





TOOLS: Training cash recipients on how to manage debt

KEY ACTIONS

- ✓ Many cash recipients fall into debt which puts them even more at risk of abuse of power by Financial Service Providers (FSP) agents or traders, who might keep their payment instrument as collateral.

TOOL: Training session on how to manage debt

Welcome and introduction	5 mins
<p>→ Welcome the group. Recap the previous session (if applicable). Share the objectives of today's session, which are:</p> <ul style="list-style-type: none"> • Learning about debt management: <ul style="list-style-type: none"> ○ Definition of debt management ○ Loans and borrowing decisions ○ Avoiding over-indebtedness 	Method: 
Definition of debt management	20 mins
<p>A. Definition of debt</p> <p>→ Introduce this session by saying: <i>We've already talked about expenses in terms of a budget. Today's session will dig deeper into the topic of debt.</i></p> <p>→ Ask: <i>When I mention the word 'debt', what comes to your mind?</i> (Wait for a few responses.)</p> <p>→ Then say: <i>Our goal is to learn how to handle our money. We will start by talking about debt management because it is also key to being wise about money. People get into debt by borrowing money from someone/an institution or by buying things on credit. A debt must be repaid. Debt management is about making sure that you can repay what you owe in full.</i></p> <p>B. The importance of debt management</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p style="text-align: center;">Short skit</p> <p>Farida is a mother of two. She lives in a refugee camp and receives food assistance from WFP and quarterly support from UNHCR to buy non-food items. Sometimes, when the opportunity arises, she also takes part in cash-for-work activities around the camp. When she manages to find the raw material, she also occasionally prepares traditional incense to sell on the local market. One day, her youngest child was sick and so she went to the local market and sold some of the food she had bought with her WFP assistance to go buy medicine. Thanks to the medicine, her child soon got better but then Farida found herself running short of food. So she went to one of the affiliated traders and asked him to get some food on credit which she said she would repay the following month with her food entitlement. The trader agreed but told her that he will charge her an interest rate of 10%. Farida needed the food, so she agreed. When the time came, she repaid the trader what she owed him for the food plus the interest and bought more food from him. But again, she found herself short a few weeks later because she ended up with less food than before because she paid what she owed plus the interest to the trader. So she went back to the trader and bought more food on credit. And so the story went with Farida getting less and less food every time.</p> </div> <p>Note to trainer: The skit can be either acted out (by facilitators or participants) or simply read out loud depending on what's feasible. You may change the name of the character to suit your cultural context.</p> <p>→ Ask: <i>What was the story about?</i> (Give a few participants a chance to share their thoughts.)</p> <ul style="list-style-type: none"> ○ Say: <i>Yes, Farida got caught in a circle of debt.</i> <p>→ Ask: <i>What do you think Farida can do to get out of this circle of debt?</i></p> <ul style="list-style-type: none"> ○ Say: <i>Yes, Farida can look into other sources of income to pay for the food and avoid buying on credit from the trader all the time.</i> 	Method:   
Loans and borrowing decisions	20 mins
<p>→ Say: <i>At the beginning of this session, we introduced a loan as a form of debt. Let us dive more into it. A loan is money that is borrowed and must be paid back, usually with interest and other associated costs such as loan processing costs, insurance fees, stamp duty etc. (when it is contracted by a formal institution).</i></p>	Method:

→ Remember:

- **Most loans must be secured with collaterals.** Collateral is something you own (e.g. a piece of land) and which the lender can take over if you fail to pay back the loan. Some lenders accept another person to be a guarantor. In case you fail to pay back your loan, the guarantor must stand in for you and pay back that loan.
- **All loans come with a cost.** When you take a loan, you must understand that you have to pay back the amount which you have received from the lender, plus an additional cost called *interest*, together with possible additional charges. Before you take a loan, ask the lender about the total amount you have to pay back over the entire period of the loan. This is called the *Total Cost of Credit* and includes the amount you borrowed + interest + any other fees/charges. It is the responsibility of the lender to tell you the Total Cost of Credit. If he does not, ask for it.
- **It's easy to get into debt but hard to get out.** If you borrow money, plan carefully how you will use your loan and how you will pay it back – and stick to your plans. Always use borrowed money for the purpose you borrowed it. Avoid borrowing to pay off another debt.

If you must take a loan:

- **Don't borrow because others are borrowing.** It is not wise to take a loan just because other people around you are doing so. Ask yourself if you really need the loan. Mostly, it is better to save than to take a loan. Take a loan only as a last resort.
- **Make that money productive.** To pay back your loan, you have to make the money work. Borrow for productive investments such as buying a piece of land where you can grow something or increasing your business. Pay back the loan and maybe borrow more later if it is necessary. Use loans wisely and never rush into borrowing. Think twice before borrowing for luxuries, or things that lose value (e.g. car, furniture, clothes, etc.) except if they are meant to boost your business.



Short skit

Khadija and Yasmina have been friends for many years. They both cultivate small plots of land next to the refugee camp where they live. Every year the yield of the plot is decreasing so Khadija tells Yasmina that she now wants to borrow money from a microfinance organisation to start a business selling home cooked means. Yasmina agrees that this a very good idea and encourages her friend to do so. Khadija then gets a loan which she secured by giving her farming tools as collateral as well as some savings she had. After a while, Khadija's business is doing very well, she's able to keep up with her repayments and soon she even manages to buy herself a TV set. Yasmina and her children often come to Khadija's house to watch TV and soon Yasmina begins to desire a TV of her own. So she decides to go to the same microfinance institution that Khadija used to get her loan. Yasmina gets a loan which she secured by putting her gold wedding ring – the only souvenir left she has from her late husband – as collateral. Yasmina buys the TV and can now watch her favourite programmes in the comfort of her own home. But when the loan officer of the microfinance institution comes to visit her to ask for her loan repayments, she has no money to give him because her harvest was low. So now the officer says the microfinance institution will keep her gold ring to compensate for the fact she defaulted on her loan.



Note to trainer: You may change the names of the characters to suit your cultural context.

→ **Ask:** *What was the story about?* (Give a few participants a chance to share their thoughts.)

- **Say:** *Yes, Khadija is a farmer turned cook. She decided to take a loan to invest in her new cooking business.*
- **Say:** *Yes, Yasmina is a farmer. She took out a loan to have a TV like Khadija but she didn't have a plan to repay the loan. Now she is in debt and lost a very valuable ring from her late husband.*

→ **Ask:** *Do you think it was a good idea for Khadija to borrow money to start her cooking business? And for Yasmina to buy a TV? Why?*

- **Say:** *Yes, Khadija borrowed money to make an investment. Yasmina did it for consumption – she borrowed money to buy something she wanted and not something she really needed.*

→ **Ask:** *If you were Khadija in this story, what advice would you give Yasmina?* (Give a few participants a chance to share their thoughts.)

- **Say:** *Khadija could tell Yasmina that loans are not to be taken lightly. Before taking a loan, you must make sure you can pay it back.*

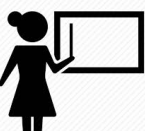



Avoiding over-indebtedness

15 mins

→ **Say:** *We have seen with the example of Farida and Yasmina that it is very easy to get into debt. At the same time, as shown with the example of Khadija, not all debts are bad. You can borrow to invest in a business that can become fruitful. But all debts are a risk that must be well thought about. We don't always choose to be in debt. Sometimes debt cannot be avoided. But you can avoid falling into **over-indebtedness**, which is a circle of debt that you don't control. Some people accumulate so much debt that they get caught in a cycle in which they are constantly struggling to pay it back: they pay back money today which they then borrow again tomorrow.*

Method:



<p>→ Ask: <i>What are your personal ways to avoid over-indebtedness? What tips would you give others?</i></p> <p>→ Share: Tips to avoid over-indebtedness:</p> <ul style="list-style-type: none"> • <i>It's easy to get into debt but hard to get out.</i> If you borrow money, plan carefully how you will use your loan and how you will pay it back – and stick to your plans. Always use borrowed money for the purpose you borrowed it. Avoid borrowing to pay off another debt. • <i>Don't "dig a hole" to fill up "another hole".</i> If you are already struggling with debts, avoid taking another loan since this will only add to your debts and hence increase your burden. • <i>Save to avoid unnecessary debt.</i> Savings are the best way to pay for day-to-day costs like school fees, clothing and medical charges. It is better to save for such expenses than to borrow. For example, if you start saving for your children's education early enough, you may not need to take an education loan or borrow money from a friend to pay fees. • <i>Always have an "emergency fund".</i> Savings are very helpful in addressing unexpected or unforeseen problems such as illness, accidents, unemployment, robbery, drought, funerals, too much rain that destroys crops etc. In such situations, your savings can help you as you recover. Make sure that you keep money for emergencies. If you ever have to use part of your emergency fund, top it up again as soon as you can. 	
<p>Conclusion</p>	<p>10 mins</p>
<p>→ Conclude by saying: <i>Debt management begins by making the right borrowing decisions by choosing carefully who you borrow from, what you borrow for, and assessing in detail your capacity to pay back the debt.</i></p> <p>→ Ask:</p> <ul style="list-style-type: none"> • <i>What one thing are you taking away from today's session?</i> • <i>Based on today's learnings, what will you do differently?</i> <p>→ Ask for questions and clarifications. Then thank the participants for their active participation.</p>	<p>Method:</p> 

Source: partly adapted from *Bank of Uganda (2013): Core messages. Strategy for financial literacy in Uganda.*

Visuals: Click [here](#) to access the visuals in high resolution

- Choose carefully who you borrow from



- Beware of « easy » loans



- Don't borrow more than you can pay back



- Only borrow with a full understanding of terms and conditions



- Only borrow for necessary expenses and investments



Two Simple Rules to Help You Control Your Debt

Don't borrow more than you can afford to repay.

Save money regularly for emergencies so that you do not always have to borrow.

