

Microfinance Ireland's submission and supporting information
to the Joint Oireachtas Committee on Rural and Community Development
Meeting on October 3rd 2018 in relation to:
"Sustaining Small Rural Businesses"

Background to Microfinance Ireland

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 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 we believe fair credit assessment) and where appropriate, loans are approved. Our objective is that applicants do not take on unsustainable levels of debt.

Recognising the market we aim to serve, our loan product 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 this.

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 c.220,000 micro-enterprises in Ireland, representing 90%+ of all SME in Ireland. These small businesses are the lifeblood of the economy and without these businesses many local communities would not survive. These businesses bring services to local communities, create jobs and play a major role in rural sustainment and renewal.

These businesses tend to be small indigenous enterprises, with little or no export potential but they are essential to their local community and economy.

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 support many of these businesses would not exist and their communities would decline.

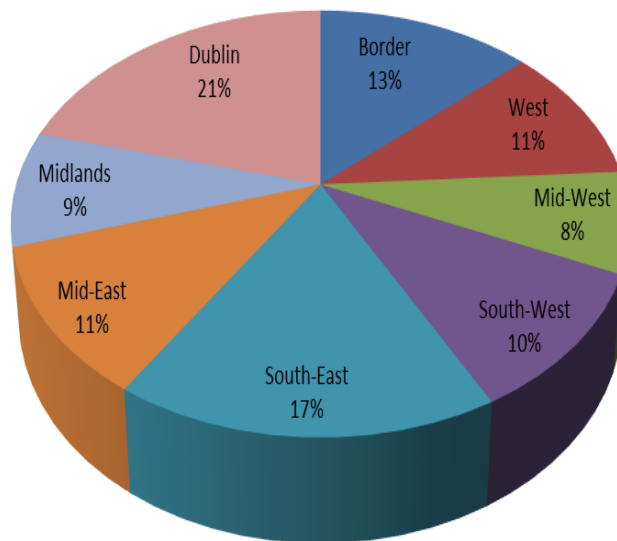
The rationale for the Government's investment in the Microenterprise Loan Fund has always been that of job creation and sustainment across all areas of the country and across all industry sectors. MFI continues to fill this mandate, lending to all industry types, in every county with a particular emphasis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

Geographical Analysis of Approval – from 1st October 2012 to 30th June 2018

Geographical Spread					
County	Received	Approved	County	Received	Approved
Dublin	885	370	Westmeath	110	47
Cork	323	143	Louth	108	37
Meath	197	78	Mayo	108	61
Galway	188	90	Donegal	101	46
Tipperary	187	83	Laois	89	37
Limerick	185	81	Longford	85	36
Wexford	155	90	Sligo	79	50
Waterford	154	69	Offaly	78	35
Kildare	139	66	Roscommon	74	37
Wicklow	137	54	Carlow	66	29
Clare	115	54	Kilkenny	66	29
Cavan	114	49	Monaghan	65	25
Kerry	111	44	Leitrim	56	30
Total Applications Received: 3,975					
Total Applications Approved: 1,770					

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

Approved Loans By Regions



Delivery Model and Marketing

MFI, as a not-for-profit lender, is very dependent on a range of financial supports and partners. To date, the business has spent €8.3m of State funding, provided through the Department of Business, Enterprise and Innovation, without which the microenterprise job creation initiative would not exist. The Commercial Banks have committed €15m of funding for on-lending to our Applicants. EIF has provided risk sharing guarantees for up to €50m lending of which approximately half has been utilised to date. Our partners include the Local Enterprise Offices, Local Development Companies and the main commercial Banks.

While we are a small team based in Dublin, through our business model we operate in all areas of the country. We have a team of 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, the 49 Local Development companies or area partnerships, who assist businesses apply to us. Microfinance Ireland has also created a referral programme with the main commercial banks.

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

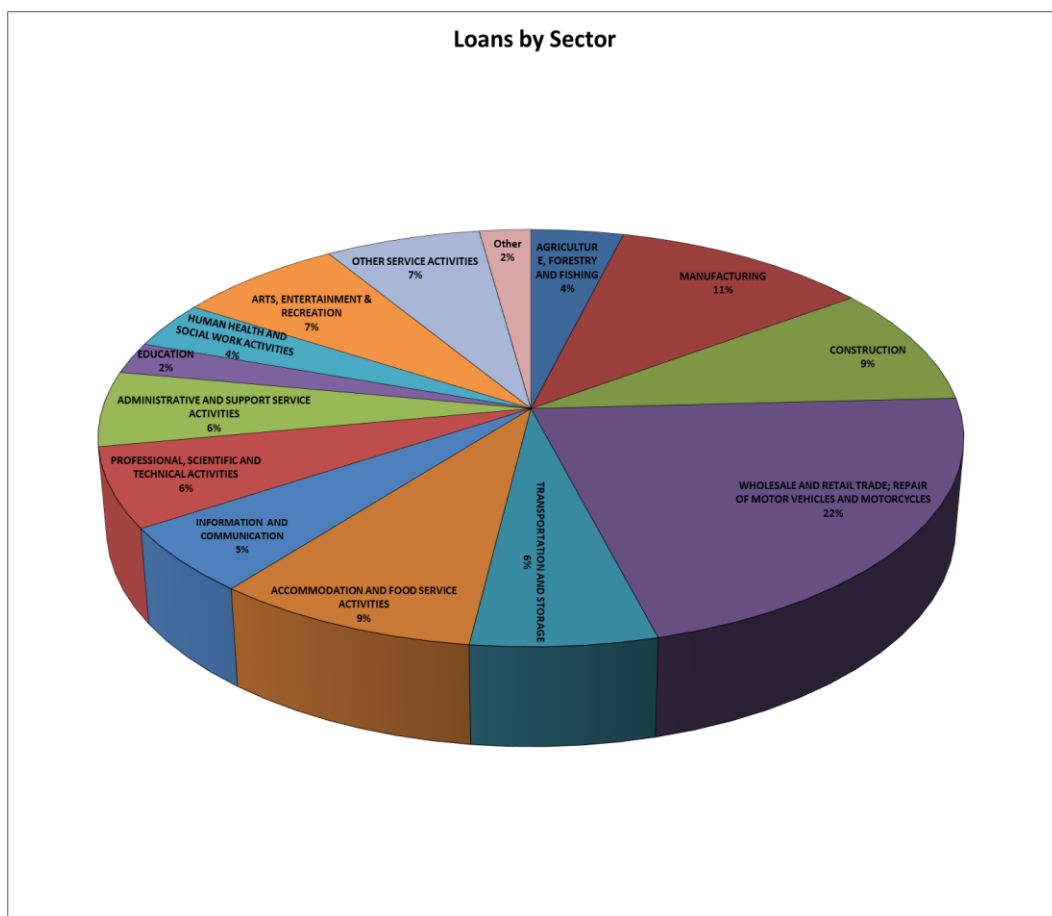
campaigns and attending and speaking at events right across the country. In addition, digital marketing and social media has also proved very successful in getting our message out amongst our target market.

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

MFI's borrowers through their vision, hard work, commitment and belief, create and retain jobs by delivering their goods and services in every city, town and village in Ireland thereby supporting communities, and enhancing the fabric of Irish society.

MFI has recently been approved to allow it 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.

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.



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, MFI has grown year on year and since 2014 has achieved and beaten the annual job targets set out in the original plan. At this stage of the fund, approximately 6 years in existence, MFI is 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. This level of job support is being achieved with a lower level of lending and associated credit risk than originally envisaged when the fund was established.

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.

Impact since inception (as at 31st August 2018)

- 4,375 jobs supported
- 1,830 businesses supported
- €26m in loans approved
- €22m drawn
- Average loan size €14k

- 82% of businesses supported have 1-3 employees
- 79% of loan recipients located outside Dublin
- 57% to Sole Traders
- 56% to Start Ups
- 30% to youth sector (<35 years of age)
- 26% to Females
- 23% to people in receipt of the ‘Back to Work’ scheme
- 19% to non-Irish passport holders
- 14% to older adults

MFI is projecting achievement of its 2017-2022 Strategic Plan with an ongoing growth rate in projected applications of 10% per annum and, by the end of 2022, will have approved €58m in lending to in excess of 4,000 businesses helping the creation or sustainment of 9,000+ jobs. This is based on the simple but compelling premise that despite a buoyant economy and a recovery in the dysfunctional banking market, there will always be promoters and propositions that will be 'unbankable', particularly microenterprises and start-ups.

MFI's continued growth 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 versus the rest of Europe. Ireland however still suffers from unemployment black spots in many areas of the country and in certain demographic sectors such as youth, women, migrants and older adults which are not achieving the same level of improvement in employment.

Credit demand and supply dynamics have changed significantly over the last 6 years.

In what is now a strong economic environment and despite more positive credit supply trends the demand for MFI loans continues to increase with MFI experiencing record numbers of applications. This highlights the ongoing need for microfinance support for 'unbankable' propositions, irrespective of the economic cycle and the excellent work MFI is doing in supporting jobs across Ireland.

As MFI's target market is small businesses that cannot get access to funding from Banks, its increasing demand is driven by the number of loans sought by micro-enterprises that do not meet the standard lending criteria of banks and other commercial lending providers.

While MFI's model is unique in Ireland, across Europe and globally microfinance is a well-established business model and seen as a key element of the funding ecosystem. See EaSI Mic PRO map <https://webgate.ec.europa.eu/easi-micpro/application#>.

When benchmarked against similar institutions in Europe, MFI is performing well.

MFI Capability

There is now a well-established team (13 people) in MFI, with a senior team in place with a proven track record for over 2 years, who have demonstrated strong capability across all facets of the business and the microfinance marketplace. This capability has been created through the appropriate restructuring of the business over the last numbers of years, the appointment of skilled specialists and most importantly the experience gained in operating in this challenging niche market.

All aspects of the business are strong and performing well. The business has also been strengthened with some key business imperatives achieved:

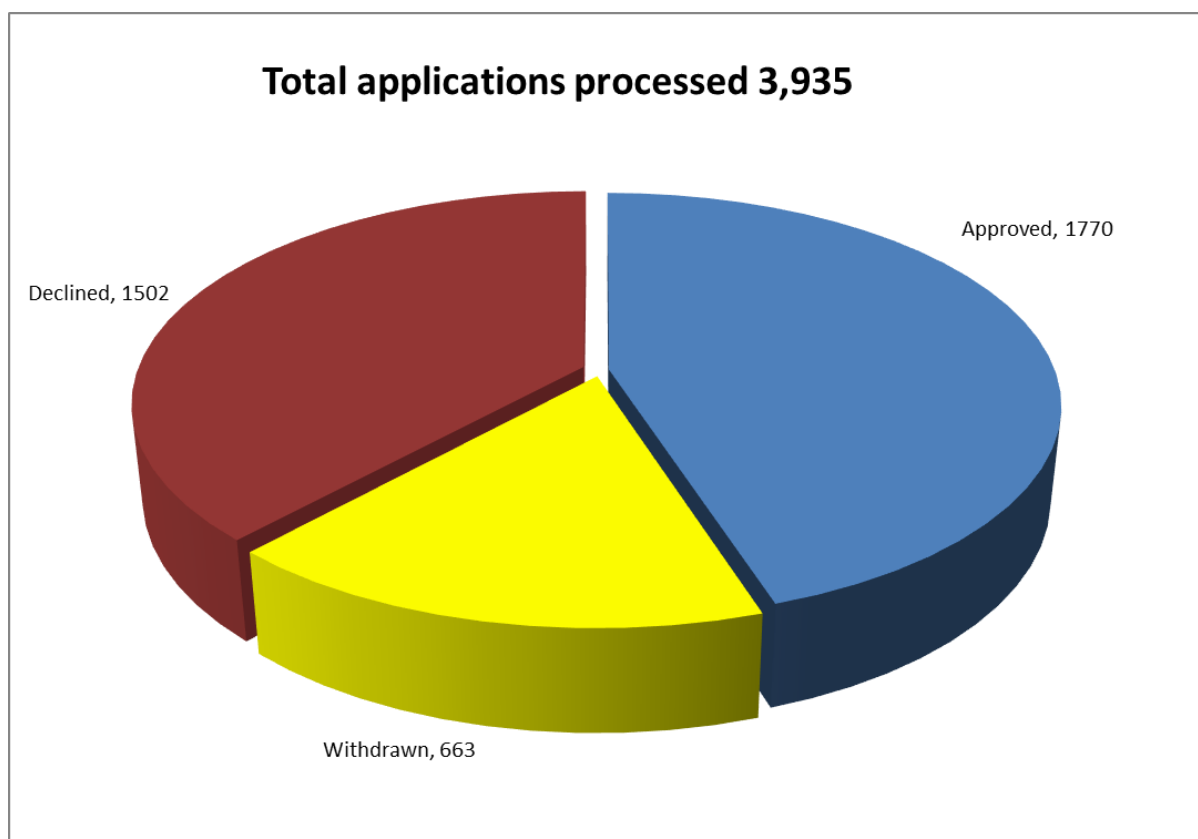
- The second tranche of €10m by DBEI/Government received in January 2017 to sustain operations for up to 5 years.
- In March 2017, MFI was awarded with compliance of the European Code of Good Conduct for Microcredit Provision (one of first four microfinance organisations in

Europe to receive the award) and seen as a “quality benchmark” in Europe for the provision of microcredit).

- In December 2107, the European Investment Fund (EIF) signed a second agreement with Microfinance Ireland (MFI) under the European Commission's [EU Programme for Employment and Social Innovation](#) (EaSI) following the first one signed in 2015. As a result of the EU support, the EaSI Guarantee provided by the EIF will enable MFI to support an additional €30 million in loans to micro-borrowers including migrants and entrepreneurs over the next five years. (This is the third such support from the EIF, each guarantee being increased in value and term).
- Final €5m of bank borrowings available to be drawn down to the end of 2018.

Appendix: Further MIS (as at June 2018)

Application Volumes



Approvals by Size of Borrower

Loans were approved to micro-enterprises with the following number of jobs at time of approval

Number of Employees	Approved Loans October 2012 – June 30 th 2018	Percentage
1	909	51%
2-3	547	31%
4-5	166	9%
6-9	148	9%
Total number of Loans	1,770	

Approvals by Loan Size

From 1st October 2012 to 30th June 2018, loans were granted in the following size ranges.

Size Band	Approved Loans October 2012-June 30 th 2018	Percentage
< €5,000	431	24.3%
€5,000 - €10,000	327	18.5%
€10,000 – €15,000	297	16.8%
€15,000 - €20,000	193	10.9%
€20,000 - €25,000	522	29.5%
Total	1,770	
Average Loan Size	€ 14.4k	

Brand Awareness

Enterprise Ireland	87%
Local Enterprise Offices	74%
The Credit Review Office	50%
Microfinance Ireland	39%
Supporting SMEs Online Tool	31%
Strategic Banking Corporation of Ireland (SBCI)	29%

Awareness Trend

Sept '13	Sept '14	Sept '15	Sept'16	Sept'17	Mar'18
25%	23%	30%	32%	39%	Not included

Source: DOF SME Credit Demand Surveys

ISME members awareness of Microfinance Ireland as at June 2018 was 52%

Borrower's legal status

- 633 Microfinance loans were granted to Private Limited Companies
- 1,002 Sole Traders were granted a microfinance loan
- 135 Microfinance loans were granted to Partnerships

Demographical Analysis as at 30th June 2018

Start-Up/Existing

Of the 1,770 loans approved, 990 were start-up enterprises (<18 months) and 780 to existing enterprises.

Gender Breakdown

Of the total applications received 75% (2,983) were from male promoters and 25% (992) from female promoters. Of the loans approved as at 30th June 2018, 74% (1,314) were to male promoters while 26% (456) were to female promoters.

Youths (defined as 18-25 years old)

There were 46 loans approved to young entrepreneurs comprising 3% of all the applications approved to date.

Approved Applications	Numbers	Value €
Total Approved	1,770	25.415M
Start-Up (<18 months)	990	
Existing	780	
No. of Ltd. Co.	633	
No. of Sole Traders	1,002	
No. of Partnerships	135	
Female	456	
Male	1,314	
Youth (18-25 years old)	46	