

Institution: university of Salford
Unit of Assessment: C22 Social Work and Social Policy
Title of case study: Improving the Sustainability of Micro-financial Institutions
<p>1. Summary of the impact</p> <p>Through <u>Community Finance Solutions</u> (CFS), an award winning research and development unit of the University of Salford, which addresses financial and social exclusion, <i>Improving the Sustainability of Micro-financial Institutions</i> is focused on providing leadership in increasing the sustainability of micro-financial institutions (MFIs) that provide credit or loans to the financially excluded, demonstrating the following impact:</p> <ul style="list-style-type: none"> • Increasing access to finance for excluded groups, reducing unmanageable debt and improving the quality of life; • Supporting public authorities in developing financial inclusion policies; • Changing EU policy, developing a model of sustainability and transparency for MFIs through the European Code of Conduct for Microcredit providers.
<p>2. Underpinning research</p> <p>The key researchers and positions they held at the institution at the time of the research are as follows: Professor Karl Dayson, (from 1999), Professor of Sociology (2011), Associate Dean (Enterprise and Engagement) College of Arts and Social Science (August 2012), Director of Sociology and Criminology Directorate (January 2009) Professor Sunil Vadera (<i>submitting to UoA B11</i>) (from 1982) Head of School of Computing, Science and Engineering, Associate Dean Research and Innovation (from 2011). The impact described in this case study is underpinned by the following research:</p> <ul style="list-style-type: none"> • Context: 1999-onwards: In <i>Investing in People and Places</i>, Dayson et al. examined the effects of financial exclusion in two deprived neighbourhoods and considered possible ways to reduce it through microfinance. <i>Investing in People and Places</i> proposed a new form of microfinance institution (MFI) which would achieve sustainability through lower operational costs and greater efficiency. Dayson et al.'s research found that for one microenterprise lender it cost £8 to lend £1 and that at least 19% of MFI staff time was spent on business support and advice – an activity which decreased financial efficiency yet which should have been provided by other organisations. • 2005-2008: Lloyds TSB Operational Sustainability Research project aimed to enhance the operational and financial performance of the Community Development Financial Institution (CDFI) sector and assess the overall profitability and sustainability of the industry through an in-depth analysis of five UK CDFIs perceived to be market. Dayson et al. proposed an activity-based approach to product costing which would offer a means for MFIs to assess and improve their organisational efficiency. The proposed assessment approach was used in a study of efficiency and productivity in five MFIs in the UK, which identified ways to cut costs and increase efficiency while and making recommendations about the configuration of loan portfolios and the establishment of effective partnerships. • 2008-2011: Through two Knowledge Transfer Partnerships with East Lancashire Moneyline (IPS) Ltd., Dayson, Vadera et al. developed a web-based Credit Risk Assessment Tool to aid in the processing of loan applications. CFS has worked with East Lancashire Moneyline (IPS) Ltd., since 2002 when the centre was founded and Dayson is a board member, offering advice and on-going support and initiating the KTP with the School of Computing, Science and Engineering. The KTP, which ran in two phases from 30/9/2008 to 29/9/2010 and 29/9/10 to 5/7/11 developed a Credit Risk Evaluation tool (CRET) and a data control system for loan and savings account processing. • 2011: Dayson et al. examined and assessed policies for microfinance at national and international level in an evaluation of MFI policy under the Labour administration, asserting that the transfer of responsibility and support for MFIs from the Department of Trade and Industry to the Regional Development Agencies led to an increased focus on the support for small businesses at the expense of community development – and MFI sustainability.

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- **2005-2013:** A founder member of the European Microfinance Research Network (EMRN) (2005), Dayson led the editorial team that published the *Handbook of Microcredit in Europe*, which reviewed the experiences of 18 countries, highlighting variations in the characteristics of MFIs and their associated practices. As a result, Dayson identified the emergence of a new model for the delivery of microfinance in Europe: *Complex Interrelationship Microfinance Finance Initiatives*, leading to being commissioned to develop a model for the European Community; the *European Code of Good Conduct for Microcredit Provision*, which provides a set of standards for management, governance, risk management, reporting, and consumer and investor relations that are common to the microcredit sector in the European Union.

3. References to the research

Key outputs

1. Dayson, K. (2011) 'Access to Finance in Deprived Areas: Has the Government Lost Interest?' Pp. 123-141 *Enterprise, Deprivation and Social Exclusion: The Role of Small Business in Addressing Social and Economic Inequalities*, edited by A. Southern. New York: Routledge. ISBN 9780203817773 (REF 2)
2. Dayson, K. (2010) 'Conclusion.' Pp. 385-392 in *Handbook of Microcredit in Europe - Social Inclusion through Microenterprise Development*, edited by B. J. Carboni, M. L. Calderón, S. R. Garrido, K. Dayson and J. Kickul. Cheltenham: Edward Elgar Publishing. ISBN 9781848441941
3. Wu, J., Vadera, S., Dayson, K., Burridge, D. Clough, I. (2010) *A Comparison of Data Mining Methods in Micro Finance*. IEEE: International Conference on Information and Financial Engineering, pp. 499-502. DOI
4. Dayson, K., Paterson, B., Salt, A., Vik, P. (2008) *Lloyds TSB CDFI Operational Sustainability Research Project - Final Technical Report* (for Lloyds TSB plc). Salford: University of Salford, Community Finance Solutions. URL
5. Dayson, K., and Vik, P., Paterson, B., and Salt, A. (2008) *Making European Microfinance more Sustainable - Lessons from Britain*. European Microfinance Network 5th Annual Conference "Microfinance - a tool for growth and employment". Nice, France. URL
6. Dayson, K, and Quach, H. (2006) 'Developing an Approach to Assess the Performance of Microfinance in Europe: Experience from a UK Research Study.' *Finance and the Common Good*, 25, Summer: 62-68.
7. Dayson, K., Paterson, B., and Powell, J. (1999) *Investing in People and Places*. Salford: University of Salford, ISBN 0902896202.

Key grants:

1. **2008-2011:** A joint ESRC and EPSRC funded KTP, which ran in two phases from 30/9/2008 to 29/9/2010 (£107,372) and 29/9/2010 to 5/7/2011 (£47,200)
2. **2010:** Drafting of a Code of Good Conduct for Micro-Finance Institutions, EC (Non-Framework), £60,750.00. Principal Investigator: K Dayson (100%).
3. **2012:** EC Code Monitoring Methodology, EC (Framework), £44,273.00. Principal Investigator: K Dayson (75%). Co-Investigator: P Vik (25%).

4. Details of the impact

Increasing access to finance for excluded groups:

- Through projects funded by Lloyds TSB, Barclays Bank, Esmée Fairbairn Foundation, the Housing Corporation and European Regional Development Fund, during the early 2000s CFS helped to set up eleven MFIs in England (in Salford, Portsmouth, Blackburn, Preston, Derby, Sandwell, Blackpool, East London, Cumbria, Suffolk and Devon), each of which built in lower operational costs and greater efficiency than pre-existing models for MFIs. Nine of these are still functioning. The most successful has been the East Lancashire Moneyline (IPS) Ltd., (ELM) from Blackburn (with CFS on its Board), which grew from a single office in January 2001 to 25 branches throughout the UK in 2012, employing 50 staff.
- ELM's customers often do not have bank accounts and may have accrued unmanageable debts, partly through prior high-interest loan arrangements with money lenders. A typical customer has loans outstanding of £500, with interest standing at approximately £80 per £100. ELM is able to offer affordable finance to these more disadvantaged, marginalised and

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at-risk groups on low incomes who would not normally be able to access loans from banks. Winning the 'Responsible Lender of the Year' award in 2012, ELM made 21,000 loans in 2012 – roughly 1,750 every month, and twice the number granted in 2011 – for a total of more than £10 million. A customer at East Lancashire Moneyline: *"I don't know where I'd be without you, to be honest with you. You've been a godsend."*

- A key challenge is identifying predictors of default in what the banks would consider a 'subprime' sector. Apart from recommending simple and socially relevant decision criteria, through two KTPs, CFS developed a web-based Credit Risk Assessment Tool to aid in the processing of loan applications. Diane Burridge, Chief Financial Officer of the ELM commented that *"The research has helped us to actually have the confidence to expand into more geographical locations. We ultimately want to make the business national, and it means more people who wouldn't necessarily have had access to the service will have access to affordable finance"*. The project is the first of its kind in the sub-prime finance market.
 - Total number of loans since inception: 65045.
 - Total value of loans: £37,225,431.
 - Number of people having used the service: 25,264.
 - Total amount in savings: £3,283,159 (this is the total amount deposited since inception, not the current value on deposit).
 - With regard to the impact on defaults; write-offs as a % of gross lending have reduced from 14.3% in 2009 to 8.8% in 2013.
- *"We have significantly reduced the impact of taking on new business in new geographic locations as a result of having the risk database to support new staff in new locations as a result of the KTP."* Diane Burridge

Supporting public authorities in developing financial inclusion policies:

- Between 2008 and 2013, CFS provided advice, consultation and recommendations to financial organisations, local authorities and housing authorities dealing with the financially excluded. Funded research projects were completed for the Friends Provident Foundation (2008, and 2010), Leeds City Council (2009), Barnsley MBC (2009) and Rochdale MBC (2010). Dayson was invited to contribute to recommendations developed by Glasgow City Council's Sounding Board on Payday Lending, which will be implemented to promote financial inclusion in the city.

Changing EU policy: A model of sustainability and transparency for MFIs:

- **2010-onwards:** In 2010 CFS was approached to draft the Code of Good Conduct for Microfinance Institutions (MFIs), for and in close cooperation with the European Commission. The purpose of the Code of Good Conduct is to develop a set of expectations and standards that are common to the microfinance sector in the European Union for the benefit of customers, investors, funders, owners, regulators and partner organisations. The project consisted of an extensive review of existing codes of conduct and guidelines for MFIs in the EU and beyond, facilitation of stakeholder and expert workshops, and consultation and discussions with MFI trade bodies. The *Code of Conduct for European Microcredit Providers*, has now been adopted by the Directorate-General for Regional Policy. Research conducted at CFS is particularly reflected in the chapters on risk management, reporting standards and management information systems. The European Parliament is in the process of adopting the content of the University's European Code of Conduct for Microcredit providers as an essential requirement for future EU funding.

5. Sources to corroborate the impact

- a) Chief Financial Officer, East Lancs Moneyline
- b) ESRC – Knowledge Transfer Partnership, University of Salford-East Lancs Moneyline, Video: 'Enabling Low Cost Loans': <http://www.esrc.ac.uk/publications/videos/creating-impact.aspx?media-component=tcm:8-23530&type=video>.
- c) European Commission, Directorate-General for Regional Policy (2011) *Code of Conduct for European Microcredit Providers*: http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=6978
- d) European Microfinance Network, 'Benchmarking and Performance Measurement':

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- http://www.european-microfinance.org/performance-measurement_en.php.
- e) European Microfinance Network, *Le Prix de la Recherche du Microcrédit Européen 2008 - Fondation Nantik Lum*. (Prize awarded to Karl Dayson and Pal Vik.): <http://www.european-microfinance.org/research-awards.php>.
- f) European Microfinance Network, 'Our Members': http://www.european-microfinance.org/qsn-nos-membres_en.php.
- g) Leeds City Council, 'Leeds – Financial Literacy and Financial Inclusion Strategy': http://www.local.gov.uk/web/guest/health/-/journal_content/56/10171/3510646/ARTICLE-TEMPLATE.
- h) Glasgow City Council Sounding Board on Payday Lending, report <http://www.glasgow.gov.uk/councillorsandcommittees/viewSelectedDocument.asp?c=e%97%9Di%8Ep%7D%89>