



TRAINING OF TRAINERS (TOT) FOR UWEZO FUND MANAGEMENT COMMITTEE ON DEFAULT MANAGEMENT

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Disbursing of Credit

- *In order for an individual client to obtain credit he/she must have the following:*
- Be a bonafide member of the group
- Must have relevant shares in the group
- Must have a valid Kenyan National Identity card
- Must have a guarantor (s) who must be a bonafide member of the group
- Must be credit worthy
- Must be willing and able to pay as stated
- Must pay the necessary loan processing fee to the group

How credit is disbursed

1. Short Term Loan

- This is money advanced and repaid in full in one month's time with a 10% interest per month.
- It is 2 times shares of the individual
- The 10% interest per month that caters for the loan processing fees, services rendered and group bonuses.
- The minimum repayment for a short term loan is one month while a maximum is three (3) months
- It requires a guarantor (s) who must be a group member with relevant shares in the same group and also willing to sign for the borrower
- Both the borrower and the guarantor signs and states the security for the loan
- All loan disbursement shall be done at a properly constituted group meeting

How credit is disbursed...(2)

2. Long Term Loan

- This is credit given and repaid over a month. The duration varies depending on the amount borrowed. The minimum repayment period for life is 6 months and maximum of 36 months depending on the size of the loan.
- It is 3 times shares of the individual
- It requires a guarantor who must be a group member with relevant shares in the same group and also willing to sign for the borrower
- Both the borrower and the guarantor signs and states the proposed security for the loan. The security may be in form of business assets, households' chattels or other formal collateral.
- A member pays to the group a loan processing fee of a 1% of the amount borrowed.
- The interest of LTL is 12% per year or 1% per month. This shall cater for services rendered and group bonuses.

Banking

- Banking is done when money is left on the table and either one of the methods can be followed:
- Money divided among the members and to be returned without interest
- Banked in group bank account
- Amount banked should be updated in the group records (Files) immediately and reviewed every month. The person who banks the money should sign a form. This shall be used for purpose of accountability to make it easy for the field officer to track how much money was banked and by whom.
- NB: If banking divided among the members is not paid, the penalty imposed to such money is 20% and the charges go to the group.

Suggested Table banking products

1. Education booster: This is an amount of money that a member puts into “a group fixed account”. The money is then withdrawn with added interest of (50%) after one year and issued in the month of January. The contribution is made from the month of January to August and only applies where there is no banking.

2. Dividend: This is their turn one gets at the end of every year. The amount depends on the profit the group has made and the size of one’s individual shares.

3. Two per cent Bonus: This is added to the individual shares after every three months. It is the 2 % of interest on the amount borrowed as STL.

Operation of Group Funds

- The group shall upon registration open a group savings account in the group's name with a bank of their choice.
- The following must be signatories to the group savings account: Chairperson; Treasurer; Secretary.
- All fund withdrawals from the group account must be authorized by the majority group members and put down in writing.
- Internal group savings and credit advancement will be guided by the groups' internal rules.
- Group loans given to members will be payable in the following meeting as guided by the loan repayment schedule
- A member who fails to repay his/her loan (principal + interest) on the expected time will not qualify for a successive bigger loan.
- A member who fails to remit monthly repayment is liable to a group fine as stipulated in the groups' internal rules and regulations.
- Group internal credit facility shall be disbursed by cash, cheque, EFT, mobile money transfer or any other means available and agreed upon by the group membership. This shall be guided by the groups' internal rules and regulations.

Definition of Default

- Default occurs when a borrower cannot or will not pay his or her loan.
- Group members no longer expect to receive loan repayment fund from the defaulting member(s).
- The group is expected to continue with the collection efforts.
- Usually, a loan is declared in default when the borrower has stopped payment on a loan for more than 2 due dates.
- Once a loan is declared in default, the group co guarantee mechanisms for recovery commences with immediate effect.

Diagnosing Default

- The following are some of the signs and symptoms that can assist members to diagnose an emerging default problem situation in good time.
 - Poor meeting attendance.
 - Missed savings deposits.
 - Missed loan instalments.
 - Part payments of both savings and loan instalments.
 - Changing/deteriorating/closure of business.
 - Misconduct of members both in the meetings and outside the meetings.

Penalties for Default

- When a member fails to pay the STL as required, then a further **10%** interest is charged on the outstanding amount and he/she is suspended from issuance for a period of two months.
- When a member fails to pay the LTL as agreed on the loan repayment schedule the default management procedure takes over.

Other penalties

- **Lateness:** A member who attends a meeting late is often charged a specific fine that varies from group to group
- **Absenteeism:** A member who does not attend meetings is fined as found appropriate by the group members. Apologies for being absent must be accompanied by a written letter.

Steps for recovering from the individuals by the group

- The group shall be sensitized that members must attend meetings where all issues are addressed. Group meetings are used for administration and training purposes.

Step 1

- If a member fails to attend a meeting, officials **MUST** guide the guarantors to contribute for such a member then be able to follow up on the absent member afterwards.
- If the member does not have valid reason (as per the group internal rules and regulations) then fine for non-attendance and non-repayment is levied on the absent members' contribution.

Steps...(2)

Step 2

- The group members shall plan to visit the absentee member before the next meeting.
- A member of the executive committee must be represented during the visit to an absentee member.
- If the member does not pay immediately during the visit, a letter is written giving the member until the next meeting date when he/she should pay all the arrears together with all the fees/fines to be levied.
- The group officials shall write a letter to such member and keep a copy of the letter in the group file.

Steps...(3)

Step 3

- If the member fails to clear arrears during the consecutive meeting, the group officials together with the members' subgroup will immediately after the meeting have a brief meeting and discuss the issue.
- Where a member has not given valid reason as to why they have not paid, the officials must write a letter giving the member 21 days to pay all arrears and other fines and fees.
- The group officials should visit the member and assess the members' position and try to understand why the client is not paying well.
- A brief report must be prepared by the officials and shared during the next group meeting for members' deliberation and action.
- The group decision must be shared in writing with the Constituency Uwezo Fund Management Committee (CUFMC).

Steps...(4)

Step 4

- If by the 3rd meeting and the member has not yet paid or made any effort to clear arrears, a letter recalling the whole loan amount should be written to the member and a copy to the CUFMC. The CUFMC should immediately on receipt of the copy write another letter to the member stating the consequences of not paying in 30 days.

Step 5

- If the client has not responded positively; the executive committee should repossess from the member. Items repossessed must be placed in custody of guarantors for not more than 30 days after which the group officials and guarantors will dispose them. This shall be guided by the groups' internal rules and regulations.

Step 6

- It should be known to the group members that they are jointly and severally liable for the repayment of all loans advanced to the group, and further that in the event of default the group shall not be eligible for additional loans unless the amount in default has been cleared in full.

Preventing Default

- It is more difficult to cure default than to prevent because of the expense in time/cost in following up on default and recover the full debt.
- The following tips can help members keep default at bay:
 - Have a positive attitude towards members;
 - Ensure members vet/screen all new entrants thoroughly;
 - Conduct a thorough household assessment and advance appropriate loan sizes to group member;
 - Undertake a thorough orientation and training of clients on Uwezo Fund lending requirements from the onset;
 - Members should attend all group Monthly meetings;
 - Ensure that group records are well kept and are accurate at all times;
 - Always keep office records updated and accurate;
 - Both the group and fund management team should take immediate action on any delayed or missed payment;

Preventing default...(2)

- Loan amounts should be based on the current business cash flows not on projections ;
- Always issue receipts for payments (fees, loan payments, savings) made by customers in good time;
- Ensure quality service at all times. For instance, process loans within the shortest time possible;
- Uwezo Fund officials should carryout impromptu visits to customers' business premises as often as possible;
- Ensure that all groups have competent, respectable and trustworthy leaders.
- Encourage group members to have some socio-economic and welfare activities outside the Uwezo Fund associated activities. If handled well, these activities will enrich the group and strengthen the group guarantee system.

Managing Default

- Once default sets in, apply one a combination of measures to curb the problem that has been nicknamed, “The hidden beast” in Group Lending.
- The following are some of the measures, which have been found to work over time.

1. Use of one to one collection

- Follow up the defaulter independently or with the group and demand that the defaulter repays the total loan balance.

Managing default...cont'd

2. Use Peer Pressure

- Facilitate application of peer pressure for any defaults.
- This should be initially be applied at the sub group level.
- Insist that the sub group pay for the missed instalment and then follow up with the defaulter after the meeting.
- Where the sub group cannot raise the full instalment, ensure group members raise this instalment.
- Where group members have raised the instalment, the Group Administrative Office (GAO) must ensure members follow the defaulter before the next meeting.

Demand Notice

- If the defaulter is uncooperative, he/she should be served demand notice.
- If the default worsens, consider the following options:
 - Insist that the group members contribute to pay off this amount. The contributions must be distributed equally among all members.
 - Forfeit savings, first for the defaulter, then the sub group and eventually the entire group.
 - Use the local administration to demand payment.
 - The Uwezo Fund officials may be requested to team up the group members to follow up the defaulter.
 - You can also approach relatives and friends of the defaulter to pay the debt.

Savings Forfeiture (Loan default and non-repayment)

- Savings forfeiture is a last resort measure in the process of loan recovery.
- Every group member undertakes to forfeit his/her saving in the event of default by the member/group.
- Each member signing the application form as a guarantor makes this undertaking at the time of loan application.
- In the event of a member/group defaulting on the loan repayments and after all efforts to recover the outstanding amounts have failed, members' savings are forfeited in the following order:-
- To the defaulting member (who is considered the primary guarantor, forfeits his/her savings plus interest earned to the extent of the default).

Savings forfeiture...(2)

- Where the primary guarantor's savings cannot cover the amount in default, secondary guarantors (sub group members) forfeit their portion of savings in equal proportion to cover the balance.
- Where the sub group members' savings cannot cover the amount in default, the other group members forfeit their portion of savings in equal proportion to cover the balance.

Management of activities

Loan and Default Management Tools

- One of the key activities in the management of a loan portfolio is having an effective management information system (MIS).
- The system must have the capacity to provide timely and accurate information to allow the lender and the guarantors to take prompt decision in the event of non-payment of a loan instalment.
- The information stem must be clear right from the group to the fund office. This session considers some useful tools.
- For example the correspondence files is maintained by the treasurer of the group and should have the entire group membership; bank account statements collected and read out to members on a monthly basis.

- THE END
- Any questions