

Borrowing Money

Sometimes there are circumstances when people need more money. This could be because someone wants to invest in a new business or improve their living conditions, or it could be because extra money is needed to cover unexpected expenses such as a family emergency or because of difficult economic times. Solutions could include:

Work more hours, or get a better-paid job to create more money (but this can be difficult, especially in a recession or when jobs are scarce).

Look carefully at how money is spent, and cut existing expenditure to release money needed for the new expense (but this might not generate enough money).

Borrow money, or take out a loan (but this has to be done responsibly, or the loan could end up costing you money or leading you deeper in debt).

This Session looks at the option of borrowing money, and involves participants thinking about the reasons why people borrow money, the implications of borrowing money, and what responsible borrowing means. It also helps them to understand some basic terminology around credit.

Lesson objectives: By the end of this Session, participants will be able to:

1. Identify times when they (and adults) might borrow money.
2. Understand the implications of borrowing money.
3. Understand that there are different types of loans.
4. Understand basic terms, such as credit and interest.

Key learning

- Borrowing money is one option for obtaining income.
- Borrowing money should be done responsibly.
- Borrowing money usually comes with conditions, and there are consequences if the loan is not repaid.

Materials Needed

- Starter: Four flip-chart sheets, each headed with one of the enquiry questions from the last Session: Why did you decide to borrow money?; Where did you borrow the money/get the loan from?; How easy was it to repay the loan?; Would you borrow money again?
- Option 1: Situation cards (Figure 3.8), written on a flip-chart or read out
- Option 2: Skit cards (Figure 3.9)

Information for Facilitator

- Prepare the above materials and review the concepts before the Session.

1 Start: Borrowing Money

Method (10-15min)

1. Ask participants to work in groups of three or four to discuss what they found out (or what they know from experience) from their enquiry questions of the last Session. Ask them to write their answers on separate flip-chart paper headed with the questions:
 - Why did you decide to borrow money?
 - Where did you borrow the money/get the loan from?
 - How easy was it to repay the loan?
 - Do you have any advice about borrowing money?

2. Ask them to identify whether the answer was given by an adult or a young person. For example, in response to ‘Why did you decide to borrow money?’, they might write: To buy braiding materials for hairdressing business (young person).
3. After 5 to 10 minutes, ask the following (or similar) questions to draw some conclusions:
 - What were the main reasons that young people borrowed money, compared to adults?
 - Where were the main places that people borrowed money from?
 - Overall, did people find it easy to repay the loan?
 - What piece of advice that people gave do you think is the most useful?

2 Learn: Investigate and act

Choose one of the following two activities:

As the facilitator, you may need to explain some concepts after each statement e.g.

COLLATERAL	Something of value that is used to guarantee a loan. If the loan terms and repayment are not fulfilled, then the collateral is taken to cover the cost of the loan (i.e. the bank takes possession of your house because you did not make your loan payments).
CREDIT	<p>If your account is ‘in credit’ or you have ‘credit’ on your phone, that means there is money available to spend.</p> <p>But if you buy something ‘on credit’, it means that someone else (i.e. a bank or financial institution) has lent you the money and you must pay it back.</p>
DEFAULT	Failure to repay a loan according to the terms that were agreed when the loan was taken out.
GUARANTOR	A person who co-signs a loan and agrees to be financially responsible for it if the person who took out the loan cannot pay it back.
INTEREST	The amount of money on top of an original amount. If you borrow money, you often have to pay interest (an extra amount) on top of the money you originally borrowed. If you save money in a bank, you can often receive interest (an extra amount of money) on the money you save.
LOAN SHARK	A person or organization that offers unsecured loans at high interest rates to individuals, often enforcing repayment by blackmail or threats.
MICROFINANCE INSTITUTION	A small, usually unregulated financial institution that has fewer products compared to a bank, but those products are more flexible and usually targeted to less well-off clients (i.e. Grameen Bank).

Option 1: Borrowing wisely

Method (25-30min)

Step 1: Identifying characteristics of borrowed money (15 minutes)

1. Read out the statements below. For each statement, ask the participants to indicate whether they think it is true or false by moving to the right side of the classroom if they think it is true, and to the left if they think it is false.
2. Read aloud some practice statements first, e.g.
 - Today is (insert the correct day of the week) TRUE
 - The walls in this classroom are (insert the wrong color) FALSE
3. Now, read the statements below, and when participants have moved to the right or left, ask a volunteer who answered correctly to explain her/his answer.
4. Ask if they have any questions and answer them to clarify any issues. After each discussion, give participants time to reposition themselves in the line before reading the next true/false statement. You can decide to use all of the statements below or only a few. Use the statements most relevant to your group, or create new ones.

True/False Statements:

- The money from a loan belongs to the person who borrows it. FALSE
- A loan can help you start a business when you don't have enough of your own money. TRUE
- If you borrow money from a friend, you do not have to repay it. FALSE
- If you miss a loan payment, you won't face any consequences as long as you eventually pay up. FALSE
- Using borrowed money is usually more expensive than using your own money. TRUE (because of the interest)
- Only banks charge interest on loans. FALSE
- Credit can mean both money available to spend, and someone else's money you have to pay back. TRUE
- Borrowing from a loan shark is a cheap option. FALSE

Step 2: Good and Bad Loans (15 minutes)

NOTE: Copy the situations found on Figure 3.8 on separate sheets of flip-chart paper prior to the start of the Session, and cover them up.

1. Start off by explaining that borrowing money can be a positive experience as it can help participants start or expand a business; it can help them respond to an emergency in their family; and it can help them improve their living conditions sooner rather than later. When a loan helps them in these ways, it is usually a good loan. But taking a loan always carries the risk of not being able to repay. So when the loan ends up costing them money or forcing them to go deeper into debt or default, it is a 'bad loan'.
2. Instruct participants to listen to the following different situations in which someone takes a loan, and ask them to decide if each one is a good or a bad loan. If they think it is good, they need to move to the right side of the classroom. If they think it is bad, they should move to the left side
3. Ask the participants to find a partner and form a line in the center of the room. Reveal each situation on the flip-chart paper only as you read it. After revealing each situation, allow participants to discuss it and then make their move.
4. Ask a volunteer to explain his/her decision on each situation. You can write down notes next to each of the situation sheets to highlight the Session it contains.
 - After reading all the situations, ask the participants:
5. To make sure that your loan will be a good loan that really helps you, what should you know before deciding to borrow?
6. Write down their responses on a new sheet of flip-chart paper. Make sure the following points regarding what they need to know before borrowing money are covered/discussed:
 - The amount of the loan payment, including interest.
 - How they will be able to repay the loan e.g. the sources of income or savings they have to make the loan repayments.
 - When they will actually get the loan money. Will they receive the money before they need it or after?
 - If they are using the loan money to buy a tool or piece of equipment, will the object outlive the loan and continue earning them money?

- Can they charge a price for the goods they have financed with a loan that is high enough to both repay the loan and have some money left over?

Option 2: Different types of loans (Role Play)

Method (25-30min)

1. Explain that the participants are going to present and observe three short skits, each of which shows a different type of lending. They need to try to figure out how each situation is different from the others, and learn some new terminology such as 'collateral', 'guarantor', 'interest', 'loan term', 'micro credit', and 'microfinance'. (Put these words on a flip-chart if you think it would be helpful.)
2. Divide the participants into three groups. Give each group one of three skit cards, as detailed in the Facts & Resources sheets 3.9.
3. Explain that their task is to prepare a skit based on the script, which they will act out in front of the rest of the group. They can use the script exactly as written, or they can adapt it by adding in names for the characters, or changing the income-generating activity to something they know. Each group must choose a narrator who will introduce the skit and lead the discussion afterwards, using the questions provided for each one. Assure the participants that you will be there to help if necessary.
5. Give the groups ten minutes to develop and practice their skit. When they are ready, ask each group, one by one, to present its skit to everyone.
6. After all three skits have been presented, inform the participants that they have just seen how three different sources of loans can work. The first type is a loan from a friend, the second is a loan from a bank, and the third is a loan from a microfinance institution.

Guide questions and notes

What are the key differences of these various loans? (Answers should include the following:

- The loan from a friend is more casual and does not include interest or collateral, but it might put stress on the relationship. The loan from a bank is bigger, more formal and more appropriate for an established business, but such loans often require collateral and are not flexible.
- The loan from the microfinance institution seems like middle ground between the other two. There are requirements for joining a group such as saving and co-guaranteeing group members, but the whole process seems friendlier and more suited to people who don't have a lot of money. However, this method can also put stress on relationships, and the peer pressure may result in making choices that are not in each person's best interest.

Which loan would be most appealing to you if you needed to borrow money? Why?

3 Reflect

Method (10-15 min)

1. Reflect with the participants what has been explored in this Session i.e. why people borrow money, the advantages and disadvantages of borrowing money, different kinds of loans, and some basic terms relating to loans.
2. Ask participants to spend two or three minutes thinking about:
 - The most important thing they have learnt.
 - How they will use this new learning in their own life.

NOTE: They can write their thoughts down or talk quietly with a partner if they prefer.
3. Ask for volunteers to share their thoughts with the rest of the group.

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Enquiry Questions for the next Session

Encourage participants to follow the news and observe their community to identify three examples of inequality in money, power or rights in preparation for the next Session: Money, Power and Rights.

Figure 3.8
Situation cards

Situation 1

- Mary borrows \$20 to buy vegetables that she will sell in her village. By the end of the week, she sold all of her vegetables for a total of \$30. Now, she has \$20 to buy more vegetables, \$5 for her loan payment and \$5 for her expenses and savings.

Situation 2

- Magdalena has applied for a loan to make souvenir t-shirts to sell at the school carnival. But when the loan is finally approved, she doesn't have enough time to silk screen the t-shirts before the festival.

Situation 3

- Alicia borrowed \$200 for a refrigerator for her snack stand. She is able to stock more items, especially cold drinks, and is now earning \$20 more each month. Most of that income is used to repay the loan, but a year from now, when she has finished paying the loan, she will still have the refrigerator.

Situation 4

- Sara borrowed \$50 to purchase hats in bulk at a lower price. But after she sold all the hats to students at her school, she still owed \$10 on the loan.

Situation 5

- John the baker borrows money for a used mixing machine that allows him to increase his bread production. But by the time he has paid off the loan, the machine has broken down.

Figure 3.9A
Skit cards

Skit 1

Moderator: We have the pleasure of presenting you with the following conversation between and (insert names).

Friend 1: Hey, can I borrow \$20 from you? I want to buy some concert tickets now that I will sell for a profit outside the gate on the night of the concert.

Friend 2: Well, that depends on when you think you can pay it back.

Friend 1: I promise to repay you in one week, by next Saturday. If I don't sell all the tickets for a profit, I'll get the money from my dad who is coming home from his job at the mine for the weekend.

Friend 2: Okay, then. \$20 it is. But I need the money back by Saturday. The two friends shake hands!!

Moderator: Applaud for the actors!

Ask:

- Who are the people in this skit? What is their relationship? (They are two friends)
- Does the person who is loaning the money charge interest? (No, he does not say anything about charging interest on this loan.)
- Is there something of value backing up this loan? (There is no formal collateral.)
- What is the loan term? How long does the borrower have to repay the loan? (The borrower has one week to repay the loan.)

Figure 3.9B
Skit cards

Skit 2

Note to actors: Use the labels “banker” and “customer” to attach to yourselves to make it clear to the audience who you are.

Moderator: I have the pleasure of presenting to you the following scene at (insert name of bank).

Banker: How can I help you today?

Customer: I would like to apply for a loan.

Banker: Oh? What kind of loan? We have several kinds.

Customer: I just need some money to buy supplies for my kiosk. What kind of loan is that?

Banker: That would be a working capital loan. Usually our working capital loans start at \$5,000. Do you have something valuable that you can offer to back up the loan, as collateral?

Customer: Um, I have a bicycle.

Banker: Hmm, in that case, you will need someone to co-sign the loan with you, someone who agrees to repay the loan if you cannot. This person is called a guarantor. Both of you must complete this loan application and pay a fee of \$10 to apply. The fee is non-refundable. The application provides all the information about interest, loan term and late fees. Bring your completed applications to the loan office during office hours on Monday and Thursdays.

Moderator: Put your hands together for the actors!

Ask:

- What does the bank require of the borrower? (A completed application and a \$10 fee.)
- Why do you think that the banker is not willing to accept the borrower’s bicycle as collateral? (The bicycle is probably not worth the value of the loan.)
- What does he require instead? (Someone to guarantee the loan, a guarantor.)
- How is applying for a loan in a bank different from lending between friends? (It is more formal with more requirements; the borrower must have collateral or a guarantor; the loans are much bigger than the amounts friends would normally lend to each other.)

Figure 3.9C
Skit cards

Skit 3

Moderator: We are very pleased to present a very eye-opening conversation between and (insert the names of two friends).

Friend 1: Hey Carmen, I want to ask you something. I need to buy tools to start my bicycle repair business but I don't have enough money. How did you get the money to start selling jeans?

Friend 2: Oh, that's easy. I joined a group that borrows money from a microfinance organisation called Business Now. Members can get small loans to start a business. You repay a little bit every week, so it's not too hard. And, you don't need collateral.

Friend 1: Sounds too good to be true! How do I join?

Friend 2: Well, first you should know that there are some rules. You have to join a group, come to our weekly meeting, and save before you can borrow. Business Now does charge interest on its loans. And you have to agree to guarantee the loans of the other group members. If someone fails to pay, the others have to cover for her.

Friend 1: Well, I wouldn't like doing that, but I guess it's a good replacement for collateral, which I don't have anyway. How do I join?

Friend 2: Come to our next meeting and I'll introduce you to the other members. We might need a new member when the next round of loans begins.

Moderator: Applause for the actors!

Ask:

- What does Business Now require from borrowers? (That they form a group, save, meet weekly, and repay the loan with interest.)
- How is it different from the conversation between the two friends?(It is more complicated and involves more conditions for the loan.)
- How is this situation different from the bank? (No collateral, small loans are available, borrowers form groups.)
- Does this loan seem easier to get than a loan from a bank? Why? (No collateral, loans are small and easier to repay, application process is simple.)