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**THE LESOTHO DISTANCE TEACHING CENTRE'S ASSISTANCE**

**FUND: OPERATING A REVOLVING LOAN FUND.**

**Conference on Income Generation in Lesotho**

**4 - 8 February 1985.**

**Hotel Victoria, Maseru.**



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## PREFACE AND ACKNOWLEDGEMENTS

This paper presents an overview to the Lesotho Distance Teaching Centre's operation of the Assistance Fund, a revolving loan fund to provide technical and financial assistance to educational and income generating groups. The development and implementation of the Assistance Fund as described in this paper represents the hard work and collaborative efforts of the management and staff of the Lesotho Distance Teaching Centre (LDTC).

It is based on an earlier document which was prepared for two U.S. Agency for International Development evaluations of the LDTC's Structuring Nonformal Education Resources Project.

The entire paper has been refined and Chapter IV and V are additions to this earlier document. Chapter IV is based on the author's doctoral dissertation. Chapter V is based on A Manual for the Analysis of Costs and Outcomes in Nonformal Education, International Office, Educational and Testing Service, Princeton, New Jersey, USA.

Other references used were:

- Structuring Nonformal Education Resources Project Paper, USAID, Washington, DC.
- Nonformal Education as an Empowering Process, Kindervater, Suzanne, Amherst, Ma: Center for International Education, 1979.
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- Small Farmer Credit Programs and Interest Rate Policies in Low Income Countries, Adams, Dale W., Columbus, Ohio: Ohio State University Department of Agricultural Economics and Rural Sociology, 1977.

## CHAPTER I

### INTRODUCTION

"After education, what?"

Now that we've have been to school, now that we can read, write and add sums, what do we do with this new knowledge?"

Now that I am education<sup>ed?</sup>, what do I do?"

Increasingly in the 3rd World these and other similar expressions are being heard. Education, which for so long was viewed as the panacea for all 3rd World development problems, can not by itself solve the multitude of problems confronting the rural poor. Education programmes can not simply be concerned with the transference of information. In order for rural people to provide all important income for themselves and their children or to better be able to have a voice in providing quality services to their communities in areas such as health care, clean water, and proper food, they need the necessary technical and financial resources whereby they can make use of their education.

One particular project which is attempting to link educational training with the opportunity to immediately utilize these skills is the Assistance Fund component of the Lesotho Distance Teaching Centre's USAID Project entitled Structuring Nonformal Education Resources.

This manual provides details of the goals, rationale, management, and some of the lessons learned from the LDTC experience with a revolving loan fund to assist the rural poor.

## CHAPTER II

### GOALS OF THE LDTC ASSISTANCE FUND

The problems of poverty pervade the Third World. Poverty is reflected in a lack of basic needs in such areas as health, nutrition, housing, and education. Governments throughout the world have been actively seeking to alleviate these problems through a variety of means with varying degrees of success. One strategy which has been questioned more and more in recent years is a sole reliance on a top down, capital intensive policy which has created numerous jobs for people, especially in the urban areas, but which has failed to lessen the crushing poverty of the rural poor.

To give people the financial and educational resources to meet their needs, government strategies to foster employment producing and income generating opportunities must be examined and strengthened. Yet the magnitude of this work is enormous. The problem is so great in fact, that by the year 2000, almost 800 million new jobs will be needed.

A wide range of indigenous groups has developed to address the needs of people living in the rural areas. Yet many of these nonformal education (NFE) groups do not have, it appears, the necessary human and financial resources to either consolidate or expand their programmes to benefit the rural poor. Furthermore, in most of the 3rd World, assistance to such groups has developed in somewhat of a random fashion with one particular group need being addressed by one institution while another need is addressed by another totally different institution.

The problem is to respond to the wide range of felt needs of such groups without at the same time "domesticating" them by bringing these same groups into the pyramidal organizational structure of a particular Ministry or institution. Such a bureaucratization of these groups would negate their strengths. These strengths are that such nonformal education groups enjoy varied sponsorship; they use existing facilities and buildings instead of requiring large fixed cost investments, they exist to satisfy immediate needs, administrative overhead costs are minor, and small programme size allows for flexibility and innovation. Experience has shown that in most areas of the world assistance is successful where there is a cooperative and integrated approach by government and nongovernment institutions to assist rural people to meet their own identified needs.

One example of such an attempt is the Assistance Fund at the LDTC. As originally designed the Assistance Fund should be able

to provide to these groups either directly or in collaboration with other government or nongovernment institutions the following combinations of services as needed and requested:

#### I. TRAINING ASSISTANCE

Training of group leaders and members in a wide range of practical skill areas such as book-keeping, record-keeping, programme planning, and group dynamics.

#### II. MATERIALS DEVELOPMENT

Develop, pre-test, and print instructional materials such as booklets, pamphlets, photostrips, learning games, posters and other simple to use and low cost educational material.

#### III. EVALUATION ASSISTANCE

Share with groups the impact and effectiveness of group development efforts.

#### IV. COMMUNICATIONS ASSISTANCE

Develop and use radio programmes to supplement print material and direct training.

#### V. FINANCIAL ASSISTANCE

Provide necessary financial assistance to rural groups where specific selection criteria have been met. This financial assistance may be in the form of:

- loans to those organizations with primarily an income generating focus
- grants to those organizations with primarily an educational focus

Over time the LDTC has developed an extensive selection criteria which helps determine which organizations it can assist and at the same time serves as a broad set of goals for the LDTC to strive toward.

In brief the Service Agency work of the LDTC is meant to benefit directly or through intermediate organizations the poorer segments of society. The LDTC does not form new groups but attempts to strengthen what already exists. This is done through combinations of educational and financial assistance. The LDTC believes very strongly in the importance of educational assistance and will not give loans without accompanying educational assistance. Through its Assistance Fund programme of loans, it does not attempt to duplicate the work of other funding institutions such as the Agricultural Development Bank. As loans are intended for the neediest, no maximum or minimum amounts have been established. Most likely a group which could absorb a very large amount of money would not meet the selection criteria. The LDTC will not automatically exclude large loan requests but will

look at the per worker capitalization (that is, total loan divided by total workers/members) as well as the economic feasibility of the group's proposal. The LDTC works with groups and not individuals. It is the feeling of the LDTC that the dissemination of educational information is most cost effective in the group structure and that educational and financial assistance to individual would be ineffective given the present structure of the LDTC. The Selection Criteria which gives much more detailed information is contained in Appendix E.

What has been outlined on this paper should not be seen as a blueprint for the development of a revolving loan fund. There are no easy answers, no blueprints, to implement such a fund using the educational and financial resources of a nonformal education institution. The LDTC has undertaken a learning process approach to define how its Assistance Fund approach can meet the needs of the people in rural Lesotho. The next chapter of this paper describes such an approach.

## CHAPTER III

### HOW THE ASSISTANCE FUND PROCESS WORKS

The Assistance Fund has been evolving over a period of about four years at the LDTC. Throughout this period the procedures have been constantly refined. In all likelihood some additional changes and refinements will continue to be made as the LDTC gains more and more experience in the administration of the Fund.

#### An Introduction to the Steps in the Assistance Fund Process

There are five basic phases to the Assistance Fund process. These are:

1. Network Building and Information Sharing - training of extension agents and other staff in nonformal education techniques, notification of LDTC services to rural groups
2. Preparation of a group's proposal for funding and data collection of the group
3. Submission of the completed proposal to the two review committees and a decision by these two committees - the LDTC Screening Committee and the Assistance Fund Management Subcommittee
4. Preparation and signing of contract and disbursement of funds
5. Commencement of training and financial assistance and repayment of loan.

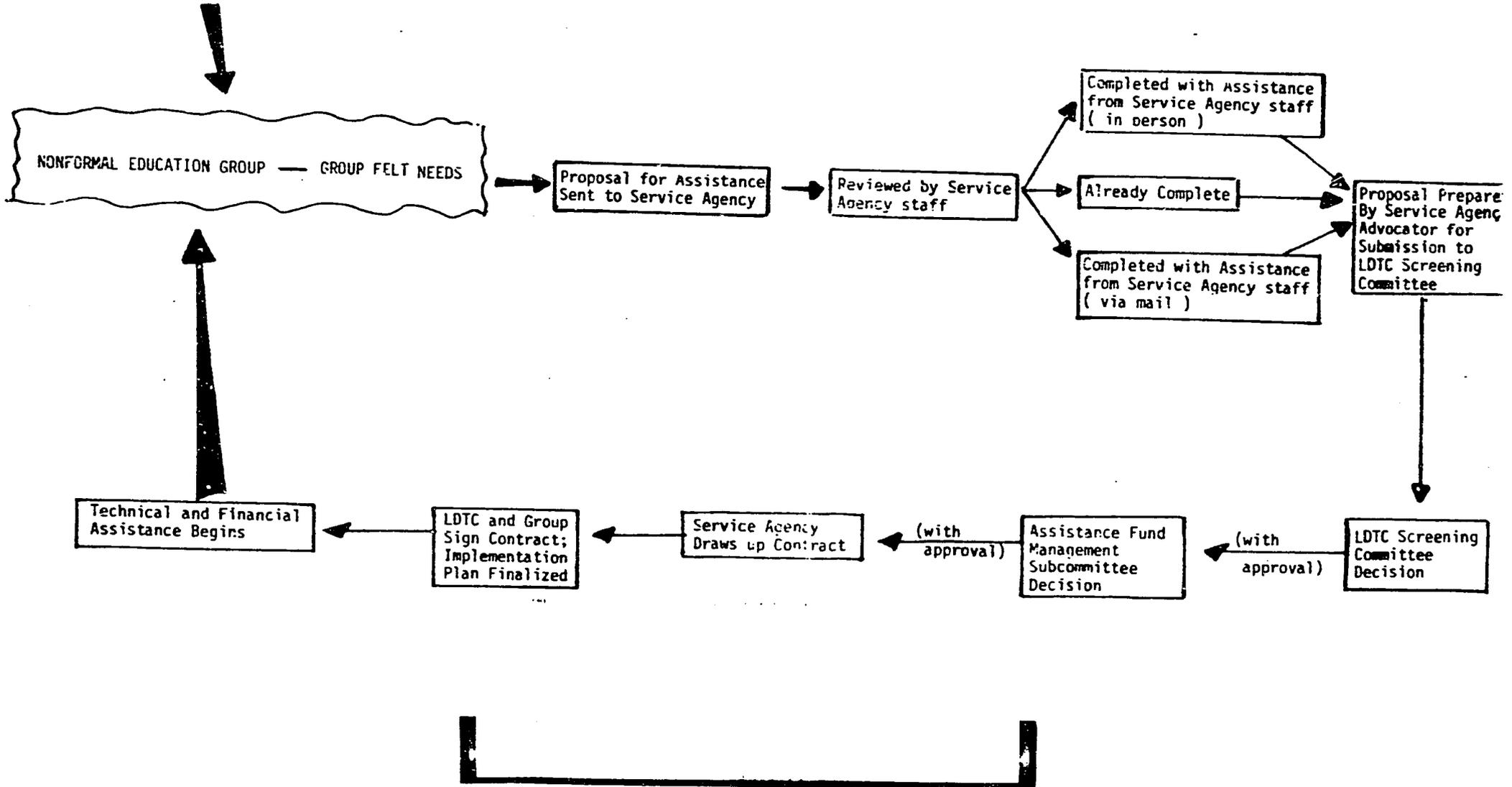
The five basic phases are broken down into a number of steps. The chart on the next page provides an overview of the steps involved in the process.

#### Step 1 - Network Building and Information Sharing:

The LDTC as a national nonformal education institution without a large field staff believes that the extension agent network and other development worker networks have an extremely valuable role to play in assisting the group. These extension agents and other development workers often have a valuable first hand knowledge of the particular group making a request and they have a knowledge of the technical and production aspects of the group's project

CONCEPTUALIZATION OF ASSISTANCE FUND PROGRAMME:

- Service Agency Networking:
- Describing the Assistance Fund
    - Mailing of letters & brochures
    - Radio Programmes
    - Meetings with NFE groups and with government and nongovernment officials at the district level
  - Training of Extension Agents and other Development Workers



which the LDTC does not have.

In addition the LDTC has found that many of the proposals and requests that it receives to be extremely vague as to group needs, goals, and areas of assistance. This slows down the assistance process. As a result the LDTC has found it important to give rural people information on how to effectively apply for assistance. This strategy based upon data from the LDTC conducted Nonformal Education Survey of Rural Groups includes an occasional mailing to rural groups of a Assistance Fund brochure, mailings of the same brochure to all government and nongovernment institutions involved in rural development, radio programmes on the Assistance Fund, and presentations to District Coordinators, National and District Ministry Officers, extension staff, and rural leaders.

#### Step 2 - The Proposal:

The first step that actually puts the Assistance Fund programme in motion is a request for assistance letter or proposal from a rural group. These requests come from a wide variety of already existing rural groups being assisted by other institutions in one way or another or being totally unsupported.

Once the request, usually in the form of a letter, is received in the Service Agency Section of the LDTC by the Service Agency Coordinator (the Service Agency is the section of the LDTC charged with implementing the Assistance Fund), it is reviewed. At this stage the request is reviewed to consider if the proposal is complete so that it can be prepared for submission to the LDTC Screening Committee. The technical merits of the proposal are not considered at this time. Only if the request is obviously outside the scope of the Assistance Fund as outlined in the Selection Criteria will it be returned to the group with an explanation as to why it is being returned. Once the initial request has been reviewed by the Service Agency Coordinator and other staff, the Service Agency Coordinator assigns a staff member of the Service Agency Section to act as advocator for the group. It is his or her role to work with the group to ensure that the proposal is complete and that it is ready for submission to the LDTC Screening Committee. As the title suggests the advocator is to act for the group and to do everything possible to guarantee that the group has as good a chance as possible to have its proposal accepted.

At the same time as the Service Agency Coordinator appoints an advocator for the group, he records the receipt of the request on a chart in the Service Agency office. The chart contains the name of the group, the group's advocator, date the request was received, date responded to group, date of first visit to group, date complete proposal received, date and decision of Screening Committee, date and decision of AFMS, and summary/comments which contains topic area for request, etc. Also at this time a coloured pin is placed on a wall map to visually

record the site of the group. This gives the LDTC information on the geographic representation of the Assistance Fund impact.

If the proposal is not complete as received, there are several options. If the group is a considerable distance from Maseru, a letter can be sent to them requesting further elaboration on the weak areas of the proposal. This usually includes sending the group a proposal development questionnaire (see Appendix B) which they would complete and return to the LDTC. The other option is for one or two LDTC staff members to visit the group with the aim of gathering background data and to develop a more complete proposal on the spot. Other variations include having some members of the group come to the LDTC to meet with LDTC staff where the proposal would be completed. At no time will the LDTC staff attempt to write the proposal for the group. Instead a participatory process is used whereby through a questioning strategy a staff member facilitates the development of the proposal.

As stated earlier, relevant national and district development workers are contacted to make certain that the proposal is technically correct and to make them aware of the group's proposal. This is important to do early in the assistance process especially if extension agent services will be required by the assisted group.

When a completed proposal has finally been received, the LDTC staff member assigned to the group as an advocator will prepare a typed proposal in English for submission to the LDTC Screening Committee (see Appendix C for an example of the standardized proposal).

### Step 3 - The LDTC Screening Committee:

The Screening Committee receives copies of the prepared proposal from the Service Agency Coordinator well in advance of scheduled meetings. Meetings are scheduled by the Service Agency Coordinator and the LDTC Deputy Director (Screening Committee Chairman) according to the number of proposal in need of review.

The Screening Committee is composed of senior staff of the LDTC, proposed by the LDTC Director and approved by the Assistance Fund Management Subcommittee. At present the Committee includes the LDTC Deputy Director as chairman, the Service Agency Coordinator, the Educational Evaluator, the Literacy and Numeracy Section Head, the Financial Controller and, as advisors, the USAID Project Advisor and USAID Project Evaluator. It is the function of the Screening Committee to provide an indepth examination of the submitted proposal with the intention of "screening out" proposals which do not meet the Selection Criteria nor provide technical feasibility as it relates to scope of activity, market potential and potential for success.

#### Step 4 - The Assistance Fund Management Subcommittee (AFMS):

Once a proposal has been approved by the Screening Committee, the Service Agency Section prepares a cover letter to the proposal signifying that this has been done. This cover letter contains information on loan title, terms of loan, interest rate, repayment schedule, and a narrative (see Appendix C for a sample cover letter). Once this has been done it is given to the LDTC Director who, in his capacity as AFMS Secretary, notifies the AFMS Chairman of the need for a AFMS meeting. A meeting time is fixed and copies of the proposals with cover letters are circulated to all AFMS members. Since the AFMS is composed of senior government officials, some of whom are outside the LDTC, meetings only take place when there are a sufficient number of proposals to review. This may be on a quarterly basis or less often.

The AFMS is composed of the Principal Secretary for Education or a representative as chairman, the Principal Secretary for Finance or a representative, the Principal Secretary for Central Planning or a representative, Lesotho National Development Bank representative, the LDTC Director, the LDTC Deputy Director, and the LDTC Evaluator. In addition, the Service Agency Coordinator and USAID Project Advisor attend to formally present the proposals to the Committee and to answer questions.

The Committee is to examine on behalf of the Management Committee of the LDTC the appropriateness of loans/grants decided upon by the Screening Committee and advise accordingly. The Committee uses the Selection Criteria as a guide in its deliberations.

Once the proposals have been passed by the AFMS, the LDTC Director and the Financial Controller submit copies of the approved proposals to USAID along with a cover letter requesting additional funds if necessary.

#### Step 5 - The Contract and Disbursement of Loan Funds:

As soon as the proposal is passed by the AFMS, the Service Agency Advocate for the group prepares the contract for the group. The contract is based primarily upon the previously submitted proposal. However, unlike the proposal, the contract is the one and only legal and binding document between the LDTC and the group. The contract outlines the financial payback arrangements, a summation of the use of the loan, a disbursement schedule (if necessary), agreements on, for example, book-keeping, or other training, availability of financial and other records, information on what will happen if problems occur, and other binding details.

While the contract is being developed, a crossed cheque for the group is requested from the Financial Controller by the Service Agency Coordinator. This cheque may represent the entire loan or a portion according to the disbursement schedule in the contract. The funds for the cheque are drawn from the LDTC Assistance Fund

account. This is a separate account which only contains initial Assistance Fund monies from USAID or revolved loan funds from groups who have paid back their loans.

Once the contract has been developed in Sesotho and the cheque has been prepared, a contract signing time is arranged. On the date of the contract signing, several members of the Service Agency, often along with the LDTDC Director, visit the group. The contract is signed by the LDTDC Director and preferably all members of the group. Three original copies of the contract are signed. One copy stays with the group, another copy is put in the Service Agency files and a final copy stays with the LDTDC Director who represents the AFMS.

#### Loan Options:

There are four possible structural mechanisms to lend money to a group. The simplest is to lend money directly to the group in installments or in one lump sum. This is the mechanism described above. This option is the simplest but it requires more financial monitoring by the LDTDC.

The second option would be for the LDTDC to use the loan money on behalf of the group to buy items stipulated in the contract. This option is also fairly simple, however, it does not give the group experience with handling funds which is a critical skill for a successful income generating group to have.

The third option is to lend the money to an intermediate institution which would disburse the money to the intended recipient of the assistance. This option, while more complex, may simplify the LDTDC financial monitoring aspects. Intermediate institutions which could perform this service for a fee include the credit unions or banks.

The fourth option involves the use of the LDTDC Assistance Fund monies as collateral for a group's request for financial assistance from a national bank. In effect the LDTDC would pledge its Assistance Fund bank account as a guarantee to an LDTDC approved group which seeks financial assistance from a bank. The LDTDC funds could even be used to reduce the higher interest rates that a conventional bank would charge. This option would totally remove the financial monitoring tasks from the LDTDC and would enable the LDTDC to instead concentrate on educational assistance to the group.

#### Interest Rate:

The interest rate at which the LDTDC currently lends money is 4% times the number of years that the loan is for. For example if a loan of M1,000 is for three years, the total interest charged is 12% (4% times 3 years). This interest is calculated and added to the total amount that the group would repay the LDTDC. In this

case the group would repay the LDTC the sum of M1,120 (loan of M1,000 plus interest of M120). If the group repaid the loan ahead of schedule the total interest due would be re-calculated and the group would receive a rebate.

As set forth in the original project paper the "loans are subject to interest rates equal to the lowest current bank deposit rates in Lesotho". At a future date the interest rate may need to be increased to reflect true money market conditions. The LDTC recognizes that these are heavily subsidized loans. In the LDTC situation it is felt that the loan is seen as part of an overall assistance strategy and not in isolation as some banks would view it. Without relaxing the financial management aspects of the Assistance Fund, the LDTC is determined not to lose sight of the fact that it is attempting to assist the rural poor who in many instances have a total per person income of as little as M100 per year and who, even if they wanted to, could never receive a loan from a conventional lending institution. In addition, all LDTC loans require in-kind contributions from assisted groups. so in fact these subsidized loans are matched by contributions from the groups themselves.

#### Repayment Procedures:

Loan repayments are to be made to the LDTC in equal installments over the shortest possible time which is economically feasible. Details of the specific repayment schedule are written into the contract.

When the contract is signed and the loan funds given to the group, the group also receives a repayment book which enables the group to keep a record of the repayments made to the LDTC. The Service Agency also keeps a card file for each outstanding loan which records repayments made and the receipt number for each payment. The Financial Controller also keeps a separate set of books for the Assistance Fund account. He enters all repayments in this book by citing date, groups name, receipt number, and amount paid.

On occasion a representative of the group will come to the LDTC where money is collected and a receipt issued. Often money is given to a Service Agency staff member during a visit to the group. This staff member will signing the group's repayment book to signify that a repayment has been made. Back at the LDTC the money is handed over to the Financial Controller who issues a receipt which is mailed to the group. Some groups maintain current cheque accounts. As a result they send crossed cheques to the LDTC to repay their loans. When the money is received, receipts are sent to these groups. (see Appendix H for samples of the repayment forms).

### Training of Groups:

The Service Agency Section of the LDTC has the responsibility of ensuring that the provisions of the contracts with the various groups are followed and that the LDTC meets its obligations to the groups.

Once approval of a proposal is given by the LDTC Screening Committee and the Assistance Fund Management Subcommittee, a member of the Service Agency staff is assigned to the group as a monitor/facilitator. Quite often the staff member who was the advocator for a particular group will continue as the monitor for the group. It is the task of this person to coordinate all LDTC training with the group, to act as a liaison with other government and non-government agencies, to ensure that the group is abiding by the terms of the contract, and to help the group in whatever ways requested by the group to ensure that group goals are realized.

Generally, a nonformal education training program is structured in such a way as to enable the learners to gain knowledge and eventual control over the social, economic, and political factors which influence them by exercising a high degree of control over the learning process, by learning both content and process, and by working in a collaborative and mutually supportive fashion.

For this type of model to be operationalized, village level workers should have a working knowledge of the nonformal education approach to development. Traditionally, extension organizations have used village level workers almost solely as conduits to pass on new technical innovations and a wide range of production inputs. However, such an approach is not what is needed. Technical packages tend to benefit the more advantaged segments of society. Those who have the prior education and present resources.

If the national goal is immediate increases in output, then concentration of technical extension on large entrepreneurs may be the best approach. If, however, other objectives are being sought, as this paper has suggested, then this must be communicated to the village level workers and new approaches must be utilized to assist villagers to achieve the desired results.

Providing training assistance to income generating groups should never depend on any one particular technical package or model of development. At the heart of nonformal education training approach is problem solving. To solve problems one must be free of the requirement to promote a particular technology. In problem solving it is the group and its members which determine the activities of the extension agent. Problem solving methods of assisting groups avoid making false assumptions on what needs to be done by letting the group select the problems to be deal with.

Too often extension agents assume what is needed and move groups into doing things beyond their control. Yet it is not complexity as such that defeats these rural groups. The problem is that complexity is introduced before the group is ready and before trusted management has developed to handle the complexity. This push toward rapid group development and lack of management experience leads in many situations to centralization of decisions. This discourages member participation, interest, and responsibility which results in such things as loan defaults. In extension agents' haste to develop income generating groups they may inadvertently contribute to the very problems which they are there to help prevent. So often the result is not awareness of the true causes of the problem but a reaffirmation in the "wisdom" that only the extension agent know the answers to solving the problems of the group.

The type of training that is required for village level workers is one that provides these workers with practical skills- they must be able to comprehend the problems of the group and judge when and how outside inputs can assist the development process. The steps and methods for developing and transferring skills are outlined here. The process discussed is only one version of ways to deal with a problem but it is one that has demonstrated success. (For a fuller discussion of this process see Managing Planned Agricultural Development, 1976).

#### A Problem Solving Process

##### Step 1 - Problem Identification

This stage takes different forms in different situations. Rural people generally do know what their problems are though it may be necessary to probe for them.

##### Step 2- Information Gathering

The survey or information gathering stage is also important for determining success or failure of many assistance programs. Often costly surveys are unnecessary. When the group is making its own decisions, it can make the decision on whatever information satisfies them. The extension agent needs this information only to the extent that he is affecting the decision for the group. Paulo Freire of Brazil developed another method of examining observations of one's surroundings. He studied local communities, abstracted key themes that were typical and important in the community and then recreated these themes in the form of large pictures. These pictures could then be used as information for group discussions and ultimately consciousness-raising.

##### Step 3 - Finding Alternatives and Creative Solutions

##### Step 4 - Weighing Alternatives/ Solutions

##### Step 5 - Deciding Among Alternatives/ Solutions

These steps in the process involve discussing the problem, seeking

solutions, and setting learning priorities. It has been seen that villagers have a strong sense of what their priorities are. People can be organized around problems that they feel are the first priorities. While the field worker can probe and clarify priority problems and learning needs, if the people are to be involved in an active rather than a passive way, they must ultimately be the ones to decide. They must feel they make the decisions. They will refuse to cooperate, however subtly, if their priorities are not followed.

The extension agent must be an advisor from whom the people seek information, not a pusher of pre-conceived packages. What is ultimately needed is for the extension agent to be prepared to go to the group as a student as well as a teacher. After the group has informed him or her of its needs then he or she can find ways to bring outside expertise to bear on these problems.

### The Structure of a Nonformal Education Training Program

The structure of a nonformal education training program which is intended to solve the problems identified by the group should have the following elements (Based on structure of a training program developed by Kindervatter, 1979, pp.247-248):

1. Structure - emphasis on working with the entire income generating group
2. Setting - usually in the village; site to be determined by the learners, It could be a communal work site, home of a member, community location such as a credit union building, church, or even outside in a convenient location.
3. Role of Learners - active manipulators rather than passive recipients of information. Learners are able to determine learning needs and make realistic and reasonable decisions once information is available.
4. Role of Facilitators - utilize educational techniques whereby learners can take control of the learning situation to meet their own needs
5. Relations Between Learners and Facilitators - Relationship based upon mutual respect and equality. Learners take an increasingly more active role in the learning process as the training program develops
6. Needs Assessment - on going process; based on real life needs of learners; developed from a dialogue among learners and between learners and facilitators
7. Training Content - group specific; Facilitators develop content to meet the expressed needs of the learners. Potentially new content areas which learners may not be initially aware of such as marketing can be

introduced as a result of a dialogue in the needs assessment phase.

8. Curriculum - learning objectives set at the beginning of group training; subject to revisions with specific learning objectives set with learners from one lesson to the next
9. Learning Materials - low cost materials that relate to the subject of training; examples include print, posters, learning games, and audio cassette tapes; developed in a style (both print and layout) which is understandable to the learners
10. Training Methodology - non directive; facilitator does not lecture on what he/she perceives to be the answer but what the learners see as the answer. The style stresses questioning, hypothesizing, and supporting learner concerns, thoughts, and responses
11. Training Activities - variety of techniques which stress participation and involvement of all learners in the learning process.

## CHAPTER IV

### GUIDELINES FOR ESTABLISHING A REVOLVING LOAN FUND

Financial credit plays an important role in the process of development as a means for groups to acquire and mobilize productive resources. However, not all groups have equal access to formal sources of credit. It is the poor in particular who face restrictions in access to credit from financial institutions. In most instances they are restricted because of extremely high interest rates, inability to provide collateral and a general perception on the part of credit managers that the poor are bad credit risks. An income generating group activity based primarily upon human resources with little capital, equipment, or other tangible assets lacks the collateral deemed necessary by most financial institutions. From the borrowers perspective the generally large size loans, loan terms, transaction costs, repayment schedules, limited operation hours and large city locations of formal credit institutions may be inappropriate. Many formal credit institutions simply do not have programs designed to meet the needs of small scale income generating groups.

#### Informal Sources of Credit

Despite limited access to formal financial institutions or inappropriately designed and non-existent financial services for poor, the poor are extensively involved in informal credit systems.

These include moneylenders, pawnbrokers, relatives, shopkeepers, and rotating credit associations (Schumacher et alia, p45).

Borrowing from moneylenders or pawnbrokers is common. Moneylenders are desirable sources of credit because there is little or no paperwork involved, money is immediately available, small amounts are available, collateral requirements are flexible, and the borrower has fewer restrictions in using the money. However the relatively high costs, limited amounts of credit available and the potential for permanent or exploitative indebtedness cause considerable problems with this source of credit for productive purposes. Shopkeepers and pawnbrokers as sources of credit have similar problems for the poor.

Rotating credit associations are common throughout the world as a source of informal credit. The Arisan associations of Indonesia are probably one of the more common examples of this form (Schumacher et alia, 1980, pp47-48). Arisans are usually composed of women who meet on a regular basis to contribute a fixed amount of money into a central fund. At

each meeting a different woman is given the total sum to use as she sees fit. This collection and disbursement procedure continues until everyone in the group has received money. Then the group disbands or starts over again. The advantages of these rotating credit systems are that they encourage member savings, there is no paperwork or collateral, and there are no restrictions as to how money must be spent. However, there are problems with such systems. Generally only a small amount of money is generated at any one time. Also such an arrangement requires a high degree of trust among members. Members must continue to contribute to the rotating credit even after they have collected their money.

In general the problems of informal credit systems center on high interest rates, inconsistent and small amounts of money available, and in some cases the degree of exploitation and control may be higher when many people in the village are indebted to a few villagers.

Although such informal credit systems appear not to be able to mobilize sufficient and reasonably inexpensive financial resources for the poor, such systems do demonstrate that the poor can and do use credit. It also demonstrates credit worthiness. They do pay back such loans even at a usually high rate of interest. Some of the positive elements of these informal credit systems should be incorporated into more formal credit systems to lessen the inability and unwillingness of the formal system to provide services to the poor.

The next sections will present goals and operating principles for a formal credit institution that intends to assist the poor in income generating activities.

### Revolving Loan Funds

Formal credit programs for the development of income generating activities for the rural poor have different labels in different parts of the world. In Indonesia a credit program for the poor is called Dana Belagar (Learning Fund) and in Lesotho one credit program is called the Assistance Fund. Other names which have also been used include revolving or rotating loan funds and community development banks. This paper prefers the term revolving loan fund as it is a universal term.

### Goals of a Revolving Loan Fund

A revolving loan fund should have the following goals: provide necessary financial assistance to feasible income generating activities for the benefit of the poor and to act as a "bank of last resort" for the lender. Such loan funds should not be set up in competition to formal lending institutions which are generally intended for the more affluent members of the society. Furthermore, the institution

administering these loan funds should retain a separate bank account for the loan monies which is not part of the institutions operating funds. When the loan is repaid it should be put into this account with the intention of revolving the money to another group ideally in the same geographical area as the first group. In large countries, thought should be given to decentralizing these funds by region so that the revolving loan fund is constantly being recycled within that region. This may positively increase pressures on the part of the borrowing group to repay the loan so that others can then borrow the money.

#### Principles of a Revolving Loan Fund

The Assistance Fund in Lesotho has already been briefly described in Chapter III. It and other revolving loan funds seem to have a number of common principles. They are:

1. Loans funds without accompanying training generally are not sufficient. The Lesotho experience has shown that borrowers are most able to handle the loan money in a proper fashion and repay the loan when they are given training assistance to take full advantage of the loan. Money loaned to a group without other supporting help is generally wasted. Most groups need training assistance as previously described in concert or even preceding such financial assistance.
2. Quite often groups in their initial stages of development need smaller amounts of seed money to undertake a limited income activity mainly for training purposes. Institutions implementing revolving loan funds should consider a separate source of funds which would enable them to award small grants to groups engaged in primarily an educational activity. At a later time once the training has taken place with the help of the grant, a group could then take out a loan and at the same time, if necessary, repay the grant principle.
3. Institutions should be aware of and make credit available to activities that cater to a local market rather than only a tourist handicraft market.
4. Make credit available to off-farm activities which especially suit the large numbers of people with marginally productive land.
5. Consider ways to waive the collateral terms of most formal credit institutions or utilize innovative approaches to substitute for collateral. This might be third party guarantors, or resource commitments by each member into the activity as described in the Lesotho case studies.
6. Group lending reduces the administrative costs for lending institutions and provides a mechanism for outside assistance. Also, block grants which help several small groups at one time within a region can further reduce such costs and make training even more cost effective.

7. Incorporate the desirable features of the informal credit system into the revolving loan fund. These include reduced paperwork and administrative constraints, flexible collateral requirements, frequent repayment schedules, and loan officers who have the proper training in the needs of the poor.

8. Make available a small amount of money which is often all that is needed rather than considering only large loan requests. To reduce administrative costs try to utilize block grants as discussed above.

9. Bring the credit program to the rural people rather than have them always come to the lending institute to reduce travel and other expenses for the lenders. Provide flexible and frequent hours to service the loan.

10. Advertise the availability of the revolving loan fund via communication channels that the poor use. These include mass media approaches such as radio programs and interpersonal contacts such as discussions at church and at village meetings.

11. The administering institution should have a set of guidelines or selection criteria which will enable it to make responsible and impartial decisions based on the merits of the applying group rather than on political or other factors.

12. Provide reasonable rates of interest. Probably more than any single question regarding revolving loan funds is the amount of interest that should be charge on a loan. Reaction to the inability of conventional formal credit institutions to provide proper credit centers on the issue of interest. This argument states that when the poor can obtain a formal credit loan, the interest rate is too high. When they fail it is a result of this high interest rate. Lately there has been considerable criticism directed at this argument (Adams, 1977, 1978, and Soles, 1973.) In brief, criticism has been directed at unusually low rates of interest as distorting and undermining the potential development of solid financial markets. Low interest rates, furthermore, are thought to retard savings and capital formation, cause inefficient allocation of resources, and fragment financial markets. In summary, a low interest rate is in effect a subsidy that the government must provide to the lending institution which undermines a notion of a self sufficient national financial market and which at the same time fosters an unrealistic understanding of the financial market on the part of the income generating group. Such an unrealistic understanding may retard a business like approach to future dealings with conventional banks and other lending institutions as the group grows. If the activities of the group are economically sound and feasible, a reasonable rate of interest will not negatively influence the success of a group.

Yet it remains to be determined as to what is a "reasonable" rate

of interest. It appears that this rate is somewhere between the artificially low rates of interest of one or two percent but lower than the 18% or more that a commercial bank charges. This must be a country specific decision. As a guideline, where the training aspects of the assistance program are paid for from government or nongovernment sources, the interest charged on the loan should be enough to recapture the service charges for administering the loan. In many instances this would be around 10 to 12% per annum on a decreasing balance.

#### Considerations for Establishing a Revolving Loan Fund

There are a number of organizational development guidelines learned from the implementation of the Assistance Fund at the LDTC. Organizations which are considering the implementation of a revolving loan fund may find the following guidelines useful. They are:

1. Probably the most important step in the organizational process is the development of a well trained staff to assist in all stages of proposal development and group training. Organizers should not underestimate the time required for this phase. Once initial training has taken place, the implementation of an assistance program (both educational and financial assistance) may make a good training laboratory to further develop skills.
2. Keep revolving loan funds separate from other institutional funds; have two signatories for the revolving fund account to avoid potential for fund misuse.
3. It is important to start with a simple structure for an assistance programme which provides for experimentation and learning by doing. Programmes have a tendency to become more complex as they progress. If they are too complex at the start, the programme may never get started.
4. As much as possible organizers should create structures so that as many people as reasonable and possible are able to give input into the continued development of the revolving loan fund. This means a committee structure which has people on it from inside and outside the organization. This also can mean holding regular seminars for educational practitioners and planners to seek advice on the progress of the assistance programme. Organizers should work to strengthen this "nonformal education network" at the grass roots level and the national level.
5. Develop simple financial systems and forms and train staff in their use to determine economic feasibility for a group's income activity, loan repayment amounts and schedules, etc.
6. No single person should be in a position to approve or reject a proposal for assistance. Instead an organization

should have a committee structure possibly involving outside people to make decisions on approving proposals.

7. A final consideration would be for an organization to critically examine its internal financial controls. If there are problems a bank may be able to handle certain aspects of the financial details. Do not let the administrative and financial details interfere with the training aspects of the program. If the administrative resources are not present, seek outside help.

## CHAPTER V

### ISSUES FOR DECISION MAKERS ANALYZING THE COSTS AND BENEFITS OF AN ASSISTANCE FUND GROUP

Administrators of revolving loan fund-type programmes need to continually assess and, in some cases, make hard decisions regarding the long term viability and usefulness of such programmes. This is especially important given the tremendous number of assumptions and scarcity of facts that surround the concepts of revolving loan funds and income generation. In times of greatly restricted governmental or private funds for new ventures, such programmes are feasible only if the benefits derived from the investment are greater than the investment itself.

To provide a basis for such an analysis, an LDTC assisted income generation group will be presented. The question that this analysis will attempt to answer is - "Was this a profitable (worthwhile) investment?" To answer this question total project costs must be examined against total project outcomes.

#### THE CASE STUDY

The LDTC assisted group that will be examined is the Ipopeng Leribe Poultry Association. Ipopeng Leribe as it is commonly called is located in the village of Likoting in the Leribe District in northern Lesotho. It is approximately 175 kilometers from Maseru along a good tar road for all but the last few kilometers. Total travel time from Maseru is about two hours. It is about thirty minutes from Hlotse, the administrative headquarters from Leribe District.

(Author's note - As refinements are made to this study's use of a cost benefit approach to assess the effectiveness of assistance to an income generating group by a national nonformal education institution, certain changes most likely will be required. Rather than wait for that process to occur, it was felt best to present the cost benefit analysis in its present form so as to give the reader a basis with which to react. Eventually, the cost benefit analysis will be applied to other LDTC assisted income generating groups so as to develop generalizable trends).

Ipopeng Leribe grew out of a local affiliate of a national women's organization. In this case, it was the Lesotho Homemakers Association. Like other national women's organizations, this organization stressed the learning of traditional womens skills such as knitting, crocheting, cooking, sewing, etc. It was hoped that some of these skills could help the learners earn money. Some members of the group in fact made money by making and selling brooms, mats, and clay pots through their own individual efforts. In October 1982 eight members of this organization decided to form a poultry keeping group with the intention of selling eggs in the area.

In early January 1982, as a result of hearing about the LDTC Assistance Fund on Radio Lesotho and having received brochures on the Assistance Fund from the nearby Maryland Roman Catholic Mission, the group sent a letter to the LDTC requesting financial assistance to purchase chickens and building materials for a workplace.

The proposal that was approved by the Screening Committee and the AFMS provided for:

Financial Assistance - to purchase chickens, roofing materials, and chicken feed.

Educational Assistance - in book keeping and group work.

Advocator Assistance - to enable the group to receive help from other governmental agencies as requested.

The budget was as follows:

1. Building Materials for chicken house	M 100.00
2. 100 laying chickens	380.00
3. 13 50kg bags of chicken feed	200.00
4. Contingency	80.00
	-----
TOTAL	M 760.00

In return for such assistance the group agreed to pay back the one year loan at an interest rate of 4%, to take part in LDTC training, to supply labour to build the chicken house, and to care for the chickens.

The proposed outcomes of assistance were: the group should realize a gross monthly income before expenses of M 240 which

$2099.50 \div 11 \text{ members}$

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will enable the group to repay the loan and give income to its members, there will be a local, increased supply of eggs in the village, and a participatory training approach would enable the group to develop skills to continue group activities beyond the period of the LDTC assistance.

At the present time, the group of 17 members has re-invested profits and now has 400 laying chickens. The work is conducted at two sites within the village with some members working at one site and other members working at the other site.

Summary of Basic Features:

1. Activity - care of 400 laying chickens and sale of eggs to people in Likoting and through egg marketing cooperative in Leribe District.
2. Membership - currently 17 women varying in ages and generally representing poorer segments of the society; members from Likoting and neighboring villages. Two women recently joined the group in September 1984.
3. History of the Group - in existence only since October 1982 but based on earlier womens organization.
4. Setting of Activity - using two empty buildings at the homesteads of two group members.
5. Structure of the Group - management committee, various work groups.
6. Locus of Control - decisions made by entire group; recommendations sometimes made by management committee which group can accept or reject.
7. Outside Assistance - signed one year contract with LDTC in May 1983; LDTC provided financial assistance of M 760 and educational assistance; group will repay M 790.40 (loan of M 760 plus 4% interest for one year or M 30.40), first installment on loan of M 87.84 in September 1983 and last installment on April 30, 1984. In fact the loan was repaid in full by December 1983.

Other outside assistance is provided by the Ministry of Agriculture District Poultry Officer. He provides technical information on care of chickens. The Ministry of Cooperatives Officer in Leribe District has provided a training course on cooperatives and especially marketing cooperatives which is required for the group to sell eggs through the egg marketing cooperative.

The actual period of assistance for purposes of this analysis was May 1983 - October 1984 (one year and five months).

- 1/2 year  
10/2 '83  
time

assume all costs of  
1.5 yrs and 1/2  
1/2  
4.5  
28

## AN ANALYSIS OF COSTS AND OUTCOMES FOR THE IPOFENG LERIBE POULTRY ASSOCIATION

To answer the question posed earlier - "Was this a profitable (worthwhile) investment?" an analysis of costs (all costs to the group and all assisting organizations) and project outcomes or benefits of whatever nature must be undertaken. Such an analysis is called a cost benefit analysis. It is simply an assessment and comparison of project benefits and costs from the perspective of the participants as well as the assisting organizations to determine the project's usefulness.

There are other techniques for assessing the worth of a project. The financial and economic measures of investment worth such as cost benefit, internal rate of return, and net present value are only tools for decision making. There are many non-quantitative and non-economic criteria which decision makers can also use. The purpose for using financial and economic measures is to improve the decision making process. As stated earlier, the use of economic approaches such as a cost benefit analysis is especially important in a situation where difficult choices regarding use of money and resources must be made.

In projects such as Ipopeng Leribe where some outcomes do not have readily identifiable monetary benefits, it is not easy to conduct a cost benefit analysis by assigning values to them. However, this study will attempt to assign a monetary value to all outcomes so that as precise a measurement as possible of the worth of the project can be established.

Too often in the past intangible benefits such as educational and skills application outcomes have not been included in cost benefit analysis because of the difficulty of quantifying them. The result was that these intangible benefits were not included in cost benefit calculations. With an exclusion of these intangible benefits, the tendency developed to dismiss outright or at least to diminish the importance of such educational costs and resulting benefits.

To undertake a cost benefit analysis the following steps must be performed:

1. Specify the Different Project Outcomes such as financial returns, skills acquisition, increased village and personal nutrition. Both intended and unintended outcomes must be considered.
2. List Project Resources
3. Determine and Adjust Project Costs
4. Summarize and Analyze Project Costs
5. Value and Adjust Project Outcomes

6. Relate Project Costs and Outcomes
7. Interpret the Results of the Analysis

#### STEP 1 - SPECIFY PROJECT OUTCOMES

Project outcomes are obtained by describing what it is that the project should accomplish and then detailing what it is that the project actually accomplished. There are basically three types of outcomes - Learning Outcomes, Skills Application Outcomes, and General Project Outcomes. Outcomes which can be expressed in terms of a monetary value are called benefits while the others are simply called outcomes. In addition there are project outcomes which cannot always be anticipated. These are called unintended outcomes or benefits. When assessing benefits, it is also important to consider indirect benefits which result from the project. These may not be benefits to the assisting agency or the project participants, but benefits do occur. Examples of such "backward linkages" include money that is paid to the taxi owner to take the eggs to market, or money that is paid to the supplier of the chicken feed.

The outcomes/ benefits from the Ipopeng Leribe Project based on the criteria for success established for the LDTC training were:

##### 1. Learning Outcomes

Ability of at least 50% of the members to:

- A. Book-keeping - members to identify different columns of book keeping sheet, enter figures in appropriate columns, to keep receipts, and to balance the books at the end of each month.
- B. Group function - members to list the tasks and responsibilities of the committee members and other members of the group, to keep proper records of all meetings
- C. Programme Planning - members to identify, list, clarify, and prioritize goals; identify resources, and identify constraints.

##### 2. Skills Applications

- A. All members know how to care for chickens
- B. All members know how and where to buy chickens, feed, and other supplies
- C. All members know how and where to market eggs
- D. All members know how to seek assistance from extension

## agents

While these educational and skills application outcomes are directly used to strengthen the performance of the project, it has been observed and substantiated by evaluation data that these outcomes are also benefiting the members outside of the project. This is called an unintended outcome. A number of members are applying the book keeping system to their personal finances and in one case a member is using the book keeping system in her work with a local school. In addition, the evaluation findings indicate that members have an increased sense of self worth and confidence in their ability to generate income and interact with others. These are important outcomes of the project.

*\* Net financial benefits - do you assume 0 financial difference project?*

3. General Project Outcomes/ Benefits

A. The group realizes an approximate monthly profit of M 110 based on 100 chickens. Recurrent expenses (chicken feed, transportation, and medicine) are around M125 per month and income from the sale of eggs is about M235 per month.

Based on 400 chickens, which were recently purchased, the profit will increase to approximately M 441 per month. This is a per participant monthly profit of M 25.94 (based on 17 members). Recurrent expenses (feed, transportation, medicine) is around M 500 per month. Income from the sale of eggs is around M 941 per month.

The expenses for purchasing new chickens can be presented as both a project expense and a project income. Ipopeng Leribe has been able to sell all old chickens which have finished laying for M 5.00 each. They are sold for meat. This is enough to buy replacement laying chickens. This is typical of most other chicken enterprises in the country and should continue in the future.

The following ( B. and C. ) were outcomes/benefits which the LDTC assumed would result from the project:

B. The nutrition in Likoting and surrounding villages is improved because of the ready supply of eggs.

C. The nutrition in Likoting and surrounding villages is improved because of the sale of chicken meat (after they have finished laying eggs).

D. Backward Linkages

1. The taxi owner receives increased income from twice a week delivery of eggs to Hlotse
2. Suppliers of chickens and chicken feed receive

increased income from demand for chickens and feed.

## STEP 2 - LIST PROJECT RESOURCES

The next step in the process is to list Project Resources. These resources refer to every resource that was used in the project. It is important to list all resources regardless of who bears the cost - the assisting agency, the project participants, or another institution. In addition to considering resources that were used in the project, it is important to consider resource which were used in the project and could have been used elsewhere. An example of this is the time of the participants. If they were not attending training, they could possibly be earning income from another source. This is called an "opportunity cost" or foregone earnings. It means the value that is lost as a result of using the resource in the project rather than elsewhere.

Resources can be listed as follows:

1. Labour - time spent on the project by the assisting agency, other institutions, as well as the participants themselves.
2. Fixed Plant - training centres, offices, production sites, etc used by the project.
3. Equipment - includes all major pieces of durable equipment used.
4. Land - land purchased or rented for the purposes of the project
5. Materials and Supplies - includes all things used for the project by anyone.
6. Transportation - includes use of vehicle by group or assisting agency, transportation fees.

In the case of the Ipopeng Leribe project, the following were the resources used:

1. LABOUR
  - A. LDTC Administration
  - B. LDTC Trainers
  - C. Ministry of Agriculture District Extension Agent
  - D. Ministry of Cooperatives District Extension Agent
  - E. Group Members
2. FIXED PLANT
  - A. Chicken Houses

3. EQUIPMENT
    - A. LDTC Training Stands
  4. LAND
    - A. Sites for two chicken houses
  5. MATERIALS AND EQUIPMENT
    - A. LDTC markers, pens, pencils, newsprint, tape
    - B. Chickens
    - C. Chicken Feed
    - D. Chicken Medicine
  6. TRANSPORTATION
    - A. Group's delivery of eggs with taxi
    - B. LDTC vehicle
    - C. LDTC vehicle petrol
  7. INTEREST ON LDTC LOAN (This interest charge is a cost to the group. The loan itself is not listed because it is seen as both a cost to the group and a benefit [money repaid to LDTC]. Items purchased with the loan are shown under resource costs).
- A. interest payment*

### STEP 3 - DETERMINE AND ADJUST PROJECT COSTS

With the listing of all project resources, the next step is to give a value to each item. These values are the unadjusted costs of the various project resources. Before these figures can be used in most analyses, they must be adjusted to take into account various factors. There are four kinds of adjustments to resource costs. They are:

1. adjustments for inflation
2. adjustments for depreciation
3. adjustments for the social discount rate. This social discount rate refers to resources which could be used in other profitable ways. A social discount rate would be applied to reflect the value of the earnings missed.
4. adjustments to reflect "social costs". On occasion there are subsidies which make a resource cost not reflect its true social cost to the society.

For the purposes of this project which is only one year and five months in duration, no adjustments for inflation and depreciation were made. Also a social discount rate was not used. Finally, in all cases the market cost for resources was in fact the social cost.

STEP 4 - SUMMARIZE AND ANALYZE PROJECT COSTS

Quantity and Cost of Resources used over the one year and five months as collected by the LDTC:

Resource	Yr One May 1983-May 1984 Unit/ Unit=Total Cost		Yr Two June 1984-Oct 1984 Unit/Unit=Total Cost	TOTAL
	<b>1. LABOUR</b>			
A. LDTC Administration	28 person/45.50=1274 days		--	M1,274
B. LDTC Trainers	90 person/31.10=2799 days	4 person/31.10=124.40 days		M2923.40
C. MOA Extension	9 person/16.04=144.36 days		--	M 144.36
D. Coops Extension	3 person/16.04=48.12 days		--	M 48.12
E. Group Members	#			#
-----				
<b>2. FIXED PLANT</b>				
A. Chicken Houses	per month/10=120		per month/10=50	M 170.00
-----				
<b>3. EQUIPMENT</b>				
A. LDTC Training Stands	40 days/.18=7.30	2 days/.18=.36		M 7.66
-----				
<b>4. LAND</b>				
A. Sites for chicken houses	*			

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5. MATERIALS & SUPPLIES

A. LDTC Training Supplies	90 days/.62=56	2 days/.62=1.24	M 57.24
B. Chickens	100/4.10=410	300/4.65=1395	M1805.00
C. Chicken Feed	one month/121=1452	one month/484=2420	M3872.00
D. Chicken Medicine	month/3.00=36	month/12=60	M 96

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6. TRANSPORTATION

A. Group's use of taxi	twice weekly/2=100	twice weekly/2=40	M 140
B. LDTC vehicle	20 days/23.58=471.60	2 days/23.58=47.16	M 518.76
C. LDTC Petrol	20 days/14.80=296	2 days/14.80=29.60	M 325.60

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7. INTEREST ON LDTC  
LOAN

30.40 M 30.40

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TOTALS

M11,412.54

ASSUMPTIONS:

# Since group members are generally unemployed or subsistence farmers there is marginal foregone earnings as a result of their work in the project. Thus no cost is assigned to their time spent on the project.

\* No costs associated with land as the site is not suitable for

other income purposes. Cost assigned to chicken houses.

- The unit cost for LDTC labour (administration and trainers) was determined by averaging daily salaries and then adding an institutional overhead of 30%. LDTC administration includes time spent by committees on proposal approval, contract signing, and supervision. LDTC training includes proposal preparation, actual training time, monitoring visits, plus materials development and other training preparation time.

- Adjustments for depreciation and annualization of the LDTC vehicle have been made. Vehicle was assigned a five year life span. Social rate of discount used was 7.5%. The cost was figured on 20 days of use in year one and 2 days of use in year two.

By totaling all costs, the total costs of all resources used in the Ipopeng Leribe Project over the two years is M 11,412.54

With 17 participants, the average cost of all resources per participant is M 671.32

#### STEP 5 VALUE AND ADJUST PROJECT OUTCOMES

The next step in the process of determining if the assistance approach is a worthwhile investment is to value and adjust project outcomes.

Figuring the value of increased production of eggs is relatively simple. However, as has been seen, certain outcomes in a nonformal education assistance programme such as learning outcomes may be more difficult to assign values.

Monetary values can be assigned to project outcomes according to two basic procedures:

1. determining the market value of the outcome, or
2. estimating the value of the outcome according to market information and various assumptions.

#### Assignment of Monetary Values:

##### Learning Outcomes-

An evaluation of the intended learning outcomes was conducted in January 1985. A simple test was administered to assess learning in the areas stated earlier in intended learning outcomes.

A. Bookkeeping- Of the 14 members who were tested on book keeping, the mean was 55% and half the scores were 63% or above.

B. Group Responsibilities/financial procedures - Of the 14 members tested, the mean score was 68% and only two members got less than 50%.

C. Programme Planning - the mean score was 79% and only two members scored below 50%.

The results are significant when compared with a pre- LDTC training assessment of the group which revealed virtually no understanding of book keeping, financial procedures, or programme planning.

These outcomes have both personal and project specific benefits in the form of increased and more effective utilization of human resources. There would be a personal and project loss if such an outcome did not occur. Furthermore, if the group was forced to hire someone to perform these important financial transactions for them, the group would probably pay at least M 1,000 to 1,500 per year for the service. A monetary value of M 100 per member (based on the older 15 members and not considering the two new members) has been assigned to these learning outcomes. This is a life of project value and does not take into account the value for these benefits which can extend for the employable lifetime of the participants or at least twenty years. As such it is recognized to be an extremely conservative assignment of value.

#### Skills Application Outcomes:

Primarily from observation by LDTC staff, reading of group reports, and discussions with the poultry extension agent all members of the group appear to know how to care for the chickens and to successfully engage in the poultry business.

Although the LDTC assisted in the initial purchase of the 100 chickens and helped make arrangements to sell eggs in the egg circle, the group has purchased an additional 300 chickens with no assistance from the LDTC. They also seem to have no problems marketing their eggs based on the bookkeeping ledger which indicates a fairly constant income through sale of eggs. Feed has been regularly purchased from South Africa without any obvious shortages. Extension agents' services have not been required other than the need for medicines which appeared to have been obtained without problems.

In this project there are now 17 people (15 older members and to some degree the two new members) who know how to care for chickens and successfully conduct a business. This is a benefit to the project but as was mentioned earlier it is a benefit to the individual members. They are confident in business interactions both in the project and at home. As such they will make certain

that project and personal financial resources will be most effectively handled such that money will be saved rather than wasted. A value of M 50 per member (for the 15 older members) is assigned to these skills application outcomes.

Like the learning outcomes these skills application outcomes are only assigned a value for the life of the project. As with the learning outcomes, benefits will accrue to the members over their entire lifetime.

#### General Project Outcomes/ Benefits:

##### A. Increased income/profit from sale of eggs

From a review of the group's bookkeeping ledger, it was determined that the group receives a monthly profit of M 110 from eggs based on 100 chickens. This is based on sales of M 235 and costs of M 125 per month. Profit calculations are based on 15 members. This breaks down to a profit of M 7.33 per member per month. The pre-project income level of the Ipopeng Leribe members was on average M 30 per month. An increase in personal income of M 7.33 per month shows an appreciable increase in income of 24.4%. Though the group currently has 17 members, 2 members only joined the group in September 1984.

Based on 400 chickens, purchased in late 1984, the group should realize a monthly profit from eggs of approximately M 441 per month. This is a projection based upon the months of October, November, and December 1984. The group should recover all M 1,805 from the purchase of laying chickens when they are eventually sold for meat.

##### B. Increased nutrition through increased eggs in village and surrounding villages

##### C. Increased nutrition through increased chicken meat in village and surrounding villages

If the nutritional level of the recipients of the chicken eggs and meat is higher, than it can be said that other related costs such as fewer visits to the health clinic will result. We believe that increased nutrition is resulting in healthier people in the village. As a result a total monetary value of M 150 for this benefit is assigned.

##### D. Backward linkages in the form of taxi owner receiving income from transporting group members to market and increased income to suppliers of chickens and chicken feed.

Based on our calculations the taxi owner(s) received approximately M 140 over the one year and 5 months of the project. Likewise, the supplier of chickens, the Ministry of Agriculture, received M 1,805 from the sale of chickens. The supplier of chicken feed from Ficksburg, South Africa, received M

3,872 in the one year and five months of the project. Total backward linkages amounted to M 5,817.

### Total Project Monetary Benefits

Total project monetary benefits to October 1984 amounted to M13,077. See benefits charts on page 41 and 42. This is in the form of:

- M 5,817 in Backward Linkages,
- M 3,055 in Income From the sale of Eggs [M 235 per month for the period September 1983 through September 1984]
- M 1,805 from the Sale of Chickens for Meat (the identical cost of the purchase of the chickens).
- M 1,500 for Learning Outcomes/Benefits
- M 750 for Skills Application Outcomes/Benefits
- M 150 for increased Nutrition Outcomes/Benefits

Generally, monetary values assigned to benefits should be adjusted for time factors such as inflation so that a real value can be obtained. This is called a discounted present value. This has not been done since the time period for the project is only one year and five months.

### STEP 6 - RELATING PROJECT COSTS TO OUTCOMES/BENEFITS

If one were to do a simple cost/benefit analysis of the Ipopeng Leribe group based on the period May 1983 until October 1984, it can be established that the project is worthwhile for the assisting agency. Cost benefit analysis is a relatively simple process and can be calculated using the following formula

$$\text{Benefit/cost ratio} = \frac{\text{Discounted present value of project benefits}}{\text{Discounted present value of project costs}}$$
  
$$\text{Benefit Cost Ratio for Ipopeng Leribe} = \frac{\text{M } 13,077}{\text{M } 11,412.54} = 1.14$$

A ratio of 1.0 is the "breakeven" point. A ratio smaller than 1.0 indicates that the costs of the project exceed the benefits. A ratio larger than 1.0 shows that the benefits received from the project are worth the costs.

The cost/benefit ratio for Ipopeng Leribe is 1.14

Making a projection into the future, in October 1985 the 15 members of the Ipopeng Leribe Project will have total yearly costs M6,083 (cost of 400 chickens, cost of feed, cost of medicine, cost of chicken houses, and cost of transportation). Total yearly benefits will be M 12,914 (profit of M 441 per month from eggs, and M 1,805 through the sale of chickens for meat, and M 5,817 in backward linkages). Monetary benefits in the form of learning outcomes and skills application outcomes, while still important, are not considered in this calculation. This cost/benefit analysis will be 2.12 which is very favourable. It is assumed that this increase in cost/benefit ratio is directly related to the outcomes realized during the life of the project - that is, learning outcomes and skills outcomes as well as general development outcomes. These outcomes realized during the one year and five months of the project guarantee a long term and expanding income generating project.

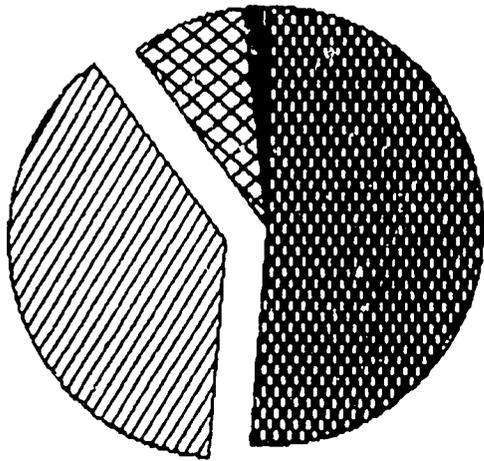
## CONCLUSIONS

Even though this project has a positive cost benefit ratio it is important to consider who actually benefits from an income generating project such as Ipopeng Leribe. If you examine the charts on the following pages, you will discover that a considerable percentage of benefits accrue to others besides the intended recipients. In the case of Ipopeng Leribe the intended recipients do actually receive the majority of benefit from the project. In other cases which require extremely expensive production inputs, this may not always be the case.

This assistance model, even though successful as demonstrated by Ipopeng Leribe, is fairly expensive. There are high costs to the assisting agency especially in the form of training costs and transportation. See Project Costs and Benefits charts on the next two page. Training and transportation account for over 40% of all costs. Resources for the assisting agency may not always be present to maintain such high interaction costs. It is important to control costs and still ensure that benefits remain high.

From the perspective of the LDTC which is attempting to go beyond the present donor-supported pilot phase to a national effort, its

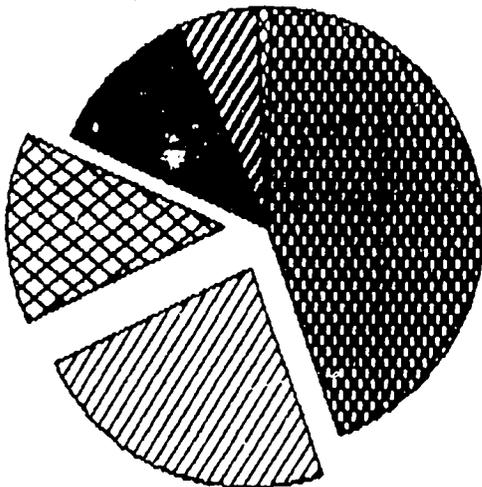
PROJECT COSTS BY CATEGORY AND PERCENTAGE



	- Materials & Supplies	5830.20 ( 51.12)
	- Personnel (LBTC & Others)	4389.80 ( 38.52)
	- Transportation	984.36 ( 8.62)
	- Fixed Plant	170.00 ( 1.52)
	- Interest on LDTC Loan	30.40 ( .32)
	- Equipment (Durable)	7.66 ( .12)

TOTAL: 11412.42 (100%)

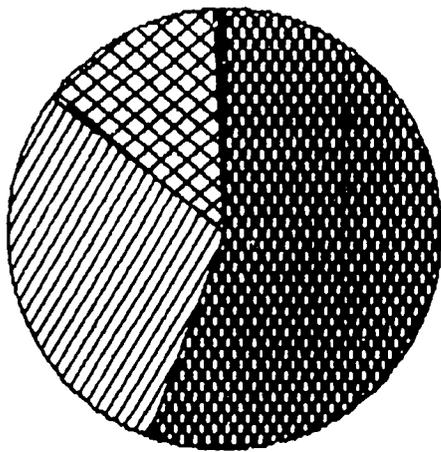
PROJECT BENEFITS BY CATEGORY AND PERCENTAGE



	- Backward Linkages	5817.00 ( 44.51)
	- Sale of Eggs	3055.00 ( 23.42)
	- Sale of Meat	1805.00 ( 13.82)
	- Learning Outcome/Benefits	1500.00 ( 11.51)
	- Skills Outcome/Benefits	750.00 ( 5.71)
	- Nutritional Benefits	150.00 ( 1.12)

TOTAL: 13077.00 (100%)

RECIPIENTS OF PROJECT BENEFITS



	- GROUP MEMBERS OR VILLAGE	7260.00 ( 55.5%)
	- FEED DISTRIBUTOR	3872.00 ( 29.6%)
	- MOA/ POULTRY PLANT	1805.00 ( 13.8%)
	- TAXI OWNER	140.00 ( 1.1%)

TOTAL: 13077.00 (100%)

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decision makers should look at ways to maximize the success rate at minimal cost to the institution. This means doing only what is necessary and practical to ensure a reasonable chance of success. This may mean identifying the basic training that is needed and not going beyond that for income generating groups. For income generating groups this may mean training in those areas which lead to participant empowerment and self management but not the entire range of income generating skills.

As an example, Ipopeng Leribe only had training in bookkeeping, programme planning, and group dynamics. Even with this limited training, personnel resources still accounted for 37.9% of all project costs. If training was to continue in other areas such as more indepth business skills, the above resource costs for training could double. This would have an adverse effect on the cost benefit ratio and possibly jeopardize the success of the project. If training costs were to increase by M 2,923 to a total of M 5,846 (even assuming no increase in transportation and training material costs) the total project costs would become M 14,335.54. The cost benefit ratio would then be 0.91. This additional training cost would be unacceptable especially considering that there would be no comparable increase in project benefits.

Clearly the critical variable is training and related costs such as transportation. There is no evidence established from this study or others that this author is aware of that increased amounts of training will increase the success potential of income generating groups. However it can be interpreted from the data that a total lack of training would cause this project to have a cost benefit ratio of below 1.0 and thus not be a worthwhile investment for either the LDTC or the group. Clearly some minimum of training is necessary. Yet ways must be considered to maintain or even reduce the resource costs attributed to training. Possibilities include greater utilization of appropriate mass media such as radio, cassette tape programs, correspondence materials and greater reliance on local extension agents which are supplemented by face to face interactions by LDTC staff. Another consideration is to offer training which is district or region based such that training costs are spread over a number of income generating groups. Obviously there will be some group project failures due to conditions outside the control of the LDTC. Even if 20% of all groups fail (not an unlikely situation) an 80% success rate and controlled institutional costs should make the LDTC assistance program a success.

The preceding chapters have presented a model for the development and implementation of institutional resources to assist income generating group activities. Universal statements as to the model's long range or large scale effectiveness can not yet be made. Yet the important role that nonformal education training and financial assistance can play in the development of self managed and owned income generating groups is substantiated. The lessons learned by the LDTC and in part analyzed in this paper can serve others who wish to examine how income generating groups can be assisted.

## APPENDIX A

### TRANSLATION OF THE TEXT OF THE ASSISTANCE FUND BROCHURE FOR RURAL GROUPS

#### WHAT IS THE LESOTHO DISTANCE TEACHING CENTRE (LDTC):

The main aim of the LDTC, since its inception in 1974, has been to provide educational services to the rural people of Lesotho to improve their lives. This is done through the STUDENT ADVICE SECTION which provides correspondence courses to private candidates studying for the Junior Certificate and the Cambridge Overseas School Certificate; the LITERACY AND NUMERACY SECTION which provides literacy and numeracy skills to out of school youths and adults; the BASIC EDUCATION SECTION which writes and distributes booklets in Sesotho on practical topics; the RADIO SECTION which broadcasts regular programs such as Tsoelang-pele over Radio Lesotho; and, the SERVICE AGENCY SECTION which can provide a range of educational services for the development of rural organizations.

#### WHOM CAN THE SERVICE AGENCY HELP?

If you are a member of a rural group that is involved in an educational activity such as, for example, a preschool, a rural health clinic, or a homemakers group; or, an income generating group such as, for example, pig raising, handicrafts, or a community garden and are in need of assistance to improve your activities, the Service Agency may be able to help.

#### SERVICES WE OFFER:

##### Organizational Development Assistance-

\* We can through a consultancy provide advice on how to improve the operations of your group. This is done through a needs assessment of the group, problem identification, goals clarification, and recommendations on ways to realize these goals.

##### Training Assistance-

\* We can train the members of the group in management skills, program planning, book keeping, leadership training, and effective group work.

\* We are also able to develop training programs in response to the specific needs of your group.

#### Materials Development Assistance-

\* We can develop, pre test, and print instructional materials such as booklets, photostrips, learning games, posters, and flipcharts as needed.

#### Financial Assistance-

\* We can provide necessary financial assistance to rural groups where specific selection criteria have been met.

\* This financial assistance may be in the form of:

- loans to those groups with primarily an income producing focus.
- grants to those groups with primarily an educational focus.

#### HOW TO APPLY FOR ASSISTANCE FROM THE SERVICE AGENCY:

1. You should write a letter of application to us. This letter should contain the following information: Name of the group, Your title, the group's location and mailing address, the number of members in the group, what the group does, the needs and goals of the group, the areas where you need help from the Service Agency, and, if financial assistance is required, how you propose to use it and at what cost.

2. Upon receiving this request for assistance, the Service Agency may find it necessary to visit or mail a questionnaire to the group in order to conduct a more detailed assessment of the needs of the group. This information and the application letter are then submitted to the LDTC Screening Committee for a determination on whether or not the Service Agency is able to provide assistance to the group. If the requested assistance also includes financial assistance, another committee must also give its approval.

3. Once approval has been given, a member of the Service Agency staff will work with the group to develop a detailed workplan for assistance. To ensure that the workplan is completed on schedule there must be close cooperation between the LDTC and the group. This workplan and details on any financial assistance will be included in a memo of agreement which both the LDTC and the group must sign.

As an educational institution we strongly believe in the effectiveness of a participatory approach to providing

assistance. Thus we will work in partnership with rural groups and not in ways that control them. In return, we expect these groups to meet all obligations that they make to ensure that assistance is effective.

WHAT DOES IT COST:

We try to charge as little as possible, if anything, for worthwhile educational assistance projects. Exact costs of assistance are determined by the nature of the request from the group.

If the group is engaged in primarily an income generating activity and has been found to be eligible for financial assistance via a loan, the costs to the group include repayment of the loan plus a minimal interest charged for the money borrowed.

If the group is engaged in primarily an educational activity and has been found to be eligible for financial assistance via a grant, there are no costs to the group.

IF WE MAY BE OF ASSISTANCE TO YOUR GROUP OR IF YOU NEED FURTHER INFORMATION, CONTACT:

SERVICE AGENCY COORDINATOR  
LESOTHO DISTANCE TEACHING CENTRE  
PO BOX 781  
MASERU, 100

TELEPHONE - 322017

OR

STOP BY OUR OFFICE  
PLEASE SEE MAP ON REVERSE SIDE OF THIS BROCHURE

APPENDIX B

DATA COLLECTION INSTRUMENT USED WITH RURAL GROUPS  
(Translation)

To ensure that your request for assistance is acted upon in a timely fashion by the Lesotho Distance Teaching Centre, the following questions must be answered in detail and mailed back to us as soon as possible.

1. What is the name of your group?

What is the mailing address for the group?

What place is/ will be the centre for the group's work?

2. Number of group members?

3. Is your group registered? YES NO If no will it soon be registered?

4. What are the objectives of your group?

5. Does your group make money?

How?

6. Does your group make a profit for its members? YES NO If yes, how is this profit shared among members?

7. How many members of the group are wage earners?

8. What is the per month average income level of all members of your group (check one):

M 0 - 30 a month

31 - 60

61 - 90

91 - 120

121 - 150

151 and over

9. What is your group presently doing?

10. What does the group want to do?

11. What does your group need to enable it to realize what it wants to do?

12. Of the things your group needs, what can it provide itself?

13. Of the things your group needs, what would you like the LDTC to provide?

14. How much financial assistance is required from the LDTC?

By what time can you repay all of the loan plus 4% interest per year?

15. THE BUDGET. If your request requires money, please fill in the following (the more information that you put here, the more that you will be able to convince the LDTC that you can handle money).

List Present Income (from all sources)

Amount	How raised	Over what time period
--------	------------	-----------------------

List Anticipated Future Income (from all sources)

Amount	How raised	No of items sold	Time period
--------	------------	------------------	-------------

List Present Expenses (from all sources, be specific)

Amount	Items purchased	Over what time period
--------	-----------------	-----------------------

List Future Expenses (from all sources, be specific)

Amount	Items needed	Who will buy them	Time period
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How much do you plan to produce and sell each month?

How much do you expect to receive from the sale of your products each month?

How much income do you receive each month from subscription fees or through other means?

What materials or supplies will you use to produce your product each month and how much does each of these cost?

Amount	Item	Where purchased	Per item cost	Total Cost
--------	------	-----------------	---------------	------------

Will people be paid for their labour? YES NO If yes:

(a) How many people will be paid each month and how much will they be paid in total?

Number of People: Total Amount Paid:

OR

(b) How many products will be made each month and how much will be paid for each product?

Number of Products Each Month: Sale Price of Each Product:

What other expenses will have to be paid for each month and how much will they cost?

Transportation:

Utilities (electricity, parrafin, etc.):

Rent:

Water:

Other:

## 16. THE MARKET

Where do you intend to sell your product?

Are there others in the area who sell the same product? YES NO  
Is this a problem? YES NO

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17. What government or nongovernment organizations are currently assisting you?

18. How are these organizations assisting you?

19. (For Service Agency Use. Add any additional questions here):

Signed by at least two members of the group:

----- Name	----- Title	----- Date
---------------	----------------	---------------

----- Name	----- Title	----- Date
---------------	----------------	---------------

## STANDARDIZED PROPOSAL FORM

## I. Name of Group

## II. Address of Group

## III. Introduction

(Presented in narrative form by LDTC advocator. Contains information based on data collected - size of group, when group was founded, geographic coverage of group, what group is currently doing, who is currently assisting group (ie. extension agents), where group sells or will sell its products, and other pertinent information)

## IV. Selection Criteria

(Prepared by LDTC advocator to assess areas where proposal meets Selection Criteria)

Example: The ----- group meets all selection criteria to qualify for a loan. It is an income generating group activity which is of direct benefit to the rural poor. In particular, it meets the following selection criteria:

## V. Need and Goals of the Group

(Prepared by group independently or with assistance from LDTC advocator. Lists the needs of the group and what it wants to specifically do to meet its needs).

Example:

The groups wants to increase members' income by:

1. purchasing 100 point of lay chickens and selling eggs from chickens
2. selling chicken meat once chickens have passed egg laying period

## VI. LDTC Areas of Assistance

(Prepared by the group independently or with assistance from LDTC advocator. Information is provided on where the LDTC will specifically give assistance to the group).

Example:

1. The LDTC can provide financial assistance to the group

for the purchase of;

- (a) 100 point of lay chickens
- (b) materials to repair chicken house
- (c) chicken feed

2. The LDTC can provide educational assistance to the group through workshops to be identified

3. The LDTC can act as an advocator for the group to enable it to receive services from government agencies and other organizations

#### VII. LDTC Assistance Strategies

(Prepared by LDTC advocator with input from group. Information on how the LDTC will implement its assistance to the group as described above).

Example:

1. Initial three day workshop during which a detailed workplan will be developed with the group to enable them to effectively use the anticipated financial assistance and the on-going educational assistance in the areas to be identified

2. Channel financial assistance directly to the group in one installment

#### VIII. Costs to the LDTC, Costs to the Group, Cost to Group Members

(Specific information on the financial assistance budget, interest that group will repay, contributions that group members will make, etc.)

Example:

1. LDTC costs in the form of a two year loan and training of group members

##### (A) BUDGET:

Chickens - 100 point of lay	
at M 4.60 each	M 460.00

Layers Mash - 9 50kg bags	
per month. Mash	
for three months	
at M22 per bag	1,188.00

Contingency (10%)	164.80
-------------------	--------

TOTAL LOAN FROM LDTC	M 1,812.80
----------------------	------------

(B) LDTC support and training assistance on at least a once a month basis

2. Group costs:

(A) Pay back the sum of M1,957.82 (loan of M1,812.80 plus interest of M145.02). Period of loan is two years. 17 monthly installments of M108.16 beginning at the start of the 7th month after the contract signing and an 18th and final payment of M119.10

(B) Willingness to sign contract and abide by agreements

3. Group Member costs:

(A) Supply labour to repair chicken house and care for chickens

IX. Outcomes of Assistance

(Prepared by LDTC advocator. Details of anticipated results of assistance. Financial information on economic feasibility of activity as outlines in Selection Criteria).

Example:

1. The educational training programme will be successful. A participatory training approach will enable the group's members to develop practical skills to continue the group's activities.

2. Group members will become self employed, capable of earning income and be able to repay loan.

Information on:

(A) Monthly profit from sale of chicken eggs:

(B) Monthly income from sale of eggs:

(C) Monthly expenses from sale of eggs:

SAMPLE COVER LETTER TO ASSISTANCE FUND MANAGEMENT SUBCOMMITTEE

To: Assistance Fund Management Subcommittee  
 From: LDTC Screening Committee  
 Date: 12 October 1984

Loan Title: Makoanyane Farmers - LDTC Loan No 1

Terms of Loan M 3,703.68 to be deposited into the group's bank account upon execution of the contract. The contract will be for 3 years. Repayment of the loan will commence at the beginning of the 7th month after the signing of the contract.

Interest Rate 12% of the principle (4% times three years) or M 444.44

Repayment Schedule 29 installments of M 138.27 starting at the beginning of the 7th month after the signing of the contract. The 30th and final installment of M 138.29 will be at the beginning of the 36th month after the signing of the contract.

Narrative The LDTC Screening Committee met on 1 October 1984 to discuss a proposal from the above name group. A copy of the proposal is attached. The proposal is for a loan of M 3,703.68 and is intended to purchase chickens and feed for the purpose of caring for chickens and selling eggs; and seed, fertilizer, and insecticide to grow and sell various vegetables. The Screening Committee

accepted the proposal with the following condition - a letter must be received by the LDTC from the local chief confirming that the group will own the vegetable field for the life of the project.

At this time could the AFMS review the proposal and advise the Screening Committee accordingly.

CC: USAID/ Lesotho  
Attention- Dr. Patsy Layne, HRDO

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APPENDIX D

MONTHLY EXPENSES AND INCOME  
TO DETERMINE PAYBACK SCHEDULE FOR LOAN

GROUP INCOME

1. How much does group plan to produce and sell each month?
2. How much money does group expect to receive from the sale of the products mentioned above in No 1?
3. How much income will group expect to receive each month from member subscription fees and through other means?

GROUP EXPENSES

4. What materials or supplies will group use to produce its product each month and at what cost:

Amount of Supplies	Item	Per Item Cost	Total Cost
--------------------	------	---------------	------------

5. Will group members or others be paid for their labour? If so:

- (a) How many people will be paid each month and how much will they be paid?

Number of People	X	Amount Paid	=	Total Amount Paid
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OR

- (b) How many products will be made each month and how much will be paid for each product?

Number of Products X Amount Paid = Total Amount  
Per Product Paid  
to make product

6. What other expenses will the group need to pay each month and how much will they cost?

Transportation:

Utilities:

Rent:

Water:

Other;

#### DIFFERENCE BETWEEN INCOME AND EXPENSES

1. To find out the surplus that the group will make each month, add up numbers 4,5, and 6 and subtract that total from numbers 2 and 3.

(TOTAL of nos. 4,5,& 6) - (TOTAL of nos 2 & 3) = TOTAL SURPLUS

#### MONTHLY AMOUNT FOR LOAN REPAYMENT, TO REINVEST IN THE GROUP'S ACTIVITY AND FOR PROFIT TO MEMBERS

To determine the amount that should be set aside each month to repay the LDTC loan, the amount to reinvest in the work of the group, and the amount that should go to the members each month as profit, the following question should be asked of the group - "What is the shortest time period that the group can reasonably repay the loan yet still ensure the economic continuation of the group (money for reinvestment and profit to members).

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## ASSISTANCE FUND SELECTION CRITERIA

## I. INTRODUCTION

## A. PREAMBLE

In Lesotho the potential growth of nonformal education (NFE) programmes carried out by groups and organizations, especially in the rural areas, is often hampered by a lack of resources. In an attempt to remedy this situation, an Assistance Fund has been established. The Assistance Fund is intended to provide technical assistance (training, materials development, evaluation, and communications) and financial assistance (loans and grants) to groups and organizations which benefit the rural people of Lesotho by enabling these groups and organizations to sustain and expand their NFE activities. To merit a loan or a grant, applicants must qualify under the Assistance Fund Selection Criteria. The Assistance Fund is administered by the Lesotho Distance Teaching Centre (LDTCC) and is implemented by its Service Agency Section.

## B. SHORT TERM OBJECTIVES OF THE ASSISTANCE FUND

The Lesotho Distance Teaching Centre's operation of the Assistance Fund, a component of the GOL/ USAID Project No. 931-1054, will enable the LDTCC to develop a workable selection criteria, to devise and test various assistance strategies, and to refine the management of the Assistance Fund.

## C. LONG TERM OBJECTIVES OF THE ASSISTANCE FUND

The Assistance Fund will be of benefit on a national level to groups and organizations to enable them to sustain and expand their NFE activities.

## D. THE MANAGEMENT OF THE ASSISTANCE FUND SELECTION PROCESS

The Assistance Fund selection process is administered by a two tier management structure comprised of:

The LDTCC Screening Committee

The Screening Committee is comprised of senior staff of the LDTCC, proposed by the Director of the LDTCC and approved by

the Assistance Fund Management Subcommittee. At present the Committee includes the LDTC Deputy Director as Chairman, the Service Agency Coordinator, the Educational Evaluator, the Basic Rural Education Editor, the Literacy and Numeracy Section Head, the LDTC Financial Controller, and, as advisors, the USAID Project Advisor and the USAID Project Evaluator. It is the function of the Screening Committee to provide an indepth examination of the submitted proposals with the intention of "screening out" proposals which do not meet the selection criteria.

The Assistance Fund Management Subcommittee  
Once a proposal has been approved by the Screening Committee, it is then sent to the Assistance Fund Management Subcommittee (AFMS). The AFMS is comprised of the Principal Secretary for Education or a representative as Chairman, the Principal Secretary for Finance or a representative, the Principal Secretary for Central Planning or a representative, The Lesotho National Development Bank representative, the Director of the LDTC, the Deputy Director of the LDTC, and the Educational Evaluator of the LDTC. The committee is to examine on behalf of the Management Committee of the LDTC the appropriateness of grants and loans decided upon by the Screening Committee and advise accordingly.

## II. GENERAL CRITERIA

Grants and loans are to be made to those applicants (groups and organizations) who are, in the opinion of the Screening Committee and the Assistance Fund Management Subcommittee, working toward genuine development within Lesotho. This is to be evident from the work of the applicant over the past few years.

Only applicants who do not have access to the financial resources of conventional lending institutions are eligible for loans and grants. The Assistance Fund can not provide financial assistance to applicants which may duplicate the work of another institution or Ministry. It is the intention of the Assistance Fund to provide assistance to the large numbers of people who represent the more disadvantaged segments of the rural population. Whereas there is no maximum amount that may be loaned or granted to applicants, all things being equal, applications for modest amounts of money receive preference.

Loans and interest due are to be repayable in equal installments over equal periods of time in the shortest time possible. Loans to income generating groups are subject to interest rates equal to the lowest current bank deposit

rates in Lesotho at the time the loan is made. At the present time this is 4% times the number of years that the loan is for (simple rate of interest - not compounded).

It is required that each loan or grant contract between the LDTC and the recipient be signed by the Director of the LDTC and at least two and preferably all group members.

The Screening Committee is to have the right to make recommendations on exceptions to the Selection Criteria with proper justification to the AFMS. During the life of the USAID Project, USAID/Lesotho is to have the right and obligation of quarterly review of all loans and grants. Access by the LDTC to the project activities and financial activities of the assisted group or organization is to be allowed for evaluation purposes for three years after the end of the assistance programme. LDTC is obligated to evaluate all activities supported by the Assistance Fund.

### III. SPECIFIC CRITERIA

1. Membership and Target Population of the Organization
  - a. The organization is Lesotho based and Basotho run
  - b. The organization benefits the more disadvantaged segments of the rural population
  - c. The organization is community based
  - d. The number of participants and area of coverage justifies involvement by the LDTC
  
2. Present Activities, Future Goals, and Strategies of the Organization
  - a. The actions of the organization fit with the Government of Lesotho Five Year Development Plan
  - b. The organization has a clearly understood statement of present activities, future goals, and strategies to realize these goals
  - c. The activities of the organization provide for a direct and identifiable improvement in members' lives
  - d. The activities of the organization provide for a built-in chain reaction effect on development in the community
  - e. LDTC work with the organization will not duplicate the

work of another organization

### 3. Member Participation and Involvement

- a. The organization uses all appropriate and available local physical and human resources through peoples' participation
- b. All members of the organization have the opportunity for equal input into the decision making process of the organization

### 4. Organizational Commitment

- a. The organization is committed to doing its job even without the help of the LDTC

### 5. Financial Assistance Issues

The organization requires additional monies to accomplish expansion or programme development/intensification and other funds are not available.

a. Organizations that need financial assistance with project investments to generate income or begin revolving fund/credit programmes, ie. agriculture, animal husbandry, sewing, handicrafts, carpentry, etc. qualify for a LOAN.

1. The organization has furnished sufficient evidence of capability to repay the loan at the agreed upon interest rate and repayment schedule and still ensure the economic continuation of the organization (money for reinvestment and profit for members) by providing information on:

(a) how much it plans to produce and sell within a specific time period (one month, or six months, etc.)

(b) how much it expects to receive within the same specified time period from the sale of products mentioned in no 5a

(c) how much money it receives within the specified time period from subscription fees and from other sources

(d) how much it will spend on materials within the specified time period to produce the products

mentioned in no 5a

(e) how members will be paid for their labour and how it is determined - by a percentage of the products the members make, on an hourly basis, on a monthly basis, etc.

(f) what the other expenses are that must be paid within the same specified time period such as paraffin, electricity, rent, etc. to produce and sell its products

(g) amount realized from product sales to pay back the loan, to reinvest into the organization, and to make a profit for members

2. The organization has furnished sufficient evidence that it will be able to satisfactorily market its products. This may be done by providing information on:

(a) success of past or present marketing outlets

(b) market survey data supplied by government or private sources

b. Organizations that need financial assistance with what is an educational activitiv which does as a result of its training produce some limited salable products, ie. a rural training school which in the course of its training programme does produce some salable products, qualify for a LOAN AT NO INTEREST RATE

1. The organization has furnished sufficient evidence of capability to repay the loan at the agreed upon repayment schedule and still ensure the economic continuation of the organization (money for reinvestments) by providing information on:

(a) how many people it expects to train within a specified time period (one month, six months, one year, etc.) and how much will be realized from tuition fees

(b) how much money it will receive from other sources including products produced and sold within the same specified time period

(c) how much it will spend on training materials within the specified time period

(d) how much the trainers and organizers will be paid within the specified time period

(e) what the other expenses are that must be paid within the specified time period such as paraffin, electricity, rent, etc. to conduct its training programme

(f) amount realized from product sales and from other sources such as tuition so as to pay back the loan and still have enough to reinvest in the organization

2. The organization has furnished sufficient evidence that it will be able to satisfactorily market the salable products produced from the training programme. This may be done by providing information on:

(a) success of past or present marketing outlets

(b) market survey data supplied by government or private sources

c. Organizations that need financial assistance with what is strictly an educational purpose as defined below in no 1 or no 2 qualify for a GRANT

1. The organization needs financial assistance to produce educational programmes or materials which will benefit the Assistance Fund target population and satisfy other criteria as defined above. Examples are nutrition or health education campaigns, pre school education, and educational materials for the blind or otherwise handicapped. There are other examples.

2. The organization is currently receiving educational and/or financial assistance from the LDTC Assistance Fund and specific, locally available training is needed to ensure the success of the programme which can not be provided by the LDTC or another government institution. The cost of such training can not be met by the organization and neither the LDTC nor any other government institution has the ability to provide such educational training. One example is a knitting group which needs training in a new type of knitting machine which only private institutions and not government institutions can provide.

31 December 1979

10 March 1983

27 November 1984

## APPENDIX F

### STANDARDIZED CONTRACT FORM

LOAN TITLE: [Name of organization and information on what organization does. Eg. Lesotho Council of Workers - Womens Section, Maseru Vocational School]

The Lesotho Distance Teaching Centre (LDTC) as lender and [Name of Organization] as borrower hereby agree to abide by this loan agreement.

#### FINANCIAL DETAILS:

For the loan of [amount] received from the LDTC, the [Name of organization] promises to repay the LDTC the total sum of [amount of loan plus interest]. ([amount of loan] plus interest of 4% per year for [number of years] or [amount of interest]).

The [name of organization] will make [number and frequency of payments] of [amount] starting on [date after contract signing]. There will be a final payment on [date] of [amount].

#### USE OF MONEY:

The loan will be used to purchase [list items, quality, and costs]. These items will be used to [eg. raise and sell pigs, make and sell school uniforms, etc.].

This loan money may not be used for any other purpose without the prior written approval of the LDTC.

[Name of organization] agrees to not sell any resources purchased with the loan money without the prior written approval of the LDTC.

#### ADDITIONAL CLAUSES:

The LDTC agrees to provide technical assistance in training, auditing, keeping contact, and checking progress for the duration of the contract or a mutually acceptable time.

All group members agree to attend all training sessions offered by the LDTC. Furthermore, all group members agree to [eg. supply labour to group's building, contribute money to supplies, care

for equipment, tend animals, etc.].

It is the responsibility of both parties to keep in close communications with each other. All correspondence should be addressed as follows:

To LDTC:

Service Agency Coordinator  
Lesotho Distance Teaching Centre  
PO Box 781  
Maseru

Telephone 322017

To the Group:

[Name of organization  
plus address and  
telephone if available]

[Name of Organization] will keep and make available to the LDTC as needed:

- (a) records of all financial transactions on a monthly basis;
- (b) records of all relevant non-financial events - full project history.

[Name of organization] will provide a progress report to the LDTC on a quarterly basis incorporating financial and non-financial events as contained in (a) and (b) above.

#### TERMINATION AND PENALTY CLAUSES:

If the [name of organization] fails to abide by the agreements as contained in this contract, the LDTC has the power to terminate this contract. At the discretion of the LDTC this may be done by recalling all unspent money, imposing a 12% per annum interest on the balance outstanding, and/or repossessing all resources purchased with the loan money.

Should there still be any outstanding balance, [name of organization] agrees to sell any other assets owned by the group so as to repay the outstanding debt to the LDTC.

By signing this contract, [name of organization] and the LDTC agree to abide by all conditions as set forth in this contract.

Agreed to by the Lesotho Distance  
Teaching Centre

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Director

-----  
Date

Agreed to by [name of  
organization]

(signatures of all  
members)

-----  
Date

APPENDIX G  
GROUP MONITORING FORM

The following form has been used occasionally by the Service Agency group monitors:

NAME OF ORGANIZATION:  
DATE OF VISIT;  
REPORT WRITTEN BY;  
DATE OF REPORT:  
NUMBER OF GROUP MEMBERS PRESENT:

I. REASON FOR VISIT

II. PROGRESS MADE:

III. PROBLEMS ENCOUNTERED:

IV. RECOMMENDATIONS/ ACTION TAKEN:

APPENDIX H

REPAYMENT FORMS

There are two repayment forms which are currently in use. These forms keep both the LDTC and the assisted group aware of all aspects of the LDTC loan repayment.

FORM 1 - LDTC LOAN REPAYMENT CARD

One form is kept by the LDTC in the Service Agency Section. The form is a large card which contains basic loan information. The following is what is contained on the card:

Name of Group:

Date	Loan Amount	Repaymer	Amount	Balance	Receipt Number & Signature
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FORM 2 - GROUP LOAN REPAYMENT BOOK

The second form is given to the group when the contract is signed. It is usually kept by the group's treasurer. The form is similar to what is used by the credit unions for their members. The form contains the following information:

Page one contains the name of the LDTC and the name of the group.

Page two contains information on the LDTC contact person, LDTC address, and LDTC telephone number.

Page three contains information on Loan Amount, Interest Amount, Number of loan payments required, Amount of each payment, Date of first payment, and date of last payment

Subsequent pages contain, in columns, information on:

Date	Loan Total	Payment Amount	Balance	LDTC Receipt No. and Signature
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## TERMINATION PROCEDURES AND GUIDELINES

It is the intention of the Lesotho Distance Teaching Centre to only give loans and grants to those organizations which meet the Selection Criteria and which therefore have demonstrated an ability to effectively and satisfactorily implement their plans as contained in their proposals and contracts. For a variety of reasons there may be an occasion when a funded organization can not or will not implement its plans in an effective and satisfactory manner. The Selection Criteria should be used as the primary document with which to make a decision on whether or not to terminate a particular project. Below are additional guidelines which can be used when confronted with such decisions.

It is the responsibility of the LDTC Screening Committee to take decisions on whether or not to terminate a project. Such a termination request to the LDTC Screening Committee will normally be submitted by the Service Agency Section of the LDTC. If the LDTC Screening Committee makes a decision to terminate assistance to an organization, such a decision with sufficient rationale will be submitted to the Assistance Fund Management Subcommittee (AFMS). The AFMS is to examine on behalf of the Management Committee of the LDTC the appropriateness of the termination decision and advise accordingly.

Once the termination decision has been made, it is the responsibility of the Service Agency Section to ensure that the loan is promptly repaid to the LDTC Assistance Fund. Termination and penalty clauses are contained within the contract.

Additional Guidelines for a Termination Decision:

1. Membership and Target Population of the Organization

- (a) The number of members has decreased to a point which does not justify continued involvement by the LDTC

2. Present Activities, Future Goals, and Strategies of the Organization

- (a) The organization's goals have been forced to change because of various internal or external reasons and the organization is unable to provide the LDTC with a clearly

understood statement of present activities, future goals, and strategies to realize those goals

### 3. Member Participation and Involvement

(a) The members contribute neither labour nor money to the work of the organization

### 4. Organizational Commitment

The organization has ceased to function in an active way:

(a) The organization has not meet at least once a month for the past three months

(b) The organization has not has a majority of members present for all training sessions

### 5. Financial Issues

(a) The organization is not using the loan money as stipulated in the contract

(b) An audit of the organization's account books, conducted at least every three months, reveals discrepancies such as missing receipts or money not accounted for

(c) Economic factors such as changes in market conditions prevent the organization from repaying the loan money and still realize a profit and the organization is unable to adjust its plans to repay the loan