


Aspire – Microloans for Business

Operational and Funding Lessons for Microfinance in the UK

April 2006



This briefing shares the achievements, challenges and lessons learned by Aspire Microloans for Business, a pioneer of community development finance in the UK. Established in Belfast in 1999, Aspire aimed to encourage entrepreneurship and self-employment and tackle financial exclusion and underinvestment, particularly in communities emerging from conflict and economic decline. This summary looks at the experience of Aspire as a stand-alone microfinance organisation and draws lessons and recommendations for the community development finance sector and its supporters.

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Aspire Microloans for Business: the context

Aspire pioneered microlending to the self-employed and micro-enterprises and showed that it was possible to provide and manage micro-loans, enabling them to establish and grow their businesses in an often difficult economic environment. However it faced considerable challenges in maintaining a reliable base of funding which made it increasingly difficult to operate as a stand alone institution. Aspire’s Board considered a number of options for continuing its work and in late 2005 accepted a proposal from Enterprise Northern Ireland (ENI) to take over Aspire with the commitment to continue its microenterprise lending for at least the next two years. Aspire’s work continues through this new arrangement.

Overview

Aspire’s mission was ‘to provide permanent access to finance for the self-employed and microentrepreneurs who are excluded from access to financial services.’ Specialising in the provision of small loans of up to £15,000 to the self-employed and microenterprises with an average loan size of around £2,000, in its five years of operation, Aspire disbursed over £1.5 million to more than 400 clients. The majority of these loans went to ‘neighbourhood’ businesses (e.g. hairdressers, taxi drivers, green grocers) located in socially and economically disadvantaged communities who were either unwilling or unable to access mainstream bank finance.

Aspire has demonstrated considerable success in:

- creating organisational structures, systems and procedures which enabled Aspire to analyse information, learn and adapt practices, for example client appraisal
- effective risk management through credit procedures, reporting, management accounts and audits resulting in relatively strong portfolio quality and an ability to react to challenges as they arose; loans in arrears were followed up quickly, payment discipline was maintained and rescheduling borrowers was rare
- developing IT systems which were pioneering in the sector and which are now used by other UK CDFIs
- outreach to the community, proving that utilising best practice techniques, innovative approaches to marketing and monitoring of effective strategies works with small loan sizes and marginalised communities
- investing in its staff, resulting in a lean, highly competent team with a strong sense of mission and identification with the organisation.

Learning the lessons

The microlending methodology works

Aspire brought to the UK a distinctive lending methodology requiring competencies in business assessment, cash flow analysis, character analysis, brokering loan terms and conditions, supporting clients, managing repayments, and recovering defaults. This methodology enabled the organisation to lend to many clients who would otherwise have been excluded from the mainstream banking sector and led to a high level of customer satisfaction.

Low-income entrepreneurs do repay loans

Aspire demonstrated that low-income entrepreneurs who may not appear creditworthy from a commercial bank perspective are willing and able to repay loans. However, ensuring repayment requires a close client relationship and regular follow-ups, making the quality and capacity of staff key. Dips in Aspire’s loan collection rate coincided with external funding pressures outside its control, when the organisation lost staff and could not maintain strict delinquency management procedures.

Microloans have an impact on business development

Aspire has demonstrated that access to very small loans, averaging around £2,000, can have a significant impact on micro businesses, helping to support business growth, including increases in turnover, profitability and employment, as well as boosting clients’ confidence and self-esteem.

The market size for microenterprise lending is smaller than anticipated

Despite an effective marketing strategy, Aspire typically got at best 40 enquiries a month of which, on average, five were converted into loans. The original target market of 13,400 customers was over estimated. It turned out to be between 3,900 to 4,600 potential customers. This made reaching sustainability far more challenging.

Stand alone microenterprise lending cannot achieve self-sufficiency

Both practitioners and funders should recognise that full operational self-sufficiency is not a realistic expectation. In the developed economies of the US and Europe, experience suggests that rates of 30 percent operational self-sufficiency should be considered good performance for programmes with around 100-200 clients, and 60-

80 percent considered a maximum target for stand alone microenterprise lending. Factors including the smaller than anticipated market and significant interruptions in funding meant that Aspire was only able to generate sufficient income from its lending to cover ten percent of its costs.

Expectations about self-sufficiency between funders and practitioners should be shared

The original business plan for Aspire anticipated that it would achieve operational self-sufficiency. However, the true size of the market and of the support required by borrowers made this unlikely. This should have been shared earlier with funders who, in turn, should have taken account of this through their support.

Interruptions in funding can have a major impact on a CDFI's growth and performance

Aspire experienced some significant interruptions in funding which led to staff redundancies, lack of continuity with clients, low staff morale, higher arrears, and lost momentum. Funders need to recognise that interrupted funding can have a major impact on a small organisation, especially during its early years.

Recommendations for CDFIs

Be realistic in tracking performance

Take a proactive, realistic approach to tracking performance and progress towards sustainability. Establishing goals, critical analysis of trends and ratios, and monitoring performance to plan is crucial for the CDFI sector at this stage of development. Management and boards of CDFIs should calculate the extent to which earnings from its business model currently cover costs and whether changes in its market, products, pricing, staff efficiency and arrears could lead to greater self-sufficiency.

Recognise the need for support

Aspire's experience shows that not all CDFIs will be self-sufficient, yet their outreach and impact are significant on employment and the local economy. Methods for timely, transparent and inexpensive social and economic impact evaluations need to be developed.

Develop realistic targets

Investment in effective market analysis and an awareness of how performance can vary can help CDFIs develop more effective and responsive business models, in turn enabling them to develop realistic expectations of likely performance with stakeholders, including funders.

Explore different options

If the CDFI's business model is not sustainable other options will need to be explored, such as developing new products, entering new markets or even merging organisations. This requires proper planning, including a careful analysis of demand, risks, increased expenses, required training, ability to assess risk, and the contribution to the bottom line.

Recommendations for funders

Be business-like

Funders and CDFIs should have a business-like relationship, with agreed expectations and shared risks. CDFIs need engaged funders which see themselves as long-term 'investors.'

Be patient

Take a patient, long-term approach to funding that rewards institutional performance and with criteria that changes as the organisation grows.

Be realistic

Structure funding around realistic performance targets and monitor organisational performance. Be realistic about the levels of financial self-sufficiency microlending operations can achieve. Monitor performance in terms of financial as well as impact indicators, but separate the two.

CDFIs

Community development finance institutions (CDFIs) are specialist enterprises that contribute to wider community development by delivering financial services to excluded groups. They are driven by a mission to achieve positive social change and bring wealth to disadvantaged communities.

The sector has grown significantly since 2000.

Microfinance

Microfinance refers to the provision of financial services to low-income clients and their businesses (or microenterprises). Often these clients have no access to 'traditional' banking services. Financial services generally include savings and credit. Some microfinance organisations also provide insurance and payment services.

"Aspire's experience highlights that not all CDFIs will be self-sufficient, yet their outreach and impact are significant and worthy of support."

The 'unbanked' in the UK

Although the UK has one of the most developed financial systems in the world, an estimated 1.9 million households are unbanked and have no access to even the most basic financial services. The unbanked tend to be concentrated among low-income communities.

Providing access to financial services, such as credit, is thought to improve the economic well-being of clients by increasing incomes, creating jobs, building assets and transforming communities into vibrant, thriving local economies.

This study was carried out by ShoreBank International UK Ltd and Sarah Forster and was jointly sponsored by the Community Development Finance Association (cdfa) and Esmée Fairbairn Foundation. The cdfa is the trade association for Community Development Finance Institutions (CDFIs).

A copy of the full report is available from:

www.esmeefairbairn.org.uk

www.cdfa.org.uk

Recommendations for Community Development Finance Association (cdfa)

Inform funders

Many funders and policy makers know little about community development finance and the role it can play. It is therefore important to educate them about community development finance and the time and resources needed to build a successful CDFI.

Understand the markets

Microfinance organisations have demonstrated that they can reach entrepreneurs that banks and other programmes do not reach. The cdfa can help funders understand the benefits of what a CDFI is aiming to achieve and encourage a shared sense of purpose and understanding of the market.

Establish realistic performance targets

Performance targets should focus on long-term organisational development and achievable levels of scale and sustainability. The most meaningful reporting is on the performance of the institution as a whole, rather than how specific funds are used. The development of a performance framework of indicators and benchmarks for the CDFI sector would be a useful tool for funders and managers alike.

Conclusion

Community development finance is at an early stage of development in the UK, and Aspire was one of the pioneers. Its experience suggests that the sector is now entering a new era of product and organisational innovation and developing new business models. Practitioners and funders need to engage as partners in this process seeking ways of building on the achievements and best practices of organisations such as Aspire. CDFIs have already made important progress in tackling financial exclusion. However, only with the continued engagement and commitment of public, private and charitable sectors will CDFIs be able to thrive and effectively contribute to the overall goal of ensuring access to financial services for all.



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