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Microloans: Help for the really small business

Credit unions give those with few assets a chance at financial success, TAVIA GRANT writes

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Five years ago, Marcia Francis was a single mother who, despite holding two jobs, struggled at times to pay for groceries.

With a spotty credit history, few assets and four children to support between the ages of seven and 19, life was a struggle.

"It was very difficult to make ends meet; sometimes even providing the basics was hard," says Ms. Francis, 44.

Today, she is the founder and owner of a Toronto health-care services company that generated \$500,000 in sales last year and employs about 50 people. Her business, Freedom Support Services, is expanding into other Southern Ontario markets, offering at-home care for seniors and people with chronic illnesses and disabilities.

Her company flourished with an initial \$5,000 credit union loan and financial advice that Ms. Francis says she couldn't have found at any of Canada's big banks.

"It's changed my life -- it's easier to take care of my children and I'm so happy to give other people, especially newcomers, an opportunity to work," says Ms. Francis, originally from Jamaica and now a Canadian citizen.

While many people are familiar with the success of "microcredit" programs in the developing world, financial services for disadvantaged people have quietly gained traction across Canada. As a result, lower-income people, including many newcomers, are joining the ranks of the self-employed.

But it remains a little-publicized facet of economic development in Canada, nor has it garnered much political interest outside Quebec -- despite one in 13 families living on low incomes, according to Statistics Canada. Indeed, the federal Liberal Party cut funding in some Ontario programs last year.

Unlike small business loans, microfinance offers credit to people with no collateral and, often, a spotty credit history. Some may be newly divorced with no assets; others are immigrants who haven't had a chance to build their credit history; most are on social assistance. While interest rates tend to be higher than for a typical personal loan, they can be half that of a credit card.

The economic benefits cut a wide swath. Many recipients leave social assistance and some go on to buy houses, pay taxes, develop job skills, send their kids to university and employ others.

In Saint John, for example, a city with the highest poverty rate in the Maritimes, recipients of a small community loan generated about \$600,000 for the local economy. The province, which contributed \$20,000 to the fund, saved \$165,000 in social assistance payments.

"Microenterprise widens the business sector from the bottom up," says Roger Wehrell, a professor at St. Francis Xavier University in Antigonish, N.S., who researched microenterprises in Atlantic Canada. "It also gives people exposure to business and business practices who would never have ordinarily had it. They learn by doing."

Nonetheless, Prof. Wehrell says a lack of funding reflects little interest in Canada in small-scale, income-developing activities.

While the number of U.S. microenterprise programs quintupled over the past decade, in Canada it's not even tracked.

Here's how it works. Loan candidates, mostly employment insurance recipients, minorities, women or the working poor, are screened by a loan officer or community review committee, who may recommend more training or a stronger business plan. Those approved typically receive a starter loan of \$5,000 or less. While some models use peer lending, where groups of borrowers guarantee each other's borrowing, many loans are given on the basis of character and viability of a business plan, rather than collateral.

While most programs still require funds to keep running, microfinance may, in the longer term, be a wise move for financial institutions. **Alterna Savings**, the credit union that extended Ms. Francis a loan, spends about \$30,000 a year to run its program -- an investment that chief executive officer Gary Seveny says is coming back in spades.

Ms. Francis, for example, now has her RRSPs, business and personal accounts with the credit union and also plans to switch her mortgage there. "That's where my loyalty lies," she says. "I'm always sending other people to that bank."

Since the inception of its program, almost two-thirds of Alterna's microloan recipients have remained with the credit union.

The Vancouver City Savings Credit Union, meantime, is expanding its microfinance program. Its services now range from encouraging "microsavings" of as little as \$5 a month for lower-income clients, or those emerging from drug-abuse problems, to peer lending.

VanCity aims to double its small-loan recipients to up to 400 people in the next few years, a level at which it will be financially self-sustainable, says Shaheen Tejani, program manager at VanCity's community business division. The program's repayment rate now stands at 96.5 per cent.

That's not to say such programs are easy to run. They're time consuming and labour intensive. No one believes they will be money makers, in and of themselves.

Indeed, one of the biggest barriers to thriving microfinance programs is that, unlike Bangladesh or Mexico for example, Canada does not have large, concentrated numbers of poor people. Finding and continuing to support them over widespread areas is costly.

So much so, what was once the biggest provider of microcredit loans in Canada -- non-profit group Calmeadow -- has stopped operating here, partly because it was never self-sufficient.

"We just had the most difficult time creating any kind of program that could be without ongoing charitable contributions of significant amounts," amid high costs, difficulty finding enough people and the need to keep lending rates reasonable, says Martin Connell, Calmeadow's former CEO and now co-owner of Ace Bakery in Toronto.

Mr. Connell now focuses on microfinance in developing countries.

Mr. Severy believes his firm's program will be able to carry itself within the next few years. He aims to expand the Toronto program to Ottawa, saying both the customer loyalty and social good it creates will keep Alterna in the game.

The field is wide open to them. At the moment, none of the big banks offer specific microcredit programs in Canada and have no immediate plans to do so.

But while the loans may be small, the effect is large, says Ms. Tejani.

"All \$1,000 does is get you a little bit of inventory, or a piece of equipment like a sewing machine or a lawn mower. This is the kick-start factor; the rest is up to you."

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