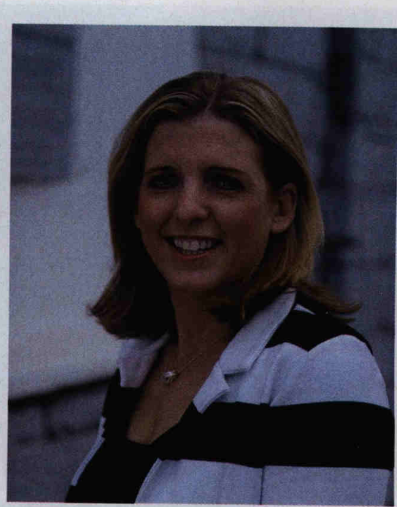
ACCOUNTANCY
IRELAND

FINANCE FOR SMALL BUSINESSES



Chartered accountant **Yvonne Barry**, a non-executive director of Microfinance Ireland, explains how this Government agency is helping small businesses who have been refused credit by the banks.

Late last year (2012) a new source of finance became available for small businesses that have had difficulty getting credit from banks. The Microenterprise Loan Fund Scheme, administered by Microfinance Ireland (MFI), was launched as part of the Government's Action Plan for Jobs, and provides loans from €2,000 up to €25,000 to sole traders, partnerships or companies employing fewer than 10 people with an annual turnover below €2 million.

Government provided initial funding of €10 million to assist MFI with set-up costs and operational costs and the first loan was approved in November 2012.

MFI estimates that it will have capacity to lend up to €40 million over a five-year timespan and to date has approved €1.62m in lending to 107 micro-enterprises across a broad range of sectors and supported 237 jobs, of which 118 are new jobs.

The average loan size is €15,000 and approximately 80% of the loans approved have been to businesses employing three people or fewer with about 60% of loans going to start-ups – borrowers that have been in business for less than 18 months. Most business financing needs may be funded including working capital, related costs such as promotional expenditure, website development, stock purchase, equipment and other set-up costs, however, costs associated with research and development are excluded.

MFI only lends to viable businesses that cannot meet standard bank lending criteria. It was set up to provide an alternative to – but not a substitute for – bank lending for these businesses

"ACCESS TO CREDIT IS BUSINESSES' MAIN CONCERN"

MFI LENDING

Many of MFI's loans are for working capital to fund wages and business overhead costs and are provided over 3 year terms. Banks typically provide working capital to businesses on a 12 month overdraft facility. Both MFI and banks will lend up to 5 years for capital expenditure such as equipment and vehicles for the business.

MFI offers one product for both working capital and capital expenditure. The same interest rate of 8.8% APR fixed is charged regardless of the purpose of the loan. This provides certainty for customers that their monthly repayments will not change. There are no other fees or charges connected with a loan from MFI and no early repayment penalties or charges.

When businesses apply to MFI, access to credit is their main concern. While the cost of borrowing is important, the interest rate has been set to support the running costs of MFI and at the same time offer good value to micro-enterprises for sustaining their business and ultimately maintaining and supporting jobs.

Movements in interest rates for business overdraft and term loan lending are monitored on an on-going basis to ensure that MFI continues to offer value for money. While all of MFI's applicants have been declined credit by banks, MFI is currently approving 45% of applications it receives making it a viable alternative for borrowers that can demonstrate they have a viable business.

At a time when micro-enterprises are experiencing difficulties in accessing credit, MFI provides an alternative that can support viable businesses, keep people in jobs and create new jobs.■

Yvonne Barry, FCA is a Partner in Quintas and a non-executive director of Microfinance Ireland Application forms and further information are available at www.microfinanceireland.ie