

**Supply of Loans to Borrowers Through a Micro-Credit Fund
A Survey of Four Ontario Programmes**

A Study prepared for the Black Creek Community Micro-Credit Programme

By Ali Maksoud

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In consultation with Professor Brenda Spotton Visano, York University

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Micro-Credit or Micro-Finance is a growing trend in financial services to provide small loans to individuals and groups who are unable or unwilling access to such services through commercial financial institutions. An objective of any micro-credit programme is to enhance the social and economic welfare of borrowers by assisting them in their self employment endeavours through placing more emphasis on borrowers' human capital rather than their credit worthiness. Micro-credit programmes may be seen as more effective than government subsidies in terms of creating employment since most of the clientele of micro-credit programmes borrow to establish or augment self employment¹.

1.0 Scope of the Research

This survey of four micro-credit programmes will examine the supply side of micro-credit programme. The will examine the supply sources, types and conditions of funds to a micro-credit programme and how the programme can supply loans from to borrowers.

This survey complements the previous two reports done by (a) Subbiah and Dua (2007) who identified key characteristics of micro-credit programme, types of micro-credit programmes and the advantages and disadvantage of their structures; and (b) Low and Yip (2008) who identified the demand for micro-credit in the Black Creek Community.

1.1 Report Outline

The Black Creek Community operates in the Toronto area where its community shares many social, cultural and financial characteristics with other clientele of micro-credit programmes in major cities of Ontario. The analysis of the four selected programmes will be useful, we hope, in assisting the Black Creek Community in establishing their micro-credit programme.

This report may further assist the Black Community in establishing their micro-credit programme by offering examples and analysis of the following characteristics:

- 1 Funding sources and types such as government grants, private donations and private investments, and the general conditions of funding agreements.
- 2 Administration of loan programme through partnership with a credit union or a bank to provide loans and support the programme.
- 3 Lending process such as eligibility criteria, screening of borrowers, and structure loans in terms of size of loans, duration, pricing of interest rates and risk factors.

2.0 Research Methodology

The research included a survey to gather information about the funding, lending process and loan structure through:

- Survey of four existing micro-credit programmes in Ontario to understand their operating procedures and how they advance loans to borrowers.

¹ Jonathan Morduch, (December 1999). The Microfinance Promise, *Journal of Economic Literature*, Volume 37, No. 4.

- Survey of three supporters to these existing programmes to understand their level of support to micro-credit programmes and the support agreements to cooperate with a micro-credit programme.
- Review of academic research papers and articles.

3.0 Programmes Surveyed^{2 3}

The following micro-credit programmes were selected because of their leading roles in their communities and sharing common characteristics with the Black Creek Community:

1. Access Riverdale Community Loan Fund in the Greater Toronto Area. This programme is self-funded by investors and donations and partners with Alterna Savings Credit Union to provide loans to individual borrowers.
2. Stepping Stone Program in the Greater Sudbury Area. This programme is funded by FedNor (an Industry Canada company) and partners with Sudbury Credit Union to provide loans to individual borrowers (with some group requirements).
3. Ottawa Community Loan Fund in the Greater Ottawa Area. This programme is funded by many government agencies and private donors and partners with Alterna Savings Credit Union and Ottawa Women's Credit Union to provide loans individual borrowers.
4. Alterna Community Economic Development in Ontario. This Programme is funded by Alterna Savings Credit Union and provides loans to individual borrowers.

4.0 Survey of Micro-Credit Programmes' Supporters and Fund Providers⁴

The following organizations were selected to survey because of their support to micro-credit programmes surveyed:

- a) Alterna Savings Credit Union.
- b) The Ontario Trillium Foundation.
- c) The Community Economic Development Technical Assistance Program (CEDTAP).

4.0 Survey Objectives

The survey of these micro-credit programmes currently operating in metropolitan areas of Ontario to gather information about:

- a) Funding sources; such as donations, grants or investment in the programme.
- b) Funding agreement between the programme and the fund providers; such as organisation status and accountability
- c) Management of the Programme Funds; such as management of cash reserves.
- d) Lending structure and who provides loans to borrowers

² I have elected to survey programmes operating in areas of Ontario due to the shared characteristics with the Black Creek Community. However, there are other successful micro-credit programmes operating in Canada such as The Saint John Community Loan Fund (Loan Fund) which has been operating since 1999 in Saint John, New Brunswick.

³ Appendix I

⁴ Appendix II

- e) Eligibility and screening of borrowers; such as business experience and training required, review of business documents and credit history checks.
- f) Partner financial institution support; such as borrowers' credit history checks, issue of loans and collections of payments.
- g) Support conditions of the partner financial institution; such as percentage of bad debt covered by the programme.
- h) Loan Amount and terms, such as the maximum amount for the first or second loans and the amortisation period.
- i) Loan pricing and fees; such interest rates and are they pre negotiated between the programme and the partner credit union or negotiated individually between the borrowers and the partner credit union and types and amount of fees the programme charges.
- j) Programme capacity; such as how many borrowers took loans during the first year, current number of borrowers and outstanding portfolio.
- k) Facilitating payments to borrowers; such as reduced payment or deferred payment or extension of terms.
- l) Bad Debt and collections; such as what is the programme's bad debt ratio and how the programme handles delinquent accounts.

5.0 Survey Results

The credit programme surveyed share many similarities in their operations, screening of borrowers, lending structure, relationship with a local credit union, as reflected in the survey results.

5.1 Programme Funding:

The funding sources are mainly (a) government grants; (b) donations; (c): investors who receive a rate of return.

Programme	Government Grants	Private Donations	Investors	Self Funding
Access Riverdale ⁵		YES	YES	
Ottawa Community Loan Fund ⁶	YES	YES		
Stepping Stone ⁷	YES			
Alterna Community Economic Development ⁸				YES

5.2 Funding Agreement:

5.2.1. Organisation Structure⁹

Grants from The Community Economic Development Technical Assistance Program (CEDTAP) and The Ontario Trillium Foundation are only made to charitable or not for profit organisations or public entities.

In all cases, grants by The Ontario Trillium Foundation or CEDTAP are only to provide support to organizations and not micro loans or grants to individuals.

5.2.2. Pre-Study

- The Ontario Trillium Foundation and CEDTAP both require a pre-study about the impact of the funded project on the community (social, economic, cultural, .etc)

⁵ The Access Riverdale programme is fully self-funded by private donations and investors who invest in the programme in exchange for a rate of return of 2.0%.

⁶ The Ottawa Community Loan fund is funded by large number of private, federal and provincial and municipal agencies. Funds were provided as donations or grants from The Ontario Trillium Foundation, the Community Foundation of Ottawa's Strategic Impact Grants Program, the City of Ottawa, KPMG, Business Development Bank of Canada and The Community Economic Development Technical Assistance Program (CEDTAP) to mention a few. Presently the only fund providers are The City of Ottawa, Community Foundation of Ottawa, United Way Ottawa and The Co-operators.

⁷ The Stepping Stone funding was through a single grant from FEDNOR, an Industry Canada company.

⁸ Alterna Community Economic Development is self funded through the parent company Alterna Credit Union and Alterna Bank

⁹ The Ottawa Loan Community Fund is registered as a non profit organization, and has deliberately avoided registering as a charity in order to not be restricted their clients.

5.2.3. Utilisation of Grant Monies

- The Ontario Trillium Foundation and CEDTAP granting conditions may specify how funds can be used: for example the grant can only be used to cover operational cost such as purchase of assets and should not be used to cover losses or bad debt.
- The Ontario Trillium Foundation may reserve the right to do spot checks or audits.

5.2.4. Accountability

The Ontario Trillium Foundation requires:

- Annual or periodic report about how the grant monies were dispersed.
- Periodic report about the progress of funded projects and what were the funded project exceptions versus actual results.
- Post-study about what were the expectations versus final achievement.

The CEDTAP accountability process includes a verification that the results of the funded programme as much as what was committed in the grant proposal. For example, CEDTAP will not release the final grant payment until the deliverable (a feasibility plan, etc) that was agreed upon was delivered to the agreed conditions. As well, CEDTAP has conducted more detailed analysis of "results" through various initiatives (evaluation studies, impact assessments, etc).

5.3 Management of the Programme Funds:

5.3.1 Division of Programme Assets

Data were not available about how the programme inflows are divided between bad debt, operating expenses and cash reserves.

5.3.2. Management of Cash reserves:

- The Ottawa Community Loan Fund invests its cash reserves through an investment company.
- The Stepping Stone deposits its reserves in a term deposit with the local credit union.
- No data were available for the other programmes.

5.4 Lending Structure:

5.4.1. Borrowers

All the programmes reviewed provide loans to individuals; peer lending was considered to be unsuitable for a host of reasons^{10 11}.

5.4.2. Loan Fund

All the programmes surveyed (except for Alterna Community Economic Development) do not have large pool of fund to issue loans to borrowers, but they use their assets (1) as a guarantee to leverage the credit union funds to issue loans; and (2) to cover bad debt. The loans are issued through a local credit union from funds owned by that credit union. (For Alterna Community Economic Development, the loans are issued through Alterna Savings Credit Union from its own funds).

Programme	Lending Structure	Partnership with Credit Union
Access Riverdale	Lends to Individuals Only	Alterna Savings
Ottawa Community Loan Fund	Lends to Individuals Only ¹²	Alterna Savings
Stepping Stone ¹³	Lends to Individuals (see note below)	Sudbury Credit Union
Alterna Community Economic Development	Lends to Individuals Only	The programme is owned by Alterna Savings

¹⁰ The programmes surveyed cater to many new immigrants or individuals receiving social assistance or unemployment insurance, many of them may not be a part of any social network and may find it difficult to form a group and willing to take loans and start a business.

¹¹ The Stepping Stone Programme faces a decline in the number of loans issued due to lack of individuals willing to form groups and take loans to start businesses.

¹² The Ottawa Community Loan Fund indicated that they will do peer lending if there is interest, and they also funds "social enterprises"

¹³ The Stepping Stone requires the formation of a group who attends a 12 sessions training, after which the group members qualify to receive loans. The group members collectively review and approve the loans for each of the group members before loans are issued to each member individually. The group members do not share any common liability and may all receive loans at the same time, if they wish to do so. The Stepping Stone Programme participation is declining as some individuals find it difficult to form a group willing acquired training the training sessions and start a business.

5.5 Eligibility and Screening of borrowers:

The screening process permits strategic management of the programme by providing information about credit risk and by offering the directors/managers the opportunity to select business projects and borrowers that fall under the programme charter.

The process has three steps:

- Checking if the borrower meets the programme's lending criteria.
- Reviewing the borrower's business project proposal.
- Checking the borrower's credit history (final step to be done by the partner credit union).

5.5.1 Types of businesses Funded and Related Lending Conditions

In first step the programme reviews the borrower's eligibility and his/her business experience or training before moving forward to the other steps (i.e. verifying the viability of the funded project and doing a credit history check).

The Ottawa Community Loan Fund distinguishes itself from other programmes by offering loans to improve the professional skills of new immigrants ("*Internationally Trained Talents*"), such as doctors, nurses or teachers acquiring Canadian professional designations. Theirs loans are also available to non professionals (such as truck drivers). This job specific training is also accessible to Canadian citizens who are not newcomers as well.

Programme Clienteles	Start Up/New Business	Established Business	Business Related Training Required	Others
Access Riverdale	NO	Borrowers must have an established full time business for two or more years	NO	
Ottawa Community Loan Fund ¹⁴	YES Ex. Canadian Youth business Foundation	YES	Business related training is Preferred	Offers loans to internationally professionals acquiring Canadian designation or non professionals acquiring job skills training.
Stepping Stone ¹⁵	About 80% of the Stepping Stone borrowers are start-up businesses.	YES	Borrowers must attend a mandatory business training (12 seminars) to prepare them to start a business.	
Alternia Community Economic Development ¹⁶	YES	Max 5 years only. Established business with more than 5 years are not eligible	Borrowers must attend a mandatory business training seminar to prepare them to start a business.	Accepts borrowers that are receiving unemployment insurance or social welfare

¹⁴ Ottawa Community Loan Fund's lending criteria encompasses borrowers from small businesses, loans to youth to start business, loans to acquire training or professional certifications (such as immigrants acquiring professional designations as teachers, nurses or doctors).

¹⁵ The Stepping Stone does not require any business experience. However the programme requires that borrowers attend a mandatory 12 session training seminar to prepare them to start a business. About 80% of the Stepping Stone borrowers are start-up businesses.

¹⁶ Alternia Community Economic Development accepts borrowers that are receiving unemployment insurance or social welfare provided that they attend a pre-requisite business training seminars to prepare themselves to start up a business. The programme does not accept any borrowers with five years or more established business experience, or borrowers with annual income of \$30,000 or more as its focus is to assist start up businesses only.

5.5.2 Reviewing the Borrower's Business Documents and Conducting a Credit History Check

In the second step the programme reviews the business documents and the viability of the proposed project. If both satisfy the programme eligibility criteria, the borrower may approach the partner credit union to have his/her credit history checked then he/she can receive a loan.

Programme	Credit History Check (Done By Credit Union) ¹⁷	Review of Business Plans and financials	Business Documents Required ¹⁸
Access Riverdale ¹⁹	YES	YES	YES
Ottawa Community Loan Fund	YES	YES	YES
Stepping Stone ²⁰	NO		A business plan is required only if a second loan is issued
Alternia Community Economic Development	YES	YES	YES

5.6 Financial Institution Support:

The partner credit union provides support to the micro-credit programme and its borrowers in the form of:

- Checking the credit history of borrowers (except for The Stepping Stone);
- Reviewing of borrower's business records and providing input regarding the viability projects funded (except for The Stepping Stone)²¹;
- Advancing loans; and
- Collecting payments.

The borrowers' interaction with the local credit union issuing the loan increases the borrower's access to different financial services offered by the credit union and permits the borrower the opportunity to establish or repair his/her credit history

¹⁷ The discussion with Alternia indicates that they do not report to a credit rating agency payment behaviour business borrowers as most of the loans are issued under the name of businesses and not individuals.

¹⁸ Examples of Business Documents Required: (1) Business Plans; (2) Tax Assessment; (3) Financial Records (such as financial statement, AR and AP), (3) Current and Projected Cash Flows.

¹⁹ Access Riverdale requires that borrowers have an established full time two years or more business experience. The screening criteria include a review of all business records such as tax returns, balance sheet financial statements, .etc. Furthermore, the programme requires business plans for the funded projects to ensure that such projects are viable.

²⁰The Stepping Stone does not require any credit history and Sudbury Credit Union does not conduct any credit checks to the programme clientele

²¹ Due to diverse and large amount of loans issued by For Ottawa Community Loan Fund, Alternia has provided them with a full time staff to review applications and an officer who sits on the loans review committee.

5.7 Support Conditions of a Partner Credit Union:

In all the programmes reviewed:

- The programme's role was to pre-screen applicants and act as a guarantor/co-signer on loans issued by the local credit union.
- The borrower must have an account with the credit union to get a loan.
- The partner credit union does not specify that all the programme funds are deposited with them nor advises the programme on how to invest the programmes cash reserves.

Programme	Percentage of Bad Debt (defaulted Loans) Covered by the Programme ²²	Credit Union requires a that the programme deposits reserves equal to loans
Access Riverdale	100%	NA
Ottawa Community Loan Fund ²³	80%	NO
Stepping Stone ²⁴	100%	NO
Alterna Community Economic Development		

²² The percentage of bad debt by dollar value (in case that a borrower default on a loan) that the credit union requires from the programme to cover.

²³ Currently, Alterna does not stipulate that the Ottawa Community Loan Fund deposits with them a reserve equivalent to the outstanding loans. However, when Ottawa Community Loan Fund started doing business with Ottawa Women Credit Union, this was one of the conditions to provide support, which was later replaced by a paper guarantee

²⁴ Although the Stepping Stone deposits all its funds with Sudbury Credit Union, the agreement between the two does not require that the programme deposits with the credit union a reserve equivalent to the outstanding loans.

5.8 Loan Amount and Terms:

The loan amounts and limits vary with the programme to represent a balance between the level of support to borrowers and risk tolerance.

Programme	Loan Amount ²⁵	Term	Loan Type ²⁶
Access Riverdale	First Loan up to \$5000 Second loan Up to \$10000	Range from one to three years.	Instalment
Ottawa Community Loan Fund	First, second or third loans are all up to \$15000	Range from one to five years	Instalment
Stepping Stone ²⁷	<input type="checkbox"/> First Loan up to \$1000 <input type="checkbox"/> Second loan Up to \$2000 <input type="checkbox"/> Third loan: Up to \$3000	Range from one to five years	Instalment
Alternia Community Economic Development	<input type="checkbox"/> First Loan up to \$5000 <input type="checkbox"/> Second Loan \$5000 for the revolving credit or \$10,000 for instalment loan <input type="checkbox"/> Third Loan \$15000	Range from one to five years	Instalment or Revolving ²⁸

²⁵ Most micro-credit programs charter sets limitations on the loan amount to minimize the portfolio at risk.

²⁶ To minimize risk, loans advanced from micro-credit programs are instalment loans where payment and interest are counted from the moment the loan is incepted. This allows the micro-credit programme to monitor the borrowers' credit behaviour and ensure prompt repayments.

²⁷ Rates and terms are pre-negotiated between the borrower and the Credit Union.

²⁸ Revolving loans such as lines of credit and credit cards where they offer more flexible interest and payment schemes.

5.9 Loan Pricing, Terms and Fees:

The administration fees assist the programme to cover its operating expenses or pay investors since the programme is not making any revenues or profits from the interest the credit union charges.

Programme	Rates ^{29 30}	Fees & Compensating Balance ^{31 32}
Access Riverdale	<input type="checkbox"/> Pre-negotiated between the programme and the Credit Union. <input type="checkbox"/> Approximately Prime plus 1.25%	<input type="checkbox"/> Administration fees: 4.0% of the loan amount <input type="checkbox"/> Deducted upfront
Ottawa Community Loan Fund	<input type="checkbox"/> Pre-negotiated between the programme and the Credit Union. <input type="checkbox"/> Approximately prime plus 6.0%	<input type="checkbox"/> Administration fees \$250-\$500 depending on the loan amount <input type="checkbox"/> Deducted upfront
Stepping Stone	Rates and terms are pre-negotiated between the borrower and the Credit Union.	Deposit of one payment, as "emergency fund"
Alterna Community Economic Development	Prime Plus 6.0%	<input type="checkbox"/> Administration charges: 6.0% of the loan amount <input type="checkbox"/> Deducted upfront

²⁹ All the programmes surveyed indicate that the same rates and terms are applicable to all borrowers regardless of whether they have previously borrowed from the programme or not.

³⁰ The loan interest is not shared between the credit union and the programme, i.e. all the interest revenue goes the credit union.

³¹ The fees and compensating balance all deducted upfront.

³² The Stepping stone programme does not charge any fees, however it requires that borrowers deposit one payment with the programme as an "emergency fund" to reduce the default risk.

5.9 Programme Capacity:

The programme capacity gives an indication about the funds the programme needs to raise to operate and the loss provision that the programme should set aside to cover losses in case of a default.

Programme	Time in Business	Loans Issued	Portfolio Size
Access Riverdale	Since 1998	Year 1: 15 Peak: 20 2007: 8	NA
Ottawa Community Loan Fund	Since 2000	Year 1: 8 Peak: 26 2007: 26	Year 1: \$50,000 2007: \$196,000
Stepping Stone	Since 2001	Year 1: 20 2007: 3	Year 1: \$12,000
Alternia Community Economic Development ³³		Current borrowers 122	Currently \$550,000

³³ Alternia Savings Credit Union purchased the Calmeadow Metrofund operations after they were transferred to Metro Credit Union in January 2001.

5.10 Facilitating Payment to Borrowers

All the programmes reviewed provide some sort of flexible payment support borrowers. The aim is to reduce delinquencies and pressure on borrowers during times of cash flow shortage.

Such flexible payment can be in the form of extension of term, reduced payment amount for a specified period of time, deferral of payment or payment of interest only.

Programme	Extension of Term	Deferral of Payment	Interest Payment Only	Reduction of Payments
Access Riverdale	YES			
Ottawa Community Loan Fund	YES	YES	YES	YES
Stepping Stone	YES	YES		
Alterna Community Economic Development	YES			YES

5.11 Bad Debt and Collections:

Some of the programmes surveyed did not have statistics about their bad debt; however there was a noticeable difference in bad debt between the Alterna and the Stepping Stone programmes. This may be attributed to the loan amounts and the deposit of an emergency fund (see foot note).

Programme	Bad Debt %	Delinquent Accounts Send to Collections ³⁴
Access Riverdale	NA	Yes: through Alterna Savings Credit Union
Ottawa Community Loan Fund ³⁵	NA	Yes: through Alterna Savings Credit Union or McGrath Canada (private collection agency)
Stepping Stone ^{36 37 38}	4.0%	No
Alterna Community Economic Development	9.90%	Yes: through Alterna Savings Credit Union

³⁴ Alterna Savings Credit Union does the collections for delinquent accounts for Ottawa Community Loan Fund, Access Riverdale and its Own programme

³⁵ Collections are done by either Alterna Savings Credit Union if the loan was issued by the Union or and McGrath Canada if the loan was issued directly from the Ottawa Community Loan Fund.

³⁶ For the Stepping Stone, there were only three accounts at default in seven years, one of them was due to the death of the borrower, the programme's Bad debt is 4.0%

³⁷ The programme does not do any collections for delinquent accounts. However the Stepping Stone requires from borrowers to deposit with the programme one payment as an "Emergency Fund" to be used against any losses and allows borrowers to reschedule or defer payments in case of delinquency.

³⁸ The Stepping Stone exemplifies the study done by Gomez and Santor which examined borrowers' payment behaviour for 1389 clients of Calmeadow programmes in both Nova Scotia and Toronto, Their conclusion that peer/group members have lower loss factor compared to individual loans borrowers. The premises that group member will monitor their peer more effectively or efficiently and the cost of group members monitoring each other will be lower compared with the micro-credit programme monitoring borrowers through payment behaviour or financial records. Social pressure among peers is another factor that reduces losses among peer/group lending structure as group members have collective liability of loans, hence a member who will default, will risk the entire group as they will not be able to access any future loans and this member may be stigmatized by his actions that caused economic harm to.

6.0 Previous Research:**6.1 loan Amount**

Gomez and Santor (2003) surveyed Calmeadow's³⁹ peer/group and individual lending programmes in Nova Scotia and Toronto and identified the following characteristics of group loans:

	Peer/Group Lending	Individual
Loan Amount	\$500 to \$5,000 and with a mean of \$1,031 and a median of \$1000	\$1,000 to \$15,000 and with a mean of \$3,954 and a median of \$2700
Term	6 months to 24 months	Up to a maximum of 60 months
Pricing	12% plus 6.5% upfront fees	12% plus 6.5% upfront fees
Average Payment Amount	\$95.00 per month	\$220.00 per month
Purpose of loan	Working Capital	Working Capital and Purchase of Assets

³⁹ Appendix VII

7.0 Black Creek Community Micro-Credit Programme - Structure

The Black Creek Community has decided on a direct lending structure where the programme acts as facilitator which pre-screens borrowers and introduces them to a partner bank or credit union where they can access loans and other credit services. The result is a direct relationship between a borrower and the partner financial institution which provides direct access to a wide array of financial services and resources.

In this structure the Black Creek Community Micro-Credit Programme will use its assets to guarantee loans issued by the partner financial institution to the programme borrowers. (i.e. loans to borrowers are guaranteed by the programme assets which are used as collateral for the loans issued by the financial institutions to the programme clientele)⁴⁰.

8.0 Conclusion and Recommendations

The following are points that the Black Creek Micro-Credit Programme may consider when establishing their micro-credit programme:

8.1 Funding and Support

- Registering the programme as a non for profit organisation to facilitate access to funds from different sources or partnering with an established charity/non profit organisation to gain access to this status.
- Sourcing adequate funding through government (federal, provincial and municipal) grants to support the programme loans and operational expenses and from private donations and investors to cover bad debt.
- Establishing a Partnership with a financial institution to facilitate lending process and reduce costs. Such collaboration may raise the credit profile of the programme borrowers and provide them with access the wide array of financial services.
- Creating a pool of funds to guarantee loans leveraged from the partner financial institution to the programmes borrowers. This will reduce the amount of capital needed to start the programme.

8.2 Eligibility and Screening of Borrowers

- Establishing sufficient policies and procedures such as those to govern the lending process, limits on loan amount and presence of proper screening process to ensure that the micro-credit programme borrowers have viable business experience, sound business plan, able to repay the loan within the prescribed contract conditions. This will ensure the programme sustainability and confidence of donors and financial institutions in the viability of the programme to provide funding.
- Attracting the right type of clients that fit the programme charter is critical to the programme success. This can be achieved through proper marketing approach to solicit donors and investors to fund the programme and the right type of borrowers such as micro-

⁴⁰ As a grantor, the programme assumes some or all of the risks of write-offs of loans. In such relationship, the partner financial institution may require that the Black Creek Community Micro-Credit Programme deposits funds that are equivalent to 100% (or may be less) of the loans issued or may require a paper guarantee from the programme.

entrepreneurs with sound experience and business plans and improve the clientele understanding of micro-credit programme objectives.

- Implement a two level screening process, first level done by the programme to check the eligibility of borrowers and second by the local credit union to check the credit history of borrowers or review the viability of the funded projects.
- Checking the credit history for all borrowers and if possible report payment behaviour the credit rating agencies.
- Establishing a business support/networking circles to the programme clientele to provide them with guidance on business matters⁴¹. For example Alterna Community Economic Development Programme has several social events offered to its clientele and offers an array of business services to assist their clientele in their business operations. This will provide the micro-credit programme administrators with early warning signs about the sustainability of micro-entrepreneurial projects of their clientele and whether such projects may be facing challenges that may affect the payment of the loans.

8.3 Loan Amount, Rates and Terms

- Setting a limit on the loan amount to \$5000 for the first loan and 10,000 for the second loan. (Note: The lower loan amount (\$1,500) recommended in Low and Yip (2008) was the amount suggested by the survey of the community members.)
- Negotiating reasonable rates and terms with the partner credit union to facilitate the process and reduce exposure to bad debt.

8.4 Facilitating Payments, Minimising expenses and losses

- Ideally the programme should facilitate multiple types of payments such as direct withdrawals from the clients' accounts, payment by cheques, or cash at the micro-programme office, or even partial payments. Allowing borrowers a flexible payment structure (i.e. reduction of payment amount, partial payment, deferral of payment or extension of term) will reduce delinquencies caused by revenue fluctuation of borrowers.
- Requiring a compensating balance that is deducted upfront to cover the programme expense and reduced losses.
- Sending delinquent accounts to collections.

8.5 Programme Capacity

- The programme capacity will derive the amount of donations and grants the programme will need to collect for operational purposes and amounts it needs to set aside as a loss provision
- An estimate of number of borrowers for first three years is about 45, with loans valued at approximately \$245,000
 - 10 borrowers per year x \$5,000 for the first three year = \$50,000
 - 15 borrowers for the second year (2 taking a second loan X \$10,000 and 10 taking a first time loan X \$5,000) = \$70,000

⁴¹ Cheryl Frankiewicz, (April 2001), Calmeadow Metrofund: A Canadian Experiment in Sustainable Microfinance

- 20 borrowers for the third year (5 taking a second loan X \$10,000 and 15 taking a first time loan X 5000) = \$125,000
- An estimate of bad debt is about 9.90% (based on Alterna numbers) or \$24,5000 for the first 3 years

8.6 Lending Structure

- The experience of Access Riverdale, Ottawa Community Loan Fund or the Stepping Stone indicate that loans to individual are more acceptable compared with Peer/group lending system which is more difficult to implement in metropolitan areas or in Canada. Some borrowers, especially new immigrants or ethnic groups may find it difficult to find peers to joins them in acquiring loans.

Appendix I – Micro-Credit Programmes Surveyed

Programme	Address	Telephone & Website
Ottawa Community Loan Fund	22 O'Meara Street, Causeway Work Centre, 3rd Floor Ottawa, Ontario K1Y 4N6	Tel.: (613) 594-3535 http://www.oclf.org/
Stepping Stone Program	131 Regent Street Sudbury, Ontario P3C 4C1	Tel.: (705) 670-8920 http://www.geodesudbury.org
Access Riverdale Community Loan Fund	1775 Danforth Avenue Toronto Ontario M4C 1J1	Tel. (416) 462-0496 http://www.accessriverdale.com
Alternia Savings - Community Economic Development	800 Bay Street Toronto, Ontario M5S 3A9	Tel. (416) 252-5625

Appendix II- Sources of Funding and Support

Organisation	Address	Telephone & Website
Organizations the may Provide donations or grants to funds the a micro-credit programme		
The Ontario Trillium Foundation	45 Charles Street East, 5th Floor Toronto ON , M4Y 1S2	1 (800) 263-2887 or (416) 963-4927 trillium@trilliumfoundation.org
Community Economic Development Technical Assistance Program (CEDTAP)	Carleton Centre for Community Innovation Rm. 2103, Dunton Tower Carleton University 1125 Colonel By Drive Ottawa, ON K1S 5B6	Tel. (613) 520-5792
Organizations that may support the programme in administration and advancing funds		
Alternia Savings - Community Economic Development	800 Bay Street Toronto, Ontario M5S 3A9	Tel. (416) 252-5625 https://www.alterna.ca

Appendix III- Islamic Loan⁴²

Islamic banking principles prohibit, or at least restrict, those financial contracts that include the charging and payment of interest on loans⁴³. Where the strict interpretation of Islam prohibits use of a loan contract, alternative contractual arrangements for the transfer of funds are employed. The general terms and nature of these contracts are described below.

The two main types of financial contracts used by financial institutions adhering to a strict interpretation of Islamic banking principles are (1) the equity sharing contract; and (2) the profit-loss sharing contract.

Equity Sharing Contract:

The supplier of funds in an equity sharing arrangement co-owns the funded project and consequently shares in the profits (losses) with the user of the funds. The contract specifies a term over which periodic payments from the user "buys back" full ownership of the funded project.

Profit Sharing Contract:

The supplier of the funds in a profit-sharing arrangement has claim on a pre-determined share of the profits for a fixed term.

In both cases, the supplier of funds carries a stake in the funded project and is thus sharing more of the risk with the user of the funds. One source of risk for these contracts is the variability of profits—since profits are uncertain and variable, payments to the supplier of the funds will be as well. To mitigate against the risk of revenue loss, suppliers of funds often engage in more direct monitoring of the user's management of the project. The increased risk and monitoring costs for the supplier of the funds are often passed along to the user, which translates into an increased cost to the user of the funds.

⁴² For more details, please see Rahul Dhumale and Amela Sapcanin (December, 1999) *An Application of Islamic Banking Principles to Microfinance* United Nations Development Programme, in cooperation with the Middle East and North African Region, World Bank.

⁴³ Some Islamic scholars believe that charging any interest on loaned funds is strictly prohibited by Islamic teachings; other scholars believe that charging interest on loans (or paying interest on deposits) is allowed as long as such interest charges are not relatively high and hence exploitative. The latter argument is supported by an interpretation that allows gain from the lending process when the loan is at risk. This ambiguity in the interpretation of Islam explains why some Islamic financial institutions offer loan contracts where others offer only the equity or profit/loss sharing contract.