CARE International UK Written submission

International Development Select Committee Inquiry on Jobs & Livelihoods

December 2014

Summary

This submission provides information on CARE International UK's online crowd-funded peer-to peer lending network called **Lendwithcare.org** that is providing sustainable microfinance to over 14,000 micro, small and medium-sized enterprises (MSMEs), employing roughly 20,000 people in nine developing countries.[1]

This initiative provides a solution to the challenges faced by MSMEs in accessing credit to grow their businesses by supporting microfinance institutions (MFIs) to expand their lending. It also offers a new way for members of the UK public (including those not usually inclined to support development) to engage in a direct relationship with the beneficiary. We currently have 19,000 lenders who have on average loaned £35 each. In total, we have raised almost £6 million in the last four and a half years.

Approximately 70% of the loans go to women, who are frequently bringing up their families on less than $2 a day. We have not focused on youth but we believe that approximately 10% of our borrowers are under 25 years of age. We estimate that 25% of borrowers employ temporary or permanent labour, typically 1-2 persons.

100% of the loan value goes directly to the entrepreneurs. The initiative therefore has to meet its own operational costs, which were originally supported by sponsorship from the Co-operative Group. We have also sought institutional support, including from DFID as part of the UK Aid Match scheme. However we were advised by the UK Aid Match team that the Lendwithcare model of public lending, rather than donating, does not qualify for the Aid Match system.

The provision of credit to MSMEs is not the panacea for job creation, nor is it without risk. However Lendwithcare takes great effort to ensure that all MFIs selected to take part are socially responsible. CARE's approach to Lendwithcare is based upon over 20 years of knowledge and experience of broader financial inclusion which has seen us facilitate four million savings groups across Africa. CARE believes that a savings (rather than credit) approach offers the best springboard to accessing financial services for the very poorest. However we have also learnt that as savings groups mature, and individuals wish to expand their small enterprises, members often need to borrow more money than they can share amongst themselves. CARE is therefore exploring a number of avenues to link these groups to formal banks who can then provide overdraft facilities, and it is working to link those who develop enterprises to MFIs, for access to more substantial credit based on business plans.

We believe that there is great potential to expand Lendwithcare in a number of ways: lenders in more countries; borrowers in more countries; a special focus on particular sectors, or types of borrowers. We are constrained in this expansion by the need to fund its administration costs; however we believe that for every £100,000 of operational costs, we can engage £700,000 worth of loans.

[1] Malawi, Zambia, Ecuador, Pakistan, Philippines, Cambodia, Vietnam, Togo, Benin

Background

1. CARE International is a leading humanitarian and development NGO working in over 80 countries. The economic empowerment of women is key to our approach, and we have a strong focus on financial inclusion, setting up savings groups[2] for over four million people, 75% of them women. A key way for many women to step up out of poverty is to develop their own enterprises. However, women suffer from a lack of access to the credit which they require to build successful enterprises.

2. Therefore, in 2010 CARE International UK set up "Lendwithcare", our crowd-funded peer-to-peer lending website to support entrepreneurs in many of the countries in which we work. Lendwithcare now supports over 14,000 MSMEs, by engaging online with over 19,000 lenders. We have raised almost £6 million in the last four years, with an average loan size per lender of £35. The average loan to each entrepreneur is £392. The current outstanding loan balance is £1.6 million.

3. The main sectors we support are farming, animal rearing, fishing, general shops, food production, tailoring and dressmaking, hairdressing and transport. The largest individual loans made were two for US$25,000 each for a co-operative of auto-rickshaw drivers in the Philippines.

How it works for lenders

4. Individual lenders go to the Lendwithcare.org website where they are able to view up to 50 profiles of entrepreneurs who are seeking support. An enterprise can be run by a group or by an individual.

5. Each profile explains some background to the borrower, an outline of their business plan, how much they need and when they will be able to repay. The borrower can then choose to support a particular lender, and choose the value of the loan they are willing to make (from £15 upwards) and submit their financial details online.

6. Repayment rates in Lendwithcare are extremely high: about 99% of all loans have been repaid. The few exceptions have been when the entrepreneur has died, or when typhoon Haiyan hit the Philippines, as some of the Lendwithcare entrepreneurs were badly affected. Lenders are kept informed of the repayment progress of the loan with some information on the overall progress of the enterprise

7. As repayments are made into the lender's account they can choose to re-lend to other enterprises or they can withdraw their funds. The lender does not receive any interest on the loan.

8. Lendwithcare staff keep in constant communication with the community of lenders through several channels, mainly a Facebook group, Twitter, and newsletters. Lendwithcare also holds public events and invites members of the community to give their views and give interviews. Once people start lending they tend to stay engaged and often invite other people to join, especially by way of gift vouchers. People like the fact that they can select their

[2] Our approach emphasises savings as a key step towards women's empowerment. A UN Foundation meta-analysis on programmes for women's economic empowerment identifies savings as one of the most effective approaches: see http://www.unfoundation.org/news-and-media/press-releases/2013/womens-economic-empowerment.html

entrepreneur, see where their money goes, that this is a loan and not a donation, and that it is managed in the UK.

Who are the lenders and why do they lend?

9. Research with our lenders has shown that they are predominantly female (56%), and white British, and 64% are aged between 45-65 years. Anecdotal evidence suggests that many male lenders are from a business background.

10. In 2012 we undertook research that showed 35% of lenders did not contribute to any other development charities/giving.

11. We have also found that 65% of lenders have made more than one loan. In other words they remain engaged and interested. Lenders also respond very well to other CARE appeals, for example raising the largest amount across our supporter base for the Gaza DEC appeal.

12. Lendwithcare is unusual in its approach as we ensure that 100% of the money from our online lenders is used as loans: there is no deduction by CARE for administration costs. Further, Lendwithcare does not charge any interest to our microfinance institution partners, allowing them to provide lower cost loans to the selected borrowers.

Impacts

13. Around 70% of the loans made through Lendwithcare go to women, who are frequently bringing up their families on less than $2 a day. By making credit available, we enable them to expand their assets and grow their income, providing the family with an improved diet and better access to clean water and healthcare. Some of our partners lend exclusively to women (Microloan Foundation in Malawi and Zambia), while for almost all our other partners a majority of their clients are women. The exception is Akhuwat in Pakistan, where the proportion of women is around 40%.

14. We can infer impact is positive from the high on-time repayment rate and the extremely low portfolio at risk (at 30 days) ratio, generally less than 5% and for some partners (Pakistan, Ecuador, Cambodia and Vietnam) less than 2%. The fact that levels of repayment are high generally indicates that borrowers have invested their loans well and that their businesses are generating a return that enables them to make on-time repayments.

15. We are confident that borrowers are not taking out loans elsewhere to repay Lendwithcare loans as most of our partners have access to national credit bureau data to check whether individuals could have loans elsewhere. They also check with local communities to see if informal moneylenders are active. Our evidence indicates that borrowers are not indebted elsewhere, although we cannot be absolutely sure, of course. Generally speaking, borrowers' businesses are already established (indicating that they are profitable otherwise they would have changed to something else, although you could argue they have no alternative options) and they are often seeking repeat loans to develop them further. They tend not to be first-time borrowers or loans for new businesses. We are in the process of organising a more comprehensive impact assessment by interviewing several hundred borrowers in different countries and following their progress over time.

16. It is difficult to estimate the overall impact on job creation. We now ask how many persons, beyond the borrower, are employed in the business. We can estimate that 25% of borrowers employ temporary or permanent labour, typically 1-2 persons. We do not place any particular

emphasis on youth, although of course we do provide loans to many borrowers below the age of 25, and we believe that youth comprise approximately 10% of our portfolio.

The role of microfinance institutions

17. Lendwithcare works with partner microfinance institutions to identify, support and fund suitable entrepreneurs. These MFIs are the crucial link to the entrepreneurs on the ground, allowing us to reach enterprises in remote communities. Mainstream commercial banking services are not available to our entrepreneurs due to a mixture of geographical remoteness, high charges and banks' lack of interest in businesses of this size. As well as identifying entrepreneurs, the MFI also helps to avoid any timing issues, by being able to make a loan immediately to an enterprise, rather than having to wait until a peer-to-peer lender can be found. So if the MFI is satisfied that the entrepreneur's business plan is promising and sound, they approve the proposal and provide the initial loan. The MFI then helps the entrepreneur construct their profile for Lendwithcare.org.

18. MFIs charge interest on the loans. MFIs like any other organisation have costs they must cover to stay operational. Interest charged by the MFIs is far less than the interest charged by other local providers, such as private moneylenders.

19. We have strict eligibility criteria for MFIs we work with, including:

    - charging 'fair' interest rates (or other charges)
    - solid financial performance
    - strong social development mission, which includes targeting low-income populations who are usually excluded by commercial banks
    - the other financial and non-financial services they provide.

20. After extensive desk-based research, we undertake a due diligence visit in-country to look at a partner's actual operations on the ground and we meet and speak with the organisation's staff and borrowers. During the due diligence visit, if it appears likely that we will offer the MFI a six-month pilot contract, we train them on how to manage the Lendwithcare online system. We provide them with a training manual and often follow this up through Skype and telephone calls. We also agree on the quality of financial quarterly reports.

21. Lendwithcare staff carefully review each loan our lenders are asked to support to ensure the recipient business is socially responsible, ethical and environmentally sustainable. At the same time, we proactively encourage loans that, for example, create employment opportunities for the very poor, promote sustainable agriculture, recycling, and renewable energy and energy efficiency.

22. We also monitor the MFIs. Firstly, we need to ensure that the MFIs continue to meet our eligibility criteria. We therefore request each partner to submit data on a range of financial and social indicators to us on a quarterly basis. Other criteria such as whether the organisations continue to fulfil a social development mission is more difficult to ascertain and we therefore undertake regular evaluation visits, after the first six months and at least once a year thereafter. Secondly, we need to ensure that the funds are actually used to fund those entrepreneurs identified on the website. We therefore audit funded borrowers during the field visits. Any partner that receives funding or technical assistance from CARE for microfinance activities is expected to adopt and implement a code of conduct aimed at fostering transparency and protecting its customers.

The future

23. The Lendwithcare model is very attractive to lenders as they know that 100% of their funds goes to borrowers. However this requires CARE to absorb the administrative costs, which is currently done from our unrestricted income. Up until recently we were supported in this by sponsorship from the Co-operative Group, however this has now ended. We are currently seeking other corporate partners. We have also sought institutional support, including from DFID as part of the UK Aid Match scheme. However we were advised by the UK Aid Match team that the Lendwithcare model of public lending rather than donating does not qualify for the Aid Match system.

24. This decision seems at odds with DFID's ambitions to support economic development and engage the public in support of development. This funding issue severely constrains our ability to expand.

25. There is considerable scope for expanding Lendwithcare's operations – there are many small enterprises requiring loans. And we believe that there are many more MFIs available who are likely to meet our criteria. At the moment Lendwithcare only works in nine countries, compared to the 80 countries in which CARE International works. We are planning to add Rwanda, and possibly Zimbabwe, to our portfolio in 2015, but would like to expand further.

26. CARE International currently carries out financial inclusion work in almost all of the countries where we have programmes. CARE's 131 micro and small enterprise programmes work hard to ensure that poor people around the world have access to the solid financial and business training tools they need to lift themselves out of poverty. A great deal of this work is based on Village Savings and Loan Associations (VSLAs),[3] and we are working now in a number of countries to link these to the formal financial sector, to banks and to MFIs. This already gives us access to significant numbers of MFIs, who support our group members in developing financial literacy and business planning, and whom we would like to support with lower-cost funds, potentially targeted at micro-enterprises arising from the VSLAs. A key part of this approach may need to be supporting a reduction on the interest rates the MFI charge to their borrowers for Lendwithcare loans – they could then more effectively target the very poorest borrowers.

27. We believe that there are considerable opportunities for expanding the lender community of the Lendwithcare model. For instance, we believe that it is likely to be successful in other European countries where there already exists a CARE office. As this includes Germany, France, Austria, Norway and Denmark, the scope for replicating the model is substantial. We would also like to investigate the opportunity to use a Lendwithcare model in some developing countries, such as Brazil and India.

28. However, we know that lenders find it important to link with an organisation in their own country, for reasons of language, currency, tax laws and cultural affinity. Therefore expansion would require setting up a Lendwithcare-style organisation in each of these countries.

[3] Village Savings and Loan Associations (VSLAs) were first developed by CARE in Niger in 1991. They are groups of 15 to 30 members (men and women) who form and follow their own constitution. They carry out saving and lending activities within the group. There are elected office bearers to manage activities and keep records. VSLAs operate generally for a year and then dissolve by sharing out the entire sum among the members in proportion to the individual savings of each member, before starting a new cycle. The savings of members grow on account of the interest charged and penalties for rule violations.