

What is this document about?

- Becoming familiar with credit, the terms of loans, interest, and how credit can be used in business **helps people make more informed financial decisions.**
- While **increased access to finance/credit brings about many opportunities for better financial inclusion and access to productive assets**, it may also increase the risk of households falling into a **debt trap**.

Key messages to convey

- **Credit** means **someone loans/lends you money** – for example, a [formal financial service provider](#) or through informal credit – such as from family and people from the community. **Credit allows you to access items you need to grow your business.**
 - Borrowing money from someone/an institution or buying things on credit is called a **loan**.
 - Borrowing money is usually only possible for a **certain period of time. After this, the debt must be repaid.**
 - Most loans must be secured with **collateral**. Collateral is something you own (e.g. a piece of land, a house, a car, livestock) and which the lender can take if you fail to pay back the loan/debt.
- **Debt** is the **amount you owe/borrowed** and must pay back with **interest** and all fees. **Debt management** is about making sure that **you can repay what you owe in full.**
 - **Interest** is the **cost of borrowing** someone else's money. **The higher the percentage (or rate), the more money you need** to buy something on credit.
- **The main advantage of using credit** is that it lets you buy something – a piece of land, livestock, equipment for business – **without having to pay for it all at once**. You should always **make the money you borrowed productive** (i.e. income-generating/productive assets) to be able to pay your loan.

Before borrowing money..

- ... **make sure you understand who the lender (e.g. bank) is and how they will use your data.** *This is particularly important for online lenders, who may be scammers or misuse personal data.*
- ... ensure the lender explains the **terms of the loan**:
 - Interest rate and fees
 - Repayment period and frequency
 - Payment amounts and due dates
 - Total repayment [*amount you borrowed + interest + any other fees/charges*]
 - Penalty fees
 - Special conditions
- It is the responsibility of the lender/bank to inform you. If they do not, ask for it.
- **Read the documents carefully.** You may ask **someone you trust** to support you.



Only borrow if you fully understand the terms and conditions!



Additional resources for trainers:

Here are more resources explaining how credit can help grow businesses. Have a look at this [video](#) and these existing resources to develop your training content:

- **[Her Business, Her Future](#)** by Strategic Impact Advisors
- **[Financial Playbook to build people's confidence on credit](#)** by IDEO
- **[Toolkit: Using Digital Solutions to Address Barriers to Female Entrepreneurship](#)** developed by the World Bank

Use stories to explain over-indebtedness:

Note to trainer: The aim of the stories is to explain the importance of debt management. They can either be acted out (by facilitators or participants) or simply read out loud depending on what's feasible. You may change the name of the character to suit your cultural context.

Farida's Story – Debt with traders/merchants

Farida is a mother of two, living in a refugee camp. She gets food assistance from WFP and in-kind support from UNHCR every month. Sometimes, she earns money by doing cash-for-work activities or making traditional incense to sell. One day, Farida's youngest child got sick. She sold some of her food assistance at the market to buy medicine. The medicine worked, but now she didn't have enough food.

She asked a local trader for food on credit, promising to repay him with her next food assistance. The trader agreed but charged 10% interest. Farida had no choice but to accept.

The next month, she repaid the trader, but paying the interest left her with less food than before. Soon, she ran out again and had to borrow more food. Each time, she paid back with interest and ended up with less food. Farida found herself stuck, unable to get ahead and feed her family properly.

Yasmina's Story – Debt with microfinance organisation

Khadija and Yasmina are good friends living in a rural village. They both farm small plots of land, but each year their harvest gets smaller. Khadija decides to borrow money from a microfinance organization to start a business selling home-cooked meals. Yasmina encourages her and agrees it's a great idea. Khadija gets the loan by using her farming tools and some savings as collateral. Her business does well, and she keeps up with her repayments. Soon, she even saves enough to buy a TV. Yasmina and her children often visit Khadija's house to watch TV.

Over time, Yasmina wants a TV of her own. She decides to take a loan from the same microfinance institution, using her gold wedding ring—the only memory of her late husband—as collateral.

Yasmina buys the TV, but when the loan officer comes for repayment, she has no money because her harvest was poor. The officer tells her the microfinance institution will keep her gold ring since she cannot repay the loan.

Prompting questions: What was the story about? What are your personal ways to avoid over-indebtedness? What tips would you give others? *Give a few participants a chance to share their thoughts.*

KEY THINGS TO REMEMBER:

- ✓ **It is easy to get into debt but hard to get out.** If you borrow money, plan carefully how you will use your loan and how you will pay it back – and stick to your plans and **do not rush into borrowing**.
- ✓ **Debt is costly.** When payments are missed, the loan costs grow even higher. Loan fees on late payments can increase the amount of money you owe and can lead to **over-indebtedness**.
- ✓ Always use borrowed money for the purpose you borrowed it. **Avoid borrowing to pay off another debt.**
- ✓ **Don't borrow because others are borrowing.** It is not wise to take a loan just because other people around you are doing so. Ask yourself if you really need the loan. Mostly, it is better to save than to take a loan. **Take a loan only as a last resort.**



Click to access more useful content on [debt management from IDEO's Financial Confidence Playbook!](#)