

The National Council of the YMCAs of Sri Lanka

Micro Credit Facility

Operational Guidelines

1. The Purpose

The purpose of the YMCA Micro Finance Facility (YMFF) is to encourage low income households of the YMCA catchment areas to upgrade their income with the view to transforming their life style and aspirations to achieve higher goals of livability and self-esteem.

YMFF asserts that livelihood development is only a key to change and progress and, therefore, must assuredly be galvanized with activities aimed at value formation and spiritual development of the individual and family. This is premised on the teaching which says: "What doth it profit a man if he gains the whole world but loses his own soul". Mathew 16:26

2. The Objectives

The objective of this Facility is threefold:

- 2.1 **Financing:** Setting up a Micro-Finance Facility at the national level to guide and finance the local YMCAs to become effectively micro-credit managers in their own localities.
- 2.2 **Capacity Building:** Strengthening the outreach capacity and skills of the local YMCAs in order that they may systematically expand their community-based participatory development work to help low-income families outgrow their poverty and indebtedness.
- 2.3 **Micro Credit:** Helping the identified families organize themselves as micro-savings groups under the YMCA Micro-Credit scheme in order that they may utilize their own savings and YMCA credit to engage themselves in small scale entrepreneurial pursuits, shelter improvement and/or other economic activities that will help them gain self-esteem and earn substantial supplementary family incomes to overcome indebtedness.

3. Key Principles of Lending

YMFF (YMCA Micro Finance Facility) and YMCS (YMCA Micro Credit Scheme) will adhere to the following proven principles of lending in granting credit.

- a. ***PRINCIPLE OF LIQUIDITY:*** Credit benefits will be made available only to those who, in the opinion of the YMCS and YMFF, are able to pay back the loans with interest in the approved time.
- b. ***PRINCIPLE OF FEASIBILITY:*** loans must be granted only for good projects that are likely to succeed and improve the quality of life of the borrowing family. Feasible projects are those that adhere to the principle of subsidiarity.
- c. ***PRINCIPLE OF SUBSIDIARITY:*** Approved micro enterprises must not depend totally on YMCS funds. The family too should have a financial stake in the business by making a percentage investment. Generally, the YMFF will provide credit up to 90% of a total investment of the enterprise that include both the fixed and operational cost. The applicant will have to provide the balance 10% half which could be in the form of own labour.
- d. ***PRINCIPLE OF PUBLIC INTEREST:*** No loans will be granted that cannot contribute to economic development and livelihood growth of the family. Loans also should be in conformity with national health and environmental rules and norms. For example, tobacco related economic activities should not be supported. Selected activities should not violate the accepted moral standards and practices of the local area. For example, pig rearing should not be supported in Muslim areas.
- e. ***PRINCIPLE OF SUPPORTING VULNERABLE GROUPS:*** YMCS will pay special attention to reach out to those in abject poverty and women and other marginalized groups such as physically or mentally handicapped, yet skilled or semi skilled to engage in a productive livelihood.

4. The Methodology

At the national level this programme will be a micro- financing activity while at the local YMCA level it is expected to be a micro-credit scheme.

The YMCAs that are desirous of launching a micro credit scheme under this programme are required to set up local credit groups in a few identified low income settlements. This is to avoid thin dispersal of the limited funds all over the city which will not help measure or assess the social impact of the scheme. These credit societies are entitled to request loans for livelihood development purposes if applications are submitted in the form of group requests. The applications will be assessed by the Development Committee of the YMCA which will endorse and

forward them for funding by the NCY. Funds will be disbursed to the credit societies through the YMCA which will be responsible for proper implementation of the scheme. .

5. Management & Monitoring

The programme will be implemented through a three tier monitoring system.

5.1 NCY Micro Finance Facility (YMFF)

The NCY will set up a revolving fund *at the national level* to finance and support local level credit schemes. It will be managed by the Development Education and Projects Committee. Ordinarily, the YMFF will channel its assistance mainly through the local YMCAs but, where there is no YMCA, it may use local institutions of proven ability to implement credit schemes as a prelude to setting up a YMCA programme centre there. The YMFF will issue operational guidelines and monitor the implementation. The YMFF will channel its assistance through the Development Committee of the applying YMCA. Where there is no Development Committee functioning, a Development Committee of 3-4 dedicated lay leaders with the General Secretary should be set up to spearhead the operations.

5.2 YMCA Micro Credit Scheme (YMCS)

The YMCAs that are desirous of benefitting from the YMFF must assign its Development Committee the task of guiding, supervising and monitoring the implementation of the YMCA Micro Credit Scheme. .

The local YMCA applying for YMFF loans will ensure that conditions for releasing credit, detailed in Section – of this document will be adopted and fulfilled at all times. The YMCAs which benefit from the YMFF will agree to use the money for the express purpose of launching micro credit ventures through group activity and undertake to repay the loan capital with 2% interest to NCY on a monthly basis.

The re-paid loan capital will be revolved for new stages of loan disbursements. Only the YMCAs that have not defaulted the loan repayment will be entitled to receive further loans when revolving the paid back amounts.

5.3 YMCA Credit Society (YCS)

The YMCS will operate through a YMCA credit society (YCS) comprising micro-savings and micro-credit groups consisting of 5-10 borrowers. The society may be registered as a Cooperative Credit Society or as social service organization with the Divisional Secretariat. Each group member will be a loan monitor, applying peer pressure on the rest of the group to pay back the loan premium regularly and thereby preventing any intentional payment defaults. This self-monitoring group will be the lowest level unit that oversees YMCS implementation. The society will build up sufficient funds by means of the interest received to serve as a revolving fund to issue new loans.

6. Credit Evaluation Criteria

Five cardinal principles will be used to evaluate\ loan applications. They are:

6.1 Character

The most important consideration in assessing loan applications is the character of the prospective borrower. By Character is meant an assessment of his/her honesty, integrity, intentions and *genuineness of the will to pay back* the loan.

This aspect of assessment is not easy. It has to be based on:

- (a) Straight forward personal interviews: to minimize subjectivity, these interviews must always be done by a panel of interviewers.
- (b) Examination of the past participation and repayment records of the applicant.
- (c) The educational background, general habits and lifestyle of the applicant.

6.2 Capacity

This requires a careful assessment of the viability of the proposed enterprise/project viability. Its feasibility and capacity to earn a reasonable surplus after deduction of expenses and liabilities must be assessed. The most important is to assess the capacity of the enterprise to add to the family income on regular basis and also to repay the loan. Applicants should be encouraged and helped to identify projects that are technically feasible, financially viable and economically sound.

6.3 Capital

The applicant must show evidence of having some capital to contribute to the enterprise. The applicant's share of the capital may be small but, with one's own investment, a higher sense of ownership occurs making him/her a devout stakeholder of the project

His/her share of capital may be in the form of land, work-space, goods, monies and other tangible assets or labour, all of which should be monetized in the proposal as his/her share of capital.

The assessment should include “market search and surveys” to verify whether the declared earnings are rational and based on existing market rates. .

6.4 Conditions

The applications should be evaluated in terms of the existing environmental and market conditions, possible hazards, the applicant’s health and family background. All of this greatly influence the success of the project.

6.5 Collateral

Belonging to low income groups, the applicants will lack tangible assets to place as collateral. Therefore, the lending facility will rely mainly on “inter se” (i.e. among themselves) guarantee of two members of the society. It means that the guarantors as society members will exercise pressure on borrower in case of defaults in repayments. The guarantors must be those who have considerable influence over the applicant. Eg. Parents or a close friend who could exert effective pressure.

7. Financing and Credit Disbursement Procedure

The local YMCA desirous of launching a YMCA Micro Credit Scheme in its catchment area is required to mobilize its Development Committee to:

- 7.1 Identify a one or two low-income settlements where poverty is rampant and evident.
- 7.2 Conduct a simple household survey to ascertain the socio-economic conditions, the level of indebtedness, aspirations, skills and credit needs and compile a report titled Micro Credit Needs Profile.
- 7.3 As part of the Profile, prepare a list of households that are desirous of joining a micro-credit scheme with details of the required credit and the type of profit-making economic activity that each of them wishes to engage in.
- 7.4 Using the available standard format, assess the feasibility of each business proposition and submit a project proposal for YMFF consideration.

In the case of approved financing, the YMCA must:

- 7.5 Sign up a protocol document with the YMFF undertaking to be responsible for regular monitoring of the scheme and the recovery and monthly repayment of the loan premium and 2% interest to defray the administrative costs of the programme.
- 7.6 in collaboration with the NCY, organize appropriate skills training programmes to prepare the applicants for their new ventures
- 7.7 Open a separate YMCA bank account to operate the credit scheme.
- 7.8 Open *Credit Files* in respect of each applicant. The loan Application proper which includes the guarantors consent statement should be filled in it. All data and information including the notes made at the interview should be recorded systemically in the file. In addition, signed notes for the record of every visit made to the project and the observations as well as any discussions had with the borrower consequent to defaults should also be filed.
- 7.9 Submit a monthly progress report using the standard format issued for the purpose by YMFF.

8. Grant Installments

The YMFF will issue the approved loan in two or more installments as indicated in the proposal. Undue delay or irregularity in repayment of the agreed premia shall cause immediate suspension of the release of any pending installments.

Similarly, the local YMCAs are also required to release credit in a minimum of two installments. Any delay or irregularity in repayment of the agreed premia shall cause summary suspension of the release of any pending installments.

9. Eligibility of Applicants

- 9.1 A loan applicant should be a member of good standing of a registered YMCA Credit Society (YCS). She must have evidence of financial discipline and must not be one who is currently in arrears of monthly dues to the society
- 9.2 The applicants must be currently unemployed and whose monthly family income does not exceed Rs. 25,000/-.
- 9.3 The applicants should be ready to follow at least one preparatory training course on Entrepreneurship Development or Micro Enterprises Planning

organized in collaboration with the NCY or else should have proof of receiving any other similar skills training from a recognized institution.

- 9.4 The applicant should show evidence of capacity to repay the loan through monthly installments by building up a saving of Rs. 750/- initially and provide proof of the same along with the application. Such savings must not be a result of a sudden deposit made for the express purpose of obtaining a loan. It should have been built up through regular deposits over a period of time to prove that the applicant is a practitioner of financial discipline.

10. Conditions of Lending

- 10.1 The proposed micro economic activity should be a viable, surplus-producing business enterprise. With technical assistance and guidance from the YMCS the applicant should formulate and attach to the application a technical feasibility report detailing the nature, scope and a realistic forecast of income and expenditure for the period of the loan plus 6 months.
- 10.2 No two members of the same family will be entitled to concurrent YCS credit.
- 10.3 YMFF will not accept or entertain individual applications. It will consider individual applications only if submitted as a cluster loan of group members.
- 10.4 Loan applications will be assessed and recommended by a YCS, through the General Secretary.
- 10.5 YCS will give priority to encouraging group activities where two or more members shall join together as partners in business and thus work as a team of entrepreneurs.
- 10.6 Depending on the type and nature of proposed business, there will be a ceiling on available credit.
- 10.7 With prior mutual agreement, loan must be paid back in regular monthly installments.

Prepared by Leo Fonseka, Co-chairman Development Education and Projects Committee.

17th July 2009