s)he **LOAN** as stated above.

Executed at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_\_

Signature of borrower \_\_\_\_\_  
For and on behalf of

Witness to borrower \_\_\_\_\_  
Signature \_\_\_\_\_

Signature of SACCO \_\_\_\_\_  
For and on behalf of **ABC SACCO**

Witness of SACCO \_\_\_\_\_  
Signature \_\_\_\_\_

**1. PERIOD OF LOAN AND INSTALMENT PAYABLE**

- a) The term of the Loan, the repayments payable and the dates of repayment shall be as set forth in the Schedule.
- b) The SACCO may at any time appropriate and apply at its sole discretion any money received from the Borrower to any liability either under this Agreement or to any other liabilities owing by the Borrower to the SACCO at the time of such payment.
- c) The Borrower shall pay punctually and without demand counterclaim or set-off to the SACCO at its principal place of business or to its order the repayments as set out in Schedule. All payments shall be made to the SACCO on due date and if any payment date is not a business day the Borrower shall make payment on the immediately preceding which is a business day.
- d) In the event of any variation in the rate of interest charged to the SACCO by its lenders (in respect of the currency in which payments are due from the Borrower in terms of this agreement) from time to time, the SACCO shall have the right forthwith to vary the repayments due in terms of the schedule by an amount

- proportional to such variation, by notice in writing to the Borrower, and the repayments so varied shall thereupon automatically be substituted in the schedule for those previously payable.
- e) The Borrower shall pay interest on all amounts overdue in terms of this Agreement calculated from due date to date of payment thereof (after as well as before judgment), interest to be calculated in accordance with the new business lending rates plus the default rate stipulated by the SACCO from time to time, which default interest rate shall not however exceed twenty five percent of the new business lending rate.

## **2. DEFAULT OR BREACH OF AGREEMENT**

Without prejudice to the SACCO's right to arrears of repayments or other sums due or for damages for breach of this Agreement, the SACCO may confiscate pledged collateral under the Agreement on the occurrence of any of the following events:

- i) if the Borrower fails to pay any instalment or other amount agreed or required hereunder when the same becomes due and payable
- ii) if the Borrower fails to perform any term of this Agreement
- iii) if the Borrower shall die
- iv) if the Borrower allows any proceedings in bankruptcy, winding up, receivership or insolvency to be commenced against the Borrower or its property
- v) if the Borrower attempts or makes an assignment for the benefit of its creditors or attempts to compromise with its creditors
- vi) if the Borrower allows any attachment or execution against it to remain unsatisfied for a period of ten days
- vii) if the Borrower makes any misrepresentation or false statement as to the Borrower's credit or financial standing in connection with the execution of this Agreement, whereupon the SACCO's consent to the Borrower's or false statement as to the Borrower's credit or financial standing in connection with the execution of this Agreement, whereupon the SACCO's consent to the Borrower's possession of the Goods shall determine immediately.

Without prejudice to the SACCO's right to arrears of repayments (if applicable) or any other sum due or for damages for breach of this Agreement, this Loan shall automatically and without notice terminate on the occurrence of any of the following events:

- (i) if the Borrower fails to pay the first repayments in full at the time when this Agreement is made;
- (ii) if the Borrower abandons the Goods.

In the event of the Borrower disputing the SACCO's rights to cancel and disputing his obligations to render confiscation of pledged collateral then for as long as the dispute takes to be resolved, the Borrower shall be obliged to pay the repayments set out in the Schedule on due date and in the event of the dispute being resolved in the SACCO's favour then all payments effected by the Borrower after the cancellation shall be deemed to be paid by the Borrower as damages for wrongful holding over.

## **CONFISCATION OF COLLATERAL**

Should the SACCO assumes possession of pledged collateral in terms above, the SACCO shall have the right to sell the Assets within such period and in such manner and on such terms as the SACCO in its absolute discretion deems reasonable.

The SACCO shall apply the net proceeds of sale on receipt thereof or any repayments payments received under a new loan (but after deduction therefrom of any expenses incurred in taking possession, cost of storage, costs in connection with the sale as the SACCO in its sole discretion may have considered necessary or desirable) towards discharge of any outstanding liability of the Borrower in terms of this Agreement and thereafter the SACCO may apply any surplus towards discharge of any outstanding liability of the Borrower. Thereafter the SACCO shall pay to the Borrower by way of refund or repayments any surplus remaining after the discharge of such liabilities.

The SACCO shall not be responsible for any articles or property (whether of the Borrower or otherwise) left in or attached to the pledged Assets recovered by the SACCO. Any articles or property so found may be sold or otherwise disposed off by the SACCO.



## **GENERAL**

Any notice required to be given in terms of this Agreement shall be in writing and if sent by pre-paid registered post to the address set forth in the preamble hereto, shall be presumed to have been received by the Borrower three days after the date of posting.

This agreement constitutes the whole of the agreement between the parties hereto and shall come into effect when signed by both parties.

Words denoting the singular shall include the plural and vice versa and words denoting the masculine gender shall include the feminine gender and vice versa.

No relaxation forbearance delay or indulgence by the SACCO in enforcing any of terms and conditions of this Agreement or the granting of time by the SACCO to the Borrower shall prejudice affect or restrict the rights and powers of the SACCO hereunder nor shall any waiver of any breach hereof operate as a waiver of any subsequent or any continuing breach hereof.

If more than one Borrower signs this Agreement, the signatories shall be jointly and severally liable for Borrower's obligations. If this Agreement is not signed by all persons name as Borrower above or by all partners of Borrower (if a partnership), this Agreement shall bind those persons who have signed as Borrower or the Borrower being a partnership, as the case may be.

## Financial services tips & tools

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### *Things to know about your financial service provider*

#### **Institutional information**

Type of institution

Registration? Regulated? Supervised? View documents as possible

Age of institution

Location of Head Office

Location of nearest branch to home

Location of nearest branch to workplace

Reputation of institution – government reports, Consumers International reports, references

Is there staff available to talk to me, explain things, in my language, at my education level?

What products and services does this institution offer? At Head Office? At the branch? At the ATM?

What types of products and/or services do I need?

Does this institution offer these services?

Can I grow with this institution? Will they serve my future needs?

What are the product characteristics?

- Loans – terms, application procedures, costs
- Savings – minimum balances, withdrawal limits (amounts and times), interest earned, costs - penalties, fees
- Insurances – coverage, costs, benefits, reputation.

What are the costs associated with the products?

What can I earn from the savings products?

What do I need to do to start the relationship? What documents are needed? How long must I wait?

How much will it cost?

What is expected of me once I am a consumer?

How can I leave this institution? What do I need to do? How long will it take? What will it cost?

What I know about my financial service provider	Before	After	Wish I knew

## Budgeting tips & tools

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### Why is a budget useful?

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 organise and manage money more effectively
- Helps you plan for your future and meet your financial goals.

### Ways to improve budgeting

- List all income sources.
- List all expenses.
- Plan ahead to prevent spending more than your income.
- Save surpluses to meet future expenses when income is low.

### Steps to create 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.

### 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.

### **Ways to cut spending**

- Consume less of non-essential items (beverages, snacks, luxuries).
- Spend less on parties and festivals.
- Lower expenses on life events such as marriages and funerals.
- Save enough to buy necessities in larger amounts at lower costs.
- Plan ahead to buy necessities when the prices are lower.
- Buy less on credit.
- Carry less money or save money in a safe place; the temptation to spend it won't be there.

### **Benefits of tracking monthly cash flow**

- Determine how much income is coming into the household.
- Determine if and when you will have shortfalls.
- Make decisions on how much to save.
- See where spending is high.
- Make decisions about spending, saving and investing more in the business.

### **Ways to manage changes in income**

- Track your income and expenses regularly to know when there are likely to be surpluses and shortages of cash.
- Save when you have a surplus to cover expenses during times when your income is low.

## Savings tips & tools

### *Why do we save?*

Unexpected future events	Expected future events	Optional expenditures	Building assets
<ul style="list-style-type: none"> <li>▪ Sickness</li> <li>▪ Funerals</li> <li>▪ Emergencies</li> <li>▪ Theft</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weddings</li> <li>▪ Education</li> <li>▪ Childbirth</li> <li>▪ Old age</li> <li>▪ Holidays/festivals</li> <li>▪ Low-income season</li> </ul>	<ul style="list-style-type: none"> <li>▪ Vacation</li> <li>▪ Home improvement</li> <li>▪ Luxury items</li> <li>▪ Gifts</li> </ul>	<ul style="list-style-type: none"> <li>▪ House</li> <li>▪ Bicycle</li> <li>▪ Motorcycle</li> <li>▪ Car</li> <li>▪ Business</li> </ul>

### Two rules for saving

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

Difficulties	Advice
I barely have enough money to feed my family and pay for other necessities.	<ul style="list-style-type: none"> <li>▪ Start setting aside something, even if it is only a very small amount, every day or every week. The amount will grow.</li> <li>▪ Look hard for ways to cut unnecessary spending.</li> </ul>
When I save, my husband always asks to use the money I have saved.	<ul style="list-style-type: none"> <li>▪ Keep money in a secure location, preferably out of the house so it is not accessible. Open a bank account.</li> </ul>
My income is irregular.	<ul style="list-style-type: none"> <li>▪ Save different amounts each time you earn some income.</li> </ul>
I must use all the available earnings to pay off debts.	<ul style="list-style-type: none"> <li>▪ Make a schedule to pay off the most expensive debts first.</li> </ul>

To help you save more, you can:

- decide to save more
- decide what amount you want to save every day or week
- find ways to spend less and save the money for more important things
- set aside some of your earnings or goods as savings
- learn about the savings services available in your community
- open a savings account
- agree with other family members to help each other make regular savings
- find people who save and ask them for ideas about how to save more.

#### **Internal/external factors influencing savings**

- A safe place to keep savings.
- A good savings plan.
- Discipline.
- Family support for the decision to save.
- Motivation to meet personal goals: house, marriage, education, etc.
- A convenient place to save (close to home, easy to get to, etc).
- Interest on savings.
- Desire to resist temptation to spend money on luxury items.
- Size of allowable deposits fits ability to save.
- Willingness to reduce expenses.
- Ability or opportunity to earn more income.

#### **Characteristics to consider when choosing a savings service**

- Access
- Convenience and ease of use
- Opening deposit requirements
- Safety
- Interest earned on savings

Formal institution savings products		
Type of savings product	How it works	Uses
Regular or passbook savings	<ul style="list-style-type: none"> <li>▪ Voluntary timing and amount of deposits.</li> <li>▪ Flexible withdrawals.</li> <li>▪ May or may not pay interest.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Emergencies and unexpected opportunities.</li> <li>▪ If only one product can be offered, this type of product often is the one that best meets consumer demand.</li> </ul>
Contractual savings  (Also known as “accumulated deposit, fixed-term account”)	<ul style="list-style-type: none"> <li>▪ Regular deposits of fixed amount over a pre-determined period. Consumer can decide how much to save for how long (choosing from a preset range of terms).</li> <li>▪ Access to savings restricted until contract is fulfilled.</li> <li>▪ Penalty is paid for early withdrawal.</li> <li>▪ Interest usually higher than regular savings account.</li> <li>▪ Can borrow against your savings.</li> </ul>	<ul style="list-style-type: none"> <li>▪ For expected needs.</li> </ul>
Time deposit	<ul style="list-style-type: none"> <li>▪ Fixed sum for a predetermined term and rate of interest.</li> <li>▪ Requires minimum deposit.</li> <li>▪ Inflexible.</li> <li>▪ Pays a higher interest rate than either a passbook or a contractual savings product for same amount of savings.</li> </ul>	<ul style="list-style-type: none"> <li>▪ For larger needs expected in future such as marriage or a major capital purchase.</li> </ul>



### Tips for saving

- Look for new ways to save on expenses.
- Look for new ways to increase income.
- Look for new ways to save part of your income regularly.
- Examine whether you can meet a goal for less money.
- Prioritise your goals—perhaps you can put off one goal to realise another one.

### Savings goals and planning worksheet

Savings goal	Lump sum needed	When needed?	Amount of savings required per week or month	Ranking of importance
<b>Short-term</b>				
Education fees	USD120	In six months	USD20/month	
Emergency fund	USD180	In three months	USD60/month	
<b>Long-term</b>				
New roof	USD720	In 36 months	USD20/month	
<b>Total savings required</b>	USD1,020		USD100/month	

### *Questions to ask at the bank*

<b>Important conditions for saving</b>	<b>Questions to ask</b>
Access to savings/flexibility of withdrawal	<ul style="list-style-type: none"><li>▪ How often can I make withdrawals?</li><li>▪ Is there a minimum amount I must withdraw?</li><li>▪ What withdrawal penalties does this account have?</li><li>▪ Is there an ATM network?</li></ul>
Opening deposit requirements	<ul style="list-style-type: none"><li>▪ How much savings is required?</li><li>▪ What documentation do I need?</li></ul>
Convenience/ease of use	<ul style="list-style-type: none"><li>▪ What are the bank's hours?</li><li>▪ How long is the wait to be served?</li><li>▪ Do consumers receive account statements? How often?</li><li>▪ Do you offer telephone and/or electronic transactions?</li></ul>
Safety	<ul style="list-style-type: none"><li>▪ What is the reputation of the institution?</li><li>▪ What insurance or guarantees safeguard consumers' funds?</li></ul>
Interest earned on savings	<ul style="list-style-type: none"><li>▪ What is the interest rate on savings?</li><li>▪ How does it compare to other institutions?</li><li>▪ How often is interest paid?</li><li>▪ How is interest calculated? For example, is it a compound rate? (Is interest paid on both the principal and accrued interest?)</li></ul>
Cost of savings	<ul style="list-style-type: none"><li>▪ What fees are charged? (transfers, ATM withdrawal fee)</li></ul>
Liquidity	<ul style="list-style-type: none"><li>▪ How easy is it to withdraw funds from the account?</li><li>▪ Will the full amount be available?</li><li>▪ Are fees charged if the funds are withdrawn before a specified date?</li></ul>

### *Rules of thumb for savings*

While basic principles of money management can apply to everyone, decisions to save or consume depend very much on your level of income, access to loans and access to appropriate savings products. Nevertheless, there are a number of rules of thumb that you can use to guide decisions about savings and consumption:

- Save as much as you can as soon as you can. The more you save, the better off you'll be.
- Save as you earn.
- Try to save 10% of your income even if you don't have a specific purchase or investment for which you are saving.
- Pay yourself first—put 10% of your earnings aside for savings before you do anything else. If you can't afford 10% right away, start with less, but save something.
- Pay off your debts: Some people recommend paying down your debt before you start to save; others recommend saving even while paying down debt because it is important to begin building assets as soon as possible. This choice will depend on individual priorities, situation, and means. **Total household debt should not exceed 36% of household income.**
- Calculate how your money can grow over time if you save regularly in an account that earns interest.
- Don't carry a lot of cash—avoid temptation to spend it!
- Spend carefully. If you purchase big items, consider how much money you could make if you resell. Look for opportunities to save money by bulk buying of non-perishables.
- Keep three to six months of living expenses in an emergency fund at all times. It can be used in case of job loss, unexpected illness or to meet other emergency needs. An emergency fund will reduce your anxiety.
- Find savings products that match your savings goals.
- Keep emergency funds in a separate account. Open two savings accounts — one for emergencies that is easy to access and doesn't have any penalties for withdrawal, and one for savings for other goals that is harder to access (and therefore less tempting to withdraw the money). Keeping some savings “out of reach” is important.

**Good savings behaviour requires discipline; discipline is learned through practice!**

## Debt management tips & tools

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### What to know before borrowing

- The amount of your loan payment, including principal, interest and fees.
- The sources of income and/or savings you have to make those payments.
- When you will actually get the loan money in your hands (will it be before you need it?)
- That the asset you are buying with the loan will outlive the loan, and continue earning income for you.
- That the price you can charge for your goods financed with loan money is high enough to both repay the loan and make a profit.

### Questions for lenders

- What is the interest rate?
- How often must the loan principal and interest be paid?
- What is the amount of each instalment?
- What amount of savings is required, and how often must deposits be made?
- What fees 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?

### 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.

### **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.

### **How to protect yourself against predatory lenders**

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

### **Take-control-of-your-debt checklist**

- ☐ Make a list of all loans, repayment amounts and repayment dates.
- ☐ Pay the minimum amount due on each loan.
- ☐ Explore the possibility of consolidating all your loans into one loan. In this case, you would need access to a loan large enough to pay off the others; then you would have only one loan to manage.
- ☐ Use any extra cash to pay off the most expensive loan first.
- ☐ When you pay off the most expensive loan, continue applying the same payment amount to the next loan.
- ☐ Set aside money for loan payments regularly (each day or each week if your income stream enables you to do this).
- ☐ Look for ways to cut down expenses to free up a little more money for debt servicing.

*How much debt can I afford?*

How much debt can I afford?		
Steps		Monthly total
1. Add up your monthly (or weekly) income from all sources.	<b>Monthly income (all)</b>	
	▪ Wages	
	▪ Business income	
	▪ Remittances	
	▪ Other	
	<b>Sub-total income</b>	
	<b>Expenses</b>	
2. Add up your business and household expenses for the month.	▪ Business expenses	
	▪ Food	
	▪ Transportation	
	▪ Utilities	
	▪ Health care	
	▪ Rent	
	▪ School	
	▪ Other	
	<b>Sub-total expenses</b>	
3. Subtract your total expenses from your total income.	<b>Total income – Total expenses</b>	
4. Subtract the amount you save (with a ROSCA, in the bank, at home, etc). The result is the amount of cash you have available each month.	<b>Subtract savings</b>	
5. Estimate how much 20% of your income is, and compare that amount with your monthly available cash.	<b>Monthly available cash</b>	
6. <b>Decide how much you can pay each month towards a loan.</b>	<b>The size of monthly repayment I can afford</b>	

*Steps to calculate the total cost of a loan*

Steps to calculate the total cost of a loan		
Steps	Action	Calculation
<b>1. How many payments will I have to make?</b>	Multiply the number of months in the loan period by the number of times you have to pay per month.	
<b>2. What is the amount of principal and interest due at each payment?</b>	Add the amount of principal due at each payment and the amount of interest due at each payment.	
<b>3. What is the total amount owed in principal plus interest?</b>	Multiply the number of payments (10) by the amount obtained in Step 2.	
<b>4. What is the amount of insurance I will pay by the end of the loan term?</b>	Multiply the number of payments you will make by the amount of insurance you have to pay.	
<b>5. What amount of savings will I have to deposit in total?</b>	Multiply the number of payments you will make by the amount of savings you have to deposit.	
<b>6. What other fees do I have to pay for this loan?</b>	Add together any additional application and/or administration fees.	
<b>7. What is the total amount I will have to pay, including the loan payment, the insurance, savings and other charges?</b>	Add together the following amounts obtained in:  Step 3  Step 4  Step 5  + <u>Step 6</u>  Total amount paid	
<b>8. How much is the total cost?</b>	Subtract the amount of the loan from the total you obtained in Step 7.	
<b>9. How much is the total cost of the loan minus obligatory savings?</b>	Subtract the amount you obtained in Step 5 from the total you obtained in Step 8.	



### Comparing the cost of two loans

Cost comparison of loan #1 and loan #2			
Steps	Action	Loan 1	Loan 2
1. How many payments will I have to make?	Multiply the number of months in the loan period by the number of times you have to pay per month.		
2. What is the amount of principal and interest due at each payment?	Add the amount of principal due at each payment and the amount of interest due at each payment.		
3. What is the total amount owed in principal plus interest?	Multiply the number of payments by the amount in Step 2 (the total of principal plus interest owed at each payment).		
4. What is the amount of insurance I will pay by the end of the loan term?	Multiply the number of payments you will make by the amount of insurance you have to pay at each payment.		
5. What amount of savings will I have to deposit in total?	Multiply the number of payments you will make by the amount of savings you have to deposit.		
6. What other fees do I have to pay for this loan?	Add together any additional application and/or administration fees.		
7. What is the total amount I will have to pay, including the loan payment, the insurance, savings and other charges?	Add together the following amounts obtained in <div style="text-align: center;">             Step 3              Step 4              Step 5              + <u>Step 6</u>              Total amount paid           </div>		
8. How much is the total cost?	Subtract the amount of the loan from the total you obtained in Step 7.		
9. How much is the total cost of the loan minus obligatory savings?	Subtract the amount you obtained in Step 5 from the total you obtained in Step 8.		

## Glossary

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TERM	DEFINITION
Access	Your ability to get to your money. Some accounts allow you to take your money at any time; others make you wait a certain period of time.
Administrative fees/costs	Additional fees that are associated with the loan or lending institution.
ASCA (Accumulating Savings and Credit Association)	Unregistered / Time-bound / Usually fixed amount deposited each period / Funds lent to members with interest / No external funding.
Assets	Something of value that one owns, eg house, livestock, cash.
Bank loan	Money borrowed from a bank.
Budget	A summary of estimated income, and how it will be spent over a defined period of time.
Capital	Financial assets or the financial value of assets, such as cash, stock value or the contribution made by an owner.
Cards	ATM cards used to withdraw money from an account at a special machine or debit card used to either take money from your account at special machines or to buy goods at stores using special point of sale devices.
Cash available	Amount of money readily available in cash.
Collateral	Security pledged for the payment of a loan.
Complaint - justified	Complaints based on facts, on our rights, on an agreement or a written contract.
Complaint - unjustified	A complaint that is neither supported by our rights nor by an agreement nor written contract. It is often based on lies, misunderstanding, or something the complainer wants but has no basis to ask for.
Consolidate loans	When one takes one 'big' loan to repay several loans from different sources to service only one 'big' loan from one source.
Contract	A document explaining specific obligations, responsibilities, terms or conditions that those signing the contract agree to. By signing the contract, the person(s) and institutions commit themselves to obey its terms and fulfil its obligations.
Costs, direct	Money you pay to the lender for the loan. Includes interest, fees, insurance and late penalties. Usually these costs are included in your regular weekly or monthly payment.
Costs, indirect	Expenses you may have to pay because you have the loan, such as bus fare to attend meetings or to go to the bank.
Credit	A contractual agreement in which a borrower receives something of value, such as cash, goods, or services, and agrees to repay the lender at some date in the future, generally with interest.
Creditor	A person or firm to whom money is due/ a person or firm that gives credit either in business transactions or a loan.
Current account	Bank account that enables consumer to make regular transactions—deposits and withdrawals. May offer ATM and debit cards for easy

	withdrawals.
Debt	Something that is owed or that one is bound to pay to or perform for another, eg money, products or services.
Debt-collection practices (appropriate)	These practices respect the dignity and the privacy of the borrower. They are usually described in the contract and accepted as part of the loan agreement.
Debt-collection practices (inappropriate)	These practices can be abusive, and typically do not respect the dignity and the privacy of the borrower. They are NOT included in the loan contract and are not part of the agreement.
Debt management	Process of identifying the best way to reducing or keeping one's debts at minimum as much as possible with the aim of avoiding being over-indebted.
Debt payments	Principal and interest that is owed to a lender (include all sources - institutions, family, friends, etc); business or personal loan repayments from banks, moneylenders, friends, etc.
Delinquency/loan non-repayment	Situation that occurs when a loan is overdue.
Delinquent/default	Someone who has failed to fulfil an obligation. A delinquent borrower, therefore, is someone who has not fulfilled their obligation as a borrower. They promised to repay a loan, and have failed to do so. Another word for not repaying a loan is "default". A delinquent borrower has defaulted on a loan.
Delinquent payment	Loan payments which are overdue.
Deposit	The money that you put into your account.
Expenses	All of the things that you spend money on.
Expenses, business	Buying stock, transportation of stock, buying seeds and farming tools, rent for business, salary of employees, equipment, etc.
Expenses, necessary household spending	Expenses for the household that are not optional; food, clothes, school fees, medicine, home improvements, etc.
Expenses, unexpected	An expense that arises, which is out of the usual and not planned for.
Family calendar	Record of household income, expenditures and activities over a month or a year. Helps one track his/her income and expenditure patterns.
Financial cooperative including credit unions	Member-owned, usually one person one vote. May be closed bond (all members have same employer or profession) or open bond (open to all). Primary focus on financial services. Often supervised through a government department. Sometimes federated.
Financial services	Financial services include the provision of loans, insurance, transfers/remittances and the taking of savings.
Financial services - formal	All financial transactions, including loans and deposits, provided by institutions which are regulated and supervised by the government's central banking authority. These include commercial banks, finance and insurance companies. They must report regularly to the government.
Financial services – informal	All financial transactions, loans and deposits occurring outside the regulation and supervision of the government's central banking authority. These include local moneylenders, pawnbrokers, self-help groups and NGOs, telecommunication companies, as well as family members who contribute their savings to a microenterprise.

Financial services – semi formal	All financial transactions provided by institutions which are not regulated by banking authorities but are licensed and supervised by other government agencies. Examples are credit unions and cooperative banks, which are often supervised by a government bureau or agency in charge of cooperatives and in some cases the ministries of information and communications.
Fixed sum	An amount that you decide you can save regularly. You are required to save this amount for a certain amount of time, and you will receive interest on it.
Flexible withdrawals	You may take your money out as often as you like - there are no restrictions.
Grace period	The time that one is given before they start repaying the loan. Sometimes financial institutions give time to a consumer of one week, two weeks or a month depending on the loan structure and agreement so as not to repay immediately.
Guarantor/guarantee	A person who makes or gives a guarantee, to make oneself answerable for (something) on behalf of someone else who is primarily responsible.
Income	Money coming in from different sources.
Income-generating project	An activity/project that one undertakes to earn an income.
Insurance	Consumer makes regular payments (called premiums) to insurance provider or MFI for purchase of protection in event of accident or loss. Insurance products cover specific events.
Interest	The bank will pay a small percentage of the amount of money you put in the bank. The more you deposit the more money you get back from them as interest. The percentage the bank pays varies by bank and by type of account.
Interest on loans	The percentage/amount that you pay on top of the principal for the loan.
Irregular income	When income is irregular, then you do not always know when it is coming.
Lending institution	Refers to institutions that one can get a loan from. It can be a bank, an MFI, a SACCO, etc.
Loan	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. Money lent to consumer for various purposes. Type of loan and terms vary with purpose.
Loan repayment	Amount of borrowed money being paid back or refunded. Can be the whole amount borrowed including interest or part of the amount over a period of time.
Local consumer protection agency, Better Business Bureau	An agency that helps to enforce laws to protect the consumer from deceptive or fraudulent financial practices. One example is the Better Business Bureau, which uses established criteria to rate the ethical and community standing of a firm, and provides this information as a means to maintain a high level of trust between the businesses and the public.
Loss	The money that is owed when your expenses are greater than your income.
Lump sum	A relatively large sum of money, paid at one time, especially in cash.

Microfinance bank	Usually has corporate shareholding structure / Principal consumer small and micro-entrepreneurs / Often transformed from NGO structure/ Regulated and supervised.
Microfinance NGO	May be established by local or foreign organisation / Usually registered as a not-for-profit society or trust / Principal product is credit.
Microfinance NGO transformed into a bank or NBF	New entity is often a shareholding company / NGO is usually one of the many new shareholders / Usually regulated and supervised.
Minimum deposit	The amount of money that you need to be able to open an account.
Money habits	The ways that we spend and save our money.
Money management	Process of managing money that one has or expects to earn. Includes budgeting, investment and banking.
Moneylender	Fast, easy access / High interest rates / No external funding / Not registered.
Multipurpose cooperative	Often set up with government support /Main activity may be input supply or marketing /Often supervised through government ministry, NOT finance or banking / Sometimes federated.
Multipurpose NGO	May be established by local or foreign organisation / Usually registered as a not-for-profit society or trust / Diversified set of services such as health, education, agriculture / May have separate department or legal entity for microfinance operations / Principal product is credit.
Needs	A basic need that you cannot do without; things that are necessary for survival.
Non-bank financial institution	Includes: finance companies, leasing companies, transformed NGOs. Often regulated and supervised,
Optional spending	Expenses that are not needed, and will only be made once all necessary items have been purchased.
Over-indebtedness	A situation whereby a person has more debt than he/she needs or can pay comfortably.
Payment services	Bank transfers money from consumer account to designated recipient.
Penalty	A fee that is charged for not following the terms of your account.
Principal	The weekly/biweekly/monthly loan payment.
Private commercial bank	Usually has corporate shareholding structure. Regulated and supervised.
Profit	The money left over when your income is greater than your expenses.
Regular income	When income comes on a regular basis, we expect it. For example, people who have a salary know that their salary comes on a specific date each month.
Remittances	Money or its equivalent sent from one place to another; ie the sending of money, checks, etc, to a recipient at a distance, eg through Mpesa, Tigo Money, Western Union or Moneygram.
Remote banking	Banking transactions done from a distance either through the phone or internet/online banking.
Responsibility	An obligation or duty one must honour; something that must be done as a result of a contract or agreement.
Right	Something to which one has a just claim because it is good, proper or ethical.

Risk rating	Assessing the level of risk and categorising into most risky situation to less risky.
ROSCA (Rotating Savings and Credit Association)	Unregistered / Time-bound / Members deposit fixed amount each period / Each period one member receives all funds / Rotates until everyone has received funds / No external funding.
Savings	The amount of your income that you are putting aside for future personal use, future opportunities, or unexpected emergencies.
Savings goals, long-term	Savings goals which will take longer than one year to achieve.
Savings goals, short-term	Savings goals which can be accomplished in less than one year.
Savings methods, informal	Savings methods that you manage yourself, usually at home. You may keep your savings in cash, jewellery or livestock. Savings of this nature do not have oversight from a government agency.
Savings methods, formal	Services that are regulated by a government agency to ensure the safety of savings. Usually, formal savings services pay interest on savings. Some institutions insure savings. That means that if the institution loses your money, the government will reimburse you for part or all of your losses.
Savings methods, semi-formal	Organised services that are not supervised or regulated by the government, including savings collectors, village banks and other microfinance-group mechanisms.
Savings products	A means of saving money, usually in the form of a savings account, bond, time deposit, etc.
Self-control	Control or restraint of oneself or one's actions in the case related to money decisions. Can also be described as self-discipline or self-restraint.
Small-claims suit	Small claims is a term used to describe a procedure, which simplifies the court process used for resolving civil disputes that involve relatively small amounts of money.
State-owned bank	May be commercial bank, agricultural bank, community bank, development bank. Regulated and supervised.
Supplier credit	A situation that occurs when one receives goods or services on credit. It is termed supplier credit because the supplier of goods or services does not receive money against good or services rendered on the spot but expects to be paid at a later date.
Time lost	Costs associated with the time that you lose (ie closing your shop).
Transfer/remittance	A movement of funds and/or assets from one account to another, often from one person to another, indicating a change in ownership of the asset. A transfer remittance may involve the transfer of monies owed by a customer to a business.
Transportation costs	The costs to get to your loan payment site, bank, etc.
Village-based entities such as village banks, self help groups	Village-based / Member-based / May or may not be registered / Small savings collected and intermediated / Might be linked with other associations / Can be financed from banks, unions, development banks.
Wages	Often, wages is money that is paid or received for work or services, as by the hour, day, week or month.
Wants	Something optional, or not needed for everyday survival.

## Illustrations of laws and institutions for financial services issues

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KENYA	
Laws and bills	Institutions
<ul style="list-style-type: none"> <li>• The Kenya <i>Consumer Protection Bill - 2007</i></li> <li>• Laws of Kenya, <i>The Banking Act chapter 488</i>: <a href="http://www.centralbank.go.ke">www.centralbank.go.ke</a></li> <li>• <i>Microfinance Act 2006</i> – Kenya, available at Central Bank website: <a href="http://www.centralbank.go.ke">www.centralbank.go.ke</a></li> <li>• <i>SACCO Society Regulatory Bill – 2005</i>, available at Central Bank website: <a href="http://www.centralbank.go.ke">www.centralbank.go.ke</a></li> </ul>	<ul style="list-style-type: none"> <li>• Central Bank of Kenya</li> <li>• Association of Microfinance Institutions (AMFI-Kenya): <a href="http://www.amfikenya.com">www.amfikenya.com</a></li> <li>• Consumers Federation Kenya: <a href="http://www.cofek.co.ke">www.cofek.co.ke</a></li> </ul>
TANZANIA	
Laws and bills	Institutions
<ul style="list-style-type: none"> <li>• Banking and Financial Institutions Act 2006- <a href="http://www.bot-tz.org/BankingSupervision/">www.bot-tz.org/BankingSupervision/</a></li> <li>• </li> </ul>	<ul style="list-style-type: none"> <li>• Bank of Tanzania - <a href="http://www.bot-tz.org">www.bot-tz.org</a></li> <li>• Tanzania Association of Microfinance Institutions (TAMFI) - <a href="http://tamfi.com/">http://tamfi.com/</a></li> </ul>

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- FSD Kenya, January 2011, *Consumer Protection Diagnostic Study Kenya* [www.fsdkenya.org](http://www.fsdkenya.org)
- Bikki Randhawa, Joselita Gallardo, June 2003, *Microfinance Regulation in Tanzania. Implications for development and Performance of Industry'*
- CGAP 2009, *Delinquency Management and Interest Rate Setting for Microfinance Institutions*
- CGAP and Microfinance gateway resource materials, [www.Cgap.org](http://www.Cgap.org) and [www.microfinancegateway.org](http://www.microfinancegateway.org)
- Microfinance Transparency site: <http://www.mftransparency.org>



**Available online and on DVD:**

## ***Know your money***

### ***How to provide financial education in Africa***

Consumers International has produced a short introductory film to accompany this handbook. *Know your money* takes a look at how this *Counsellor's handbook* is being used in Korogocho, an informal settlement in Nairobi.

The film shows just how easy it is to set up and start using the handbook, and the incredible impact of the counselling it provides.

*Know your money* is essential viewing for anyone thinking about setting up a financial education counselling service, in Africa and beyond.

View online at [www.consumersinternational.org/FE](http://www.consumersinternational.org/FE) or email [consint@consint.org](mailto:consint@consint.org) for information about obtaining a DVD copy.