

YOUTH DEVELOPMENT LOAN PROGRAM

POLICY AND PROCEDURE MANUAL

Prepared and monitored by

CYDM

YOUTH DEVELOPMENT LOAN PROGRAM

POLICY AND PROCEDURE MANUAL

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SECTION 1: GENERAL PROVISIONS

1.1 TITLE

These regulations shall hereinafter be known, cited, and referred to as the **Youth Development Loan Program** (YDLP) Policies and Procedures Manual.

1.2 PURPOSE

These regulations have been established to set forth criteria that shall govern CYDM Members activities and programs in seed capital, share capital contributions, debt funding, portfolio financing and income from the youth Development Loan.

1.3 OBJECTIVES

YDLP is developed to ensure there is available capital to lend to youth withought corateral and business history restrictions but by ensuring loan is payable and the program is sustainable, this is driven from the fact that collateral and business history does not pay the loan but loan is paid ought of effective administration. Its discouraged to start a business in debt, but this is what we can do at the moment because microfinance companies are private owned, we are looking forward to see if ultimately initial capital can be equity contribution than loans but there are national programs like 10% Youth Funds which also offer initial capital in debt format, so look at the case to be tailor made and only possible at a time.

The program objectives as as follows;

- 1) To incourage youths to visionaries, ready generate income through business creation
- 2) To impart the spirit of commitment, hard working, meeting targets and living by objectives by alowing them to puta plan and achieve it
- 3) To provide capital by looking at projct viability unlike age and collateral of the business.
- 4) To prove that people can save if they determine to do so by showing them their capacity through borrowing and settlements of debts by commitment.
- 5) To prove the power of commitment in undertaking bigger saving commitment tasks.
- 6) To encourage the creation income in surplus and savings

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- 7) To promote better life and decent leaving through salaried loans, business and social emergence affordable loans, hire purchase and the savings culture.
- 8) To encourage asset column creating for wealthy building and increase of credit worthiness
- 9) To enable microfinance companies fulfil the obligation of microfinca policy by upbrining the micro and informal sector to formal SME sector.
- 10) To increase microfinance working capital to pyary its developmental roles and lower interest rates to macth MSP Regulations in Tanzania.

1.4 AMENDMENTS

The CYDM managhemnt team, from time to time, amend the provisions imposed by the policies and procedures contained within this manual.

SECTION 2: ADMINISTRATION

2.1 The CYDM Board

The Board shall be formed of member microfinance companies by appointing two representatives, The board shall oversee the implementation of the loan policy, achievement of the policy and growth of Microfinance capital and YDLP portifolio. The board shall basically ensure the program frowth is sustainable and suggest improvement measures to gear growth or resignation of excetive cumitee members on cases of underperformance and declanation.

The board shall meet at least once in three months, in case of so many members inability to meet, the boad shall apoint the secretariat from asmong them to meet with board memebrs in fewer manageable numbers and finally represent them in Board meeting without limiting their atendance right but monitoring whether the secrerariat reflects their opinion.

2.2 EXECUTIVE COMMITTEE (THE MANAGEMENT)

Headed by the Managing Director, it is formed employed by the founding Members depending on the needs ofn time. The committee shall train members to implement and monitor the policy, ensure members compliance, negotiate for exteral finance for portifolio finance and equity release to enahance program growth.

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It shall be responsible to report to the board and secretariat, adhere to board advise and change programs accordingly for program achievement, in cases of under growth, program under performance, the Board is allowed to recommend their resignation.

2.3 LOAN COMMITTEE

Each member microfinance is expected to have a credit committee, YDLP customers shall apply like any other customers, in the credit committee their application shall be tabled for approval or disapproval and feedback shall be shared to applicant and CYDM Executive committee.

A loan approval report that entails all rejected applicants shall be shared electronically to the executive committee members of CYDM for future improvements, un certified customers are allowed to appeal to the CYDM EXECUTIVE COMMITTEE for recommendations.

SECTION 3: PROGRAM/PRODUCTS DESCRIPTION

- (a) Purpose: To increase youth involvement in economic activities by assuring them with capital and any stage of either start up or Expansion.
- (b) Protect client's capital, increase business capital, meet client's emergence needs for finance and teach the savings culture.
- (c) Eligibility: Youths in start up or self-employees without capital or business personal whose working capital is less than 10 million or having a capital greater than ten million but needs loan to unlock existing opportunity,
- (c) Loan Size and purpose: loan size shall depend on collateral type and income generation capacity. The loan ranges from 1,250,000 to 5,000,000/-. The loan is allowed to be spent on consumption like rent payment, school fees payment, supplementing tender requirements on supply and payment of personal bills like water, electricity and domestic consumption.
- (d) Loan period and Interest rate: the loan has 3.5% monthly interest and its period range from three to thirty six months.
- (e) **Collateral:** There is no recommended collateral for the stated amount borrowed within a limited loan range and purpose.

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(f) **Guarantee:** All borrowers shall have one guarantor whose residence is permanent and one guarantor whose income is proven by having a justifiable business or salary. The lender must be able to be trusted by surrounding community, his condition is what recommends ouths to have good behaviour and in their dayly living.

SECTION 4: ELIGIBILITY

4.1 ELIGIBLE AREA

Tanzania Mainand,

4.2 ELIGIBLE APPLICANTS

All application are submited in prescribed manner by the registered micrifinance company, member of the CYDM.

To qualify for funding, eligible businesses must complete an application and submit all relevant supporting documentation. Only when all the necessary documentation has been submitted will the application be processed and presented to the applicable loan committee for formal action.

All Applicants must be current in all tax payments at all levels, including any fees to be assessed by the municipality, or be current in an approved plan to pay taxes or fees.

4.3 ELIGIBLE ACTIVITIES

The majority of loan funds shall primarily finance small to medium sized projects with business loans at or below market interest rates that provide an economic benefit to local communities. Projects proposed for funding must address one or more of the objectives.

Loan programs may have restrictions on eligible activities, but the following is a list of all activities that will be eligible in one or more of the loan programs in compliance with the Laws of the United Republic of Tanzania:

- 1) Agriculture
- 2) Construction
- 3) Techinician works
- 4) Processing

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- 5) Purchase of stock
- 6) Payments of business viable expenses
- 7) Purchase of business assets
- 8) All sectors of moral and legal businesses

4.4 INELIGIBLE BUSINESSES

- 1) Establishment costs like company registration and marketing
2. Gambling activities, including any business whose principal activity is gambling
- 3) Microfinance
- 4) Unregistered businesses, that lack business lisence
- 5) Nightclubs and bars without food services, except for facade loans
- 6) Lending institutions
- 7) Rent-to-own businesses
- 8) Real estate investment speculation.

5.0 SECTION 5: APPLICATION DOCUMENTS AND APPLICABLE FEES

5.1 Applicable fees

- (a) All applicants shall **not** pay any application fees
- (b) Upon Aproval for visitation, the apicatnt shall pay non refundable visitataion fees at the actual rate of Motorcycle transportataion.
- (d) Loan interest shall always be Less than or equal to 3.5% monthly charged on reducing balance method and as further guided by Bank of TANZANIA.
- (e) Penalties for delayed of loan repayment shall be 0.2% of the delayed installment charged on the daily basis. No compound interest shall be accumulated on penalties.
- (f) All charges of debt collection paid to debt collectors who are subcontracted by KALOBE MICROFINANCE Limited, shall be borne by the defaulter.

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5.2 Borrower's application documents:

The applicant, depending of his sources of income may be required to present the following documents:

- I. Bank statement : An applicant must have a bank account even if its balance is zero.
- II. Business License
- III. Introduction letter from local government authority from an area where the presented collateral is found for both a borrower and guarantor
- IV. Lease agreement or proof of ownership of building at the place of residence and business premises of the borrower/ If its home based, then there should be any proof by head of family to allow officers to visit the premises for the purpose of ascertaining business premises.
- V. Introduction letter from the ten houses ambassador (Mjumbe) justifying a client's marital status and mentioning the spouse name if any
- VI. Valid IDs for the borrower and guarantors
- VII. Spouse guarantee inform of an introduction letter from the local authority introducing a spouse and confirming guarantee in cases matrimonial assets.
- VIII. Business Description in a manner prescribed by the lending microfinance institution in collaboration of CYDM executive committee. (*A Template is attached*)

5.3 Guarantee requirements

(a) All applicants shall have at least one guarantor who may be a spouse in cases of the couple or any other person in case a borrower is single or divorced.

(b) A guarantor shall be a Tanzanian, aged eighteen years and above, of sound mind, with reliable source of income and willing to guarantee the borrower.

(c) The guarantor shall present a copy of an Identification Card issued by the government agency, an introduction letter from a local authority, introducing their intention to guarantee the borrower and a passport size.

(d) THE guarantor shall be aware of his/her responsibility as a guarantor and shall sign a loan contract.

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IX. Guarantors should be introduced by local government authorities

5.4 CUSTODIAN AND CONFIDENTIALITY OF ATTACHMENTS

- (a) All attachments that include but limited to proof of ownership of collateral, bank statements, salary slips and the like shall be stored in special custodian well known to the company directors and such documents shall be returned to the owner upon completion of loan repayment.
- (b) All consequences of loses and misuse of such attachment (documents) before return to the owner, shall be borne by the lender.
- (c) The application documents are received and registered in a special register and filed in a special file (Application File/ safe to be place in a place well known to the directors). All documents must be valid and borrowers must be socially and economically credit worthy. Their credibility is assured by visiting local authorities and the BALOZI, another justification is done by questioning neighbors and guarantors' declaration. The lender assured marital status is technically approved in all cases.

5.5 Grace Period

- (a) The lender can offer grade period, the first installment is paid on the 31th day after loan disbursement.

6.0 APPLICATION PROCEDURE

6.1 APPLICATION / PRESENTATION OF DOCUMENTS

All documents are presented with two duly filled application forms received by stamping on the forms as received on a specific date. Before stamping a received stamp, a form is reviewed to justify that all documents are attached, in case of additional information the documents and the form are not received until all requirements are attached and a received form is stamped as received.

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6.2 LOAN PROCESSING TIME

One copy of the application form with a received stamp on specific date is maintained by the applicant, the form further specifies the following information; (i) Visit Date and the loan processing period which is three weeks for all loans other than CHAPCHAP loan which is processed in four working days.

6.3 REVIEW AND APPROVAL

(a) The credit officer visits a client's residence, business premises and premises for physical evaluation of clients' credit worthy and fills in an evaluation form. The evaluation form is attached on the application documents. The application file is then submitted to the credit assessor who rates a client's security level and gives recommendations. The credit assessor may command the credit officer to require additional documents if necessary. Afterwards the application is discussed by the credit committee for approval. All approved applications are filed in an approval file waiting disbursement.

6.4 FOLLOW UP AND DEBT COLLECTIONS

6.4.1 Follow Up

Twenty days later, the borrower and guarantors are reminded, afterwards, twenty-five days later there are reminded for the last time. The reminder gives benefits of timely payments that include and award at an annual anniversary, recognition for good customary and thus justification for greater loan amounts, discount and qualification for low interest rates in subsequent loans in both Maendeleo and WAJIBU Loans.

6.4.2 Debt Collection

- (a) If delays are realized, the second day after delays, the client's premises are visited early in the morning and warning letter is given through the Local Authority and all guarantors are told about the situation. Seven day later the clients receive a 7 days' final demand notice from the lender.
- (b) Loan Restructuring

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In case 6.4 (a) debt collection strategy realises positive cooperation from the lender and the borrower shows the ability to settle the debt in a period of ten months, the loan is structured. A structured loan first realises the outstanding loan amount, the accumulated interests and penalties. The restricting shall eliminate compound interests and penalties but sum loan amount and accumulated interest to get the amount to be restructured. The interest for restructured loan shall be calculated from the outstanding loan amount unlike calculating interest on accumulated interests. Restructuring shall not have any compound interests whatsoever.

(c) Debt Collectors:

If, Debt collection and restructuring fails then, if defiance a debt collector is appointed to collect the debt on behalf of the lender. The debt collector shall follow all procedures for debt collection till auction on disposing the collateral.

(d) Writing off bad loans

- (i) The Credit committee shall seat in every quarter of every year at branch or station were loans are administered to approve write off.
- (ii) At meeting all none performing loans, whose borrowers have never not appeared before the court for suit, that is those which have been administered by appointed debt collectors for more than twelve months and not repossession of their assets has been implemented and the credit officers and debt collectors suggest their write off, shall be listed.
- (iii) After assessment, all loans who for the past twelve months have not reduced the none performing loan by 25% shall be listed for write off.
- (iv) Before write off, all listed borrowers shall be subject for suit before approval for write off.
- (v) All borrowers who have been ordered by court to pay and for the six month have not done so and the court has approved disposal of their assets had they have defended themselves that such a disposal should impoverish the family or lender children homeless, shall be written off.

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(vi) all write off shall be verified by the both internal and external account before eventual write off in annual reports.

SECTION 7: PERFORMANCE MONITORING

7.1 Lian SOftware

(a) All Members shall be able to login into the CYDM Proposed software that is integrated with CRDB/NMB so that disbursement is updated from bank aproval and repayment is updated from bank deposits using control numbers

7.2 CRB

All members shall be registered to post data in any CRB, the CYDM management shall help in posting the same data right from the software

7.3 BOT copliance

The applicant should be filing BOT returns correctly.

7.4 Applications shall be reviewed in the order received. Priorities for loans shall be established to clients with high credibility in from denoted by alphabetically by the credit assessor. Their credible priorities are termed bellow:

General category	Economic situation	Social situation	Subcategory
A	possess business premises (be it owned) or rented) , has own house and has latest home assets	Married/ Single, (smart and appears decent or otherwise to be graded in sub category)	To be given by the credit officer as A1 (no doubt), A2 (average) , or A3 doubtful depending on their perceptions

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			and doubts. Loans may be denied depending on this category
B	Possesses business premises (be it owned) rents residence,	Married, (smart and appears decent or otherwise to be graded in sub category)	To be given by the credit officer as A1 (no doubt), A2 (average) , or A3 doubtful depending on their perceptions and doubts. Loans may be denied depending on this category
C	Possesses business premises (be it owned) rents residence,	Single , (smart and appears decent or otherwise to be graded in sub category)	To be given by the credit officer as A1 (no doubt), A2 (average) , or A3 doubtful depending on their perceptions and doubts. Loans may be denied depending on this category
D	Does not possess business premises but does business be it owned) owns residence,	Married , (smart and appears decent or otherwise to be graded in sub category)	To be given by the credit officer as A1 (no doubt), A2 (average), or A3 doubtful depending on their perceptions

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			and doubts. Loans may be denied depending on this category
E	Does not possesses business premises but does business be it owned) rents residence,	Single , (smart and appears decent or otherwise to be graded in sub category)	To be given by the credit officer as A1 (no doubt), A2 (average) , or A3 doubtful depending on their perceptions and doubts. Loans may be denied depending on this category
F	Does not do business but he/she is employed	Maries/single	To be given by the credit officer as A1 (no doubt), A2 (average) , or A3 doubtful depending on their perceptions and doubts. Loans may be denied depending on this category

7.2 CREDIT OFFICER'S ABILITY TO ASSESS CLIENTS

Credit offices receive a weekly training from the management team and a monthly training from one board member depending on the perceived weakness and quarterly training from the external trainer to increase their professionalism in credit client's management for excellence.

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Clients are assessed basing on both economic and social justifications. These social justifications can be naturally owned or acquired from KALOBE finance. Economic justification includes business income and collateral, if the customer is good economic background, he/she requires just social back ground.

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7.3 SOURCES OF FINANCE

(a) Seed capital: All micrinance shall offer initial seed capital of any amount upon their capacity but shuld no be less than 1TZS 10,000,000.00

(b) Portfolio Financinag

The CYDM is negotiating with diofferent finaciers including government programs to finace Microfinance companies based on their portfolio. If a company disbuses a specific amount then the financier shall lend direvtly to the member an amount whc is not greater that their portifolio in two installments;

(i) The CRB and software shall guarantee the available portifolio, and the finacier shall issue 50% of the poftifolio directly to the microfinance account. The portifilio financing shall be a loan repayable in the loan agreement.

(ii) After ful disbursement of the initial fifty percent the finacila shall disbuss an additional 50% of the agreed portifolio. The second installment shall not be disbursed oif the total portifolio is not 150% of the assessed portifilo during the first installment. That is if the initial portifolio declines the amount caan be disbursed.

(iii) If the lender increses seed capital, the fincier should still finance new seed capital on condition that the total portifilio finance is not greater than 100% of seed capital.

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SECTION 8: LOAN SERVICING

Portfolio financing shall be serviced as per loan agreement, top up as per increase in seed capital shall be declared specifically in the loan agreement.

Loan servicing by YDLP shall also be specified accordingly.

8.2 RECORDKEEPING

In addition to the above, the Loan Fund financial management records must be comprehensive and designed to provide the following information:

- a) A Register that records all deposits and disbursements to and from the Loan Fund, including funds used for the Loan Fund administration.
- b) A Loan Repayment Register that records repayments made by each business which has received loan. It also tracks the balance of repayments from all loans from the Loan Fund.
- c) A Collection Register for every loan made. Each register contains the business name, loan date, loan amount, terms, and date repayment begins. Payments are divided into principal and interest payments with a declining principal balance
- d) A documentation file should be established and maintained by the Program Administrator for each loan recipient and contain the following:
 - i. Loan Application: This file contains the application documents of new or ongoing customer waiting loan approval.
 - ii. Loan Approval: this file contains all approved loans waiting disbursements. This file must contain action taken on the loan and will include recommendations and evidence of loan approval.
 - iii. Loan Closing: All legal documents, including, but not limited to debt, and security instruments, loan agreements, and other applicable documents made in accordance with loan disbursement procedures shall be contained in this file. On a case-by-case basis, Counsel shall be retained to ensure file compliance and proper documentation.

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- iv. Loan Contracts: for the documents decentralizations, all contracts shall a separate file.
- v. Other specific files depending on managers, Accounts and Program administrator's requirements shall be developed. General Information Standard loan recipient reporting and contact should be made to properly assess credit risk and any deficiencies that may exist. In all cases, one or more of the following should occur on an annual basis:
 - Financial statements prepared by a qualified accountant and submitted in a form acceptable to the Committee, business financial statements, personal financial statements, credit reports, resumes, business plan documents, and other supporting loan information submitted to KALOBE, including all applicable correspondence, shall be placed in a permanent file.
 - Letters and progress reports
 - Site visits and/or management conference calls. A summary of any visits or calls shall be logged for future reference
 - Amortization reconciliation and repayment monitoring to target unwanted credit behaviors and to assist in uncovering larger issues
 - Loan reviews shall be performed through a culmination of collecting and analyzing the above mentioned. A report summary should be completed to address the following credit topics: punctuality of payments, collateral considerations, sales growth, financial health of the business, presence of material liens or lawsuits, violations of loan covenants, and suggested corrective actions. In the event a business is experiencing difficulty complying with the terms and conditions of the loan agreement, note, or other legal contract, the Program Administrator and Local Program Contact shall attempt to work with the borrower to correct identified deficiencies through mutually agreeable actions, including restructuring the loan to

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protect the fund's interest while meeting the business' needs. In the event the findings of the loan review uncover serious deficiencies, particularly the imminent threat or occurrence of default.

- vi. The Administrator shall consult with relevant bodies like the lawyers, board, and executive committee to discuss and act on legal matters connected with the transaction at hand.
- vii. Written records of all activities, including meetings, loan applications, and related documents, shall be maintained in appropriate files by the Program Administrators. Authorized personnel shall maintain all project files in a secure, fireproof place with limited access. Certain records shall be available electronically to provide access to stakeholders.

9.0. GROWTH

Growth of the company involves the following:

- (i) Increasing capital
- (ii) Implementing previously unimplemented products
- (iii) Increasing employees
- (iv) Opening new products
- (v) Partnering with other market players

Growth starts from profit generation which assures the company of existing good customers, increasing number of customer base, ability to pay investors and ability to grow. Managers and directors are supposed to be driven by internal performance to grow unlike to be driven by the existence of cheap capital.

Growth shall start from increasing competent staff, empowering existing staff to top positions, implementing all expected products and finally opening branches. Capital sources shall include internal sources, loans and equity investments.

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