Microfinance Ireland

Category of Good Practice: MFI & Bank Partnership

Good Practice's title:

A working relationship - Microfinance Ireland and the Banks in Ireland

Main objective:
The main objective of Microfinance Ireland is to lend money at an affordable price, while not competing directly with the Banks, to create and sustain jobs in the microenterprise sector. Applications are considered from all industry sectors for applicants with commercially viable proposals that do not meet the conventional risk criteria applied by commercial banks.

Key words:
Partnership, Banks, borrowing from banks, co-financing projects,

Type of organization: not-for-profit lender
Country: Ireland
Year of inception of the good practice: 2012
Services and products provided: micro business loan
Portfolio (€):9,383,116
Avg loan size (€): 15,400
# of clients: 611
Website: http://microfinanceireland.ie

Address:

Jefferson House, Eglinton Road, Donnybrook, Dublin 4
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Institutional profile:
Microfinance Ireland (MFI), as a not-for-profit lender, was established in 2012 to deliver the Government's Microenterprise Loan Fund. Microfinance Ireland wants to make it easier for businesses to start up, expand, succeed and create jobs.

Microfinance Ireland helps by providing unsecured business loans of € 2,000 to € 25,000 for commercially viable proposals that have been declined bank credit.

Mission of the organization:
Microfinance Ireland strives to promote economic development and to increase employment and enterprise, including facilitating social inclusion, to newly established and growing enterprises across all industry sectors with commercially viable proposals.

Governance structure:
Microfinance Ireland has a voluntary Board made up of nine independent Directors. Maintaining high standards of corporate governance is a priority of the Board. As a result, the Board has established two risk sub committees to oversee risk management - the Audit and Risk Committee and the Credit Committee.

Good Practice

Introduction:
Microfinance Ireland has three ongoing voluntary partnerships with the three major banks in Ireland - Bank of Ireland, Allied Irish Banks and Ulster Bank. Like Microfinance Ireland, all 3 banks operate on a national basis.

Microfinance Ireland borrows loan funds on a commercial basis from all 3 banks. The loan funds received are being used to assist Microfinance Ireland with the funding of its loan book and operations. Co-funding occurs when the bank or its customers approach Microfinance Ireland to provide funding alongside bank funds in cases where the bank is unable to provide the full funding amount.

Target group and accessibility:
Microfinance Ireland lends to start-up or existing microenterprises with the support of an EIF Guarantee.

Innovativeness:
Microfinance Ireland operates as part of an integrated national approach by Government backed microenterprise support provided by various agencies and structures.

MFIs work in partnership with a national network of Local Enterprise Offices (LEOs) amongst others to target the delivery of funds at start-up or growing microenterprises. The LEO Branch network provides outreach through its offices across Ireland. The LEO's provide application support to prospective clients as well as mentoring and advice post approval.

Microfinance Ireland also operates a direct channel strategy by advertising online, print and through local radio.

Relevance given the context:

Microfinance Ireland has 'additionality' at its core. All loans are to businesses that cannot meet the credit criteria set down by commercial banks. Given the balance of approvals emanating from rural locations, Microfinance Ireland is convinced that it has made a major impact on the enterprise and economic fabric of rural Ireland.

Adaptability to other contexts:
The Microfinance Ireland operating model is an integrated national service model for microenterprises which leverages existing national and EU investment/initiatives and can be transferrable to other countries. The Model was specifically developed to help Microfinance Ireland achieve sustainability through the ongoing support of its key Stakeholders – the Irish Government who supplies funding for the operating expenses of Microfinance Ireland, some support for bad debts and provides a national distribution capability, - the Parent Company (SFF) who borrows funds from the Commercial Banks in Ireland and onlends to Microfinance Ireland at breakeven cost, - the EIF who supports the initiative and makes it possible to provide affordable loan pricing and good availability of funds to higher risk projects/business sponsors thus maximising the overall social impact – and the Commercial banks who provide a referral source to Microfinance Ireland for declined microloan propositions/ sponsors.

Efficiency:
The overriding principle in cost management and control within Microfinance Ireland is to create/sustain jobs at a good value for the Irish State. From the outset, the target agreed with Government was €2,500 per job. This target is being achieved.

Outcomes:
As of 30th June 2015, Microfinance Ireland had approved loan facilities totalling €9,383,116 to 611 microenterprise businesses supporting 1,356 jobs. The MFI has done this through the successful development of 3 specific loan products based on partnerships with the Banks, LEO's and other organizations.

Sustainability:
The essential components of Microfinance Ireland's long term sustainability are (i) the continued financial support from the key stakeholders (equity/grant aid from the Irish State, loan funding from the banks and credit risk sharing from the European Investment Fund) and (ii) the ability to adjust underwriting activities to ensure objectives are being achieved without threatening long term sustainability. Regular reviews are undertaken by all stakeholders.

In practice: Specific description of a success story:
One of the major banks approached the MFI on behalf of a customer with a start-up business. The bank had a long standing relationship with the customer and was supportive of the business but could only support €10,000 of the €20,000 funding needed. The local Branch Manager contacted the MFI with the customer's permission and discussed the business in full. The MFI loan was approved in tandem with the bank loan with the Bank agreeing to match the MFI approval to ensure repayments remained affordable.
The customer received the full amount of funding needed for the business on an affordable basis and maintained a strong banking relationship throughout. Through the Local Enterprise Office network, the MFI was also able to provide additional mentoring to support this business through its application and initial set-up phase.

Further readings:

There's a variety of case studies on the Microfinance Ireland website www.microfinanceireland.ie and on the YouTube channel https://www.youtube.com/user/microfinanceireland.