

Opening Statement from Microfinance Ireland

Joint Oireachtas Committee on Rural and Community Development

Meeting on October 3rd 2018

in relation to

Sustaining Small Rural Businesses

Hello, I am Garrett Stokes, CEO of Microfinance Ireland and am joined here today by my colleague Deirdre Parkinson, Marketing and Channels Manager in MFI. We would like to thank you for the invitation to this meeting.

Microfinance Ireland (MFI) was established in late 2012 to manage the Microenterprise Loan Fund Scheme, set up by the Government under the Action Plan for Jobs. It is a not-for-profit lender and a registered Charity.

The objective of the Scheme, as outlined in the Act, is ***to promote economic development and to increase employment and enterprise, by providing loans to newly established or growing micro enterprises across all business sectors, with commercially viable proposals, that do not meet the conventional risk appetite applied by commercial banks.....***

.....Fill the gap in lending supply but not intended to replace any current bank lending.

The purpose of the Fund is to provide loans of €2,000 up to €25,000 to micro-enterprises, be they sole traders, limited companies or partnerships, who cannot obtain funding from traditional sources. Each borrower must be creating or sustaining a minimum of one full-time job.

Essentially, MFI is mandated to underwrite loans at a risk beyond that of commercial lenders. The loans are unsecured, at an affordable fixed interest rate, and not priced for risk. This overall proposition is unique in the marketplace.

All applicants are given a full and fair credit assessment and where appropriate, applications are approved. Our objective is that applicants do not take on unsustainable levels of debt.

Recognising the market we aim to serve, our loan offering is simple and transparent. We provide loans for up to five years at a fixed rate of interest for working capital or investment purposes. Repayments are generally fixed throughout the period to provide certainty for our borrowers. There are no fees or charges. Applicants may request interest only periods or seasonal repayments where the circumstances of their business require.

In addition to lending, MFI provides mentoring services to its borrowers. This is an important support in helping our borrowers develop their business acumen and supports the sustainability of their businesses. The mentoring services are delivered through the Local Enterprise Office Network.

Helping to sustain Small Rural Businesses

Ireland's economy is built on a foundation of entrepreneurship and micro-enterprises. There are approximately 220,000 micro-enterprises in Ireland, representing 90%+ of all SMEs in Ireland. These small businesses are the lifeblood of the economy and without these businesses many local communities would not survive.

These micro businesses tend to be small indigenous enterprises, with little or no export potential but they are essential to their local community and economy. They bring services to local communities, create jobs and play a major role in rural sustainment and renewal.

Unfortunately many of these businesses struggle to meet the normal credit criteria of banks as they are financially weak or are burdened with legacy debt, with poor credit history, lack security and financial history, or have other social or demographical issues impacting their loan assessment. This is particularly true for start-ups.

Without state supports many of these businesses would not exist and their communities would decline.

The rationale for the Government's investment in the Microenterprise Loan Fund has always been that of job creation and sustainment across all areas of the country and across all industry sectors. MFI continues to fill this mandate, lending to all industry types, across every county with a particular emphasis on more vulnerable groups including migrants, females, youth, unemployed and more mature entrepreneurs.

79% of all loan approvals by Microfinance Ireland are outside of Dublin. We have a strong focus on supporting new and existing rural businesses.

Delivery Model and Marketing

MFI, as a not-for-profit lender, is very dependent on a range of financial supports and partners to fulfil its objectives.

To date, the business has spent €8.3m of State funding, provided through the Department of Business, Enterprise and Innovation, in running the business and absorbing bad debts. The commercial banks have committed €15m of funding for on-lending to our Applicants all of which will be drawdown before 2018 year-end. EIF has provided risk sharing guarantees for up to €50m lending of which approximately half has been utilised to date.

While we are a small team based in Dublin, through our business model we have a 'presence' in all areas of the country. We have a team of over 30 External Loan Assessors located right across Ireland who meet with our potential loan applicants. We also have very strong partnerships with the 31 Local Enterprise Offices (LEOs), the 49 Local Development companies or area partnerships (LDCs), who assist businesses apply to us. Microfinance Ireland has also created a referral programme with the main commercial banks for bank loan applicants who are declined or deemed unsuitable to apply for bank finance.

Our marketing strategy is around promoting our offering and increasing brand awareness across the country. The majority of our marketing and PR is local; utilising local radio through advertising campaigns, interviews and sponsorships, local press, local marketing campaigns and attending and speaking at events right across the country. In addition, digital marketing and social media has also proved very successful in getting our message out amongst our target market.

We accept loan applications via our website or directly to our office in Dublin. Loan Applicants can work locally with the LEO or LDC to submit an application to ourselves and our loan pricing reflects this by offering a 1% interest rate discount for Loan Applicants coming through these channels.

It is important to emphasise that Microfinance Ireland is a loan provider, not a grant agency. Our application process is comprehensive and this is so that we safeguard as much as possible both the state funding provided to Microfinance Ireland and the Loan Applicant. We have to recognise that microenterprises and particularly start-ups are inherently risky. That said, it is Microfinance Ireland policy to work with borrowers if they struggle to make loan repayments. Our first priority is to maintain the borrowers' business and we offer a range of additional concessions in such circumstances. To date our loan approval rate is 45%. The level of loans actually written off is 16% - but the underlying rate is higher.

MFI has recently been approved to grant further borrowings to previous successful borrowers, which are still too financially weak to borrow from Banks. This is proving very beneficial to our customer base.

Performance of the Microenterprise Loan Fund

Over six years MFI has built very strong capability, brand awareness and in-depth knowledge of how to lend to micro-enterprises. Microfinance Ireland are the only government initiative directly lending to the "unbankable" micro-enterprise sector.

Following modest beginnings in 2013, the business has grown year on year and at this stage of the fund, MFI is currently ahead of the original job numbers objective and by the end of

the fund is forecasting to significantly beat the jobs objective. It is doing so at a cost of <€2k per job, the lowest cost of job support of any current Government initiative.

MFI will be in business 6 years in October 2018 and since inception the business has approved loans totalling €26m to 1,830 businesses and through this have helped support the creation or sustainment of 4,375 jobs

- 82% of businesses supported have 1-3 employees
- 79% of loan recipients located outside Dublin
- 57% to Sole Traders
- 56% to Start Ups

At this point, MFI is:

- Attracting over 1,000 applications a year
- Supporting in excess of the target of 770 jobs per annum
- Working collaboratively with LEOs, LDCs and Banks
- Financially supported through the Government Grant and Bank borrowings.
- In receipt of an EIF EaSI Credit Guarantee committed out to 2022.
- Certified by the EU under the European Code of Good Conduct for Microcredit Provision. MFI was one of first four microfinance organisations in Europe to receive this award, which is seen as a “quality benchmark” in Europe for the provision of microcredit.

By the end of 2022, the business is forecasting to have approved €58m in lending to in excess of 4,000 businesses, supporting the creation or sustainment of 9,000+ jobs.

MFI is currently experiencing record numbers of applications. This is being achieved against the backdrop of recent positive trends in the Irish economy; low unemployment, increasing optimism in consumer confidence coupled with a very strong culture of entrepreneurship in Ireland. Ireland however still suffers from unemployment black spots in many areas of the country and in certain demographic sectors which are not achieving the same level of improvement in employment. MFI's continued growth highlights the ongoing need for microfinance support for 'unbankable' promoters and propositions, particularly start-ups, irrespective of the economic cycle.

While MFI's model is unique in Ireland, across Europe and indeed globally, microfinance is a well-established business model and seen as a key element of the funding ecosystem. When benchmarked against similar institutions in Europe, MFI is performing well.

Thank you.