Calmeadow Metrofund:

A Canadian Experiment in Sustainable Microfinance

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Introduction

Those who have been exposed to the world of microfinance are no doubt familiar with the success stories of institutions in Bolivia, Bangladesh and elsewhere, which have not only lent successfully to large numbers of poor microentrepreneurs, but have done so sustainably. These institutions have shown that the provision of microfinance can be an effective strategy for promoting economic development in developing countries.

In the last decade, a growing number of institutions in more developed countries have also been experimenting with this strategy. Calmeadow, a Canadian-based nonprofit organization, was one of the first institutions to test the peer group lending model in North America and for years was the largest microlending institution in Canada. Between 1987 and 1999, it disbursed more than C$4.6 million in 2,558 loans to microentrepreneurs across the country.[1]

Calmeadow has now spun-off, sold or closed all of its microloan funds. In September 2000, its largest and most prominent initiative, Metrofund, was transferred to a local credit union. The sale of Metrofund's portfolio was provocative because it effectively ended Calmeadow's fourteen-year experiment with microfinance in Canada. Calmeadow decided to sell Metrofund's portfolio after concluding that the stand-alone, microloan fund model upon which Metrofund was based was not viable in the current Canadian context. The process through which it arrived at that conclusion is the focus of this analysis.

Certainly, Calmeadow's decision to find a new institutional home for Metrofund closed some doors, but it also opened up new possibilities for serving microentrepreneurs more effectively in the future. Calmeadow's thorough testing of the stand-alone model yielded a great deal of information about the market for microfinance in Canada, as well as the effectiveness of a minimalist approach in meeting those needs. The insight it gained into what works, what does not, what might work and why will be useful to anyone interested in supporting microfinance or community economic development in a developed country.

This document is arranged chronologically to explore how Metrofund evolved over time and why it eventually closed its doors despite being the largest microloan fund in the nation. The first section of the document looks at the fund's origins. It briefly describes the experiences that led to the creation of a stand-alone microlending facility for microentrepreneurs in Toronto and it clarifies what Metrofund was designed to achieve. The second section describes the fund's first two years of operation and the challenges it encountered as it tried to establish itself and consolidate a peer group lending product that its clients found valuable. The third section continues the story by tracing Metrofund's development phase – the time period during which the fund introduced new products and began to focus more intensely on growth.

The fourth and fifth sections of the document explore Metrofund's remaining years as a Calmeadow project. They chronicle the various methods through which Metrofund tested the viability of its stand-alone model and they highlight some of the fund's most interesting findings. An analysis of those findings sheds some light on Calmeadow's ultimate decision not to continue operating the fund. The document concludes with a sixth section that looks at Calmeadow's search for an alternative microlending model, and offers some optimistic observations on the resolution chosen.

[1] Unless indicated otherwise, all dollar amounts stated in this document refer to Canadian dollars.

Getting Started

Toronto businessman Martin Connell and his wife Linda Haynes established Calmeadow in 1983 to provide grants to organizations in developing countries that supported women's efforts to attain economic self-reliance. During their search for organizations with which to work, Connell and Haynes came into contact with ACCION International, a non-profit organization that was experimenting with microenterprise lending in Latin America. ACCION used a peer group lending model that made credit available to microentrepreneurs based on character and personal guarantees rather than collateral.

Because the majority of microentrepreneurs in developing countries lacked the collateral necessary to obtain a loan from traditional sources, the introduction of peer group lending removed one of the critical barriers to their economic development – access to capital. With loans as small as $50, microentrepreneurs could expand their businesses, increase their profits, and ultimately, broaden their opportunities. Connell and Haynes were struck by the simplicity and potential impact of this approach and led Calmeadow to invest in microenterprise lending as an economic development strategy.

In 1985, Calmeadow raised matching funds from the Canadian Government's international development agency (CIDA) and began supporting local microlending organizations in Columbia, Brazil and, in 1987, Bolivia. By the end of 1991, it also assisted organizations in Mexico, Peru, Bangladesh and South Africa. Through its relationships with these institutions, Calmeadow learned two important lessons. First, poor microentrepreneurs are capable of using credit effectively and repaying their loans on time. Second, microenterprise lending – and more specifically, peer group lending – can be operationally viable.

PRODEM, the local organization Calmeadow supported in Bolivia, was wildly successful with its group loan product and by 1992 had created the first commercial microenterprise bank in Latin America, Banco Solidario, S.A. (BancoSol). BancoSol, the Grameen Bank, and other successful lending institutions were consistently reporting on-time repayment rates above 98 percent. Each time Calmeadow visited these institutions, it returned home with a pocket full of success stories from clients who had used a loan to rise out of poverty. On the whole, its international experiences seemed to demonstrate that microenterprise lending was not only a successful economic development strategy, but was also a potentially sustainable one.

Early Experiments

Inspired by its experiences overseas, Calmeadow began questioning as early as 1986 whether microcredit could be useful as an economic development strategy in Canada. To test this idea, it launched a pilot program, the Native Self-employment Loan Program (NSELP), in three communities in Ontario: Wikwemikong, Kettle Point and Sachigo Lake. NSELP ran from 1987 to 1990 and its success resulted in the creation of Canada's first microloan fund, the First People's Fund (FPF).

The First People's Fund

FPF was a private-sector initiative designed by Calmeadow and funded by 56 foundations, corporations and individuals to help Canada's First Nations communities establish and operate their own microenterprise loan funds. At the time, it was estimated that one out of every three households in Native communities received a portion of its income from a microenterprise.[2] Many of these microenterprises lacked the collateral necessary, or were considered too small to access regular bank loans, so Calmeadow believed they would benefit from the kind of loan program it had to offer.

FPF's strategy was to build a national network of microcredit funds in at least sixty Native communities over five years using the peer lending model that had proven so successful in developing countries. It was an ambitious agenda, but initial results from NSELP suggested that the model would be effective in North America and Calmeadow was keen to expand as quickly and widely as possible.

By the end of 1994, FPF had served more than 300 clients in 20 Canadian aboriginal communities in

[2] Mary Coyle, Interview, The Self-Employment Strategy: Building the New Economy (Don Mills, Ontario: Self-Employment Development Initiatives, 1989) 30.

five provinces and one territory. It had achieved many important results, some of which are highlighted in the box on this page, but it was ultimately unsuccessful. Only four of the funds it helped to create were still in operation by 1997 and they had a combined portfolio outstanding of just $31,166.

The lessons Calmeadow learned as a result of its involvement with FPF had important implications for its future microlending activities. At the most general level, Calmeadow saw that applying the peer group lending methodology in North America would be much more difficult than it had expected. FPF's operating costs were very high when compared to the benefits it delivered. Yet despite the relatively high costs, FPF was not able to provide the level of service that was needed to facilitate the development of strong local funds.

Calmeadow realized that its nationwide focus was too ambitious. The start-up process for each local fund took longer, demanded more attention, and required more involvement from Calmeadow staff than originally anticipated. Because the communities involved were quite small, the local champions that FPF recruited to manage the funds typically came from a small group of leaders who were already absorbed by the demands of managing their community. For the most part, it proved impossible for them to devote the talent and time necessary to effectively manage the funds. The volunteers and part-time coordinators who did get involved were often motivated, but inexperienced and needed a great deal of technical support and guidance from Calmeadow.

A lesson learned: provide more tools than rules.

Although disappointed with the number of microentrepreneurs ultimately reached, Calmeadow recognized that it had chosen a very difficult market with which to work. As Martin Connell wrote in a 1997 review of the fund, "The typical native community has a small population, and therefore a

The Native Self-employment Loan Program and the First Peoples' Fund [3]

The NSELP and FPF initiatives provided North America with some of its earliest peer group lending experiences. Not surprisingly, they generated mixed results:

- *Important data on the nature and extent of the microenterprise sector in First Nations communities were made available for the first time.*
- *The active but often invisible role of microentrepreneurs in Native economies was recognized and validated.*
- *First Nations' communities participated directly in the design and subsequent monitoring of the programs, which built trust and confidence.*
- *Over 300 microentrepreneurs received loans.*
- *The initiatives did not reach the scale or the level of sustainability expected. There were significant delinquency problems.*
- *Local loan funds were encouraged to design their own rules and regulations using basic FPF guidelines as a foundation. This allowed the communities to customize and manage their own programs, but resulted in sporadic enforcement of such key policies as on-time repayment.*
- *The partnership between First Peoples' communities and Calmeadow facilitated an exchange of ideas, as well as the provision of support and training.*
- *Few loan funds survived after their partnership with Calmeadow ended, in part because the independence of the loan fund management from community politics was not safeguarded.*
- *The loan approval process proved to be inadequate since volunteer boards made the second-level loan approvals, but were not held accountable for their decisions.*
- *FPF rolled out the NSELP model on too large a scale too quickly. Early success and publicity created tremendous pressure to expand, but the nationwide program was too ambitious and expensive. It overtaxed Calmeadow's resources and resulted in many weak partnerships.*
- *The degree of commitment offered by many communities was overestimated and the degree of commitment that would be required of them was underestimated.*

[3] This box draws from observations made in an internal Calmeadow report, "First Peoples' Fund: Personal Perspectives on Lessons Learned," January 1997.

very small actual number of eligible microbusinesses. The communities are remote, often inaccessible and offer few trading opportunities beyond community borders. Economies of scale do not exist."[4]

To manage the logistics and cost of dealing with remote, sparsely populated communities, FPF tried to piggyback the administration of its loan funds onto existing community organizations. What happened, unfortunately, is that the loan funds found themselves at the mercy of the other organizations' priorities and agendas, and that resulted in a loss of control over the program and an increase in delinquency.

A lesson learned: FPF's early promotional materials tended to portray its loans as a poverty alleviation tool, which was a message that seemed to resonate well with start-up businesses, but was less effective among established microentrepreneurs who did not want to be seen as poor.

Clearly, some kind of market for Calmeadow's services existed within Native communities, but FPF was unable to solve the challenge of reaching that market with a peer group loan product and a decentralized, minimalist delivery model. It did, however, enable Calmeadow to learn about its target market, as well as the strengths and weaknesses of the peer group methodology in the Canadian context.

PARD and PAL

In 1989, Calmeadow was encouraged by the Kahanoff Foundation, and by the lessons it was learning from the First Peoples' Fund, to create its own microcredit programs to serve non-Native communities. It undertook a feasibility study, which revealed a high level of demand for credit services among the low-income self-employed in Canada. The study also identified two communities, one urban and one rural, that could serve as test sites for a new Calmeadow initiative.

With support from the J.W. McConnell Family Foundation and the Royal Bank of Canada, Calmeadow launched the Partnership Assistance for Rural Development (PARD) pilot loan fund in Shelbourne County, Nova Scotia in May 1991. PARD was designed to respond to the demand for alternative employment strategies following the collapse of the fishing industry. It worked with a decentralized lending model similar to the one that had been used by FPF, but this time it aimed to facilitate the creation of local loan funds that did not piggyback on existing organizations.

Instead, PARD worked with local community leaders to build new loan funds from scratch. Each one had its own name and its own local management board. The loan funds kept costs low by relying on volunteers, and in so doing, were supposed to be self-financing. PARD provided substantial training and support for the volunteers through a full-time staff person based in Shelbourne. By the end of its second year, it had created loan funds in six communities and had made approximately 100 loans totaling $95,000.

Ten months after PARD opened its doors, Calmeadow launched the Peer Assisted Lending pilot initiative (PAL) in Vancouver, British Columbia. PAL was developed with the support of the Kahanoff Foundation, the Vancouver Foundation and the VanCity Community Foundation and was Calmeadow's first attempt at urban lending. The delivery model used by PAL was much more centralized than the one used by PARD. PAL set out to create just one fund with one office that would be run directly by Calmeadow staff in collaboration with a local financial institution.

A lesson learned: A key ingredient in the success of any loan fund is the presence of a local champion.

After eighteen months, PAL had issued 56 loans totaling $72,000. There are two elements of its story that are worth highlighting here. First, its decision about the type of institution with which to partner proved both critical and problematic. After trying to work with a community economic development association and, subsequently, a local credit union, PAL eventually hooked up with the Royal Bank to issue its loans and to manage the back office portion

[4] Calmeadow, "First Peoples' Fund: Personal Perspectives on Lessons Learned," January 1997, 2.

PARD / Calmeadow Nova Scotia

Launched in March 1991, the Partnership Assistance for Rural Development (PARD) pilot loan fund built upon the strengths of the First People's Fund, but also learned from its weaknesses. While embracing a decentralized model, PARD set out to create local loan funds from scratch, rather than rely on existing institutions with their established agendas and priorities. It also chose to test its rural delivery model in one area of one province – Shelbourne County, Nova Scotia, which allowed it to focus its attention and resources on a relatively limited geographic area.

Depending on how one looks at it, PARD could be described as a success or a failure. Certainly, Calmeadow underestimated how long it would take to get each local loan fund established. It had hoped to support the creation of ten community funds during its pilot phase, but by 1994, only six were up and running and together they had made a total of just 138 loans to 66 clients. Calmeadow had expected much more.

Yet, on a positive note, the loan funds created during PARD's pilot phase were community-run and community-financed. They had a modest impact in terms of the number of microentrepreneurs served, but they also operated at a modest cost and could be implemented in a decentralized rural context. The impact on individual borrowers was substantial and the local funds' success with delinquency management was noteworthy.

The model proved inappropriate for Calmeadow, which was looking for a self-sufficient lending model that could be replicated elsewhere. The local loan funds found ways to cover their own costs, primarily through the use of volunteers, but they were unable to cover the costs of the training, technical support, and continuity provided by PARD staff. Nor was there much hope that they would be able to cover these costs in the future since the funds operated on such a small scale.

Thus, in 1996, Calmeadow brought together all of the Nova Scotia loan funds and explained the problems being created by the lack of economies of scale. It proposed that they consolidate their lending operations under Calmeadow Nova Scotia (the name given to PARD once it completed its pilot stage), which would relocate to Halifax. Calmeadow Nova Scotia could then launch a more ambitious marketing campaign and begin to develop brand recognition for the service that it provided. Perhaps, by moving into the urban market in Halifax, it could also amass a larger client base more quickly and garner additional donor support for the continued development of a self-sufficient program. The loan funds all agreed and the consolidation was completed by the end of the year, thanks in large part to the strong support provided by the local business community. Led by the highly respected Halifax businessman, Allan Shaw, Calmeadow Nova Scotia's Board brought critical resources, credibility and visibility to the fund.

During the next three years, Calmeadow Nova Scotia continued to grow, although at a stubbornly modest pace. As of May 1999, it had 163 active borrowers and a loan portfolio of approximately $395,000. It ran into many of the same problems in Halifax that Metrofund faced in Toronto and could not make significant progress towards sustainability. Its lack of success in this area and its inability to renew funding support led to the closure of the fund at the end of 2000. Ironically, the rural decentralized model that Calmeadow Nova Scotia discarded in 1996 is now being adopted with some success by other organizations such as the Newfoundland Labrador Federation of Cooperatives.

of its lending operations. The relationship with the bank made it possible for PAL to expand its services into other neighborhoods of Vancouver, and it gave clients access to the Royal Bank's ATM system, which enabled them to make loan payments without having to visit a specific branch in person.

Second, PAL found it difficult to build a credible identity for itself. Even with a prominent and highly respected local advisory board, Calmeadow was an unknown entity in Vancouver and, at first, PAL had to overcome skepticism regarding Calmeadow's intentions. Potential borrowers made such comments as, "Is this another financial scam by some private company?" and "Why would a Toronto-based group do something for the downtown Vancouver people?"[5] Given this skepticism, PAL's decision to rely on word-of-mouth for its publicity seemed appropriate. After all, who could better promote the program than the program's participants themselves? The strategy was well-targeted, but it took quite a long time for information regarding PAL to seep through the city's networks.

[5] Calmeadow, PAL Annual Review, September 1993, 2.

By the end of 1993, it was clear that both PARD and PAL were making a positive impact and their repayment rates were high, but neither fund was achieving the kind of scale Calmeadow had hoped to achieve. In Vancouver, growth was made difficult by the challenges of finding an appropriate partner and having to get the word out in such a large, urban context. In Nova Scotia, growth was hindered by the market being so dispersed. While the decentralized model seemed appropriate for serving distant rural communities, it took a long time to get each community fund started and it was difficult to manage the volunteer staff.

North American Lessons

In November 1993, the handful of institutions that first experimented with peer lending in North America gathered at the Couchwood Conference Center in Arkansas to share their experiences and discuss ideas for the future.[6]

Without exception, the institutions acknowledged that they were making some kind of impact. As stated in the conference report, "When successfully carried out, [peer lending] facilitates asset creation, democratic access to business capital, self-help, self-sufficiency and, ultimately, greater control of one's life."[7] Each institution had stories to tell about the clients who inspired them and the benefits yielded through the peer group methodology.

Participants were frustrated, however, that they were unable to implement the peer lending methodology with the same kind of success that was achieved in developing countries. None of the seven institutions was reaping benefits on a very large scale. They each served fewer than 300 active borrowers. Their small lending programs were labor intensive and quite expensive to operate. Several programs had begun to offer training and business advisory services in addition to credit and this raised the cost of service provision even higher.

Participants at the conference generally agreed that "all businesses – large and small, formal and informal – need four essential elements: knowledge,

The Peer Assisted Lending Program (Calmeadow West)

Calmeadow created the Peer Assisted Lending Program (PAL) as a pilot project to test the feasibility of peer-group lending in an urban setting. Its strategy was different from that of the First People's Fund since it aimed to serve microentrepreneurs directly through one central office in downtown Vancouver rather than through a decentralized network of autonomous local funds.

PAL was launched in March 1991 in an eastside neighborhood known as "Skid Row." According to census data, this was the most economically depressed neighborhood in all of Canada. PAL was originally housed in a local development agency called DEEDS (Downtown Eastside Economic Development Society), which had a mandate to promote and support entrepreneurship as an answer to the area's chronic high unemployment problem.

DEEDS, unfortunately, proved to be a poor partner for Calmeadow due to internal conflicts between its staff and management. PAL's first loan fund coordinator also proved to be a poor fit. As a result, not a single loan was made in 1991. A new coordinator, Peter Ireland, took over in January of the following year. Ties with DEEDS were severed and the administration of PAL's portfolio was transferred to DEEDS' banker, the CCEC Credit Union. Ireland launched an intensive promotional campaign and the results were immediate, albeit still modest. By June 1993, 43 clients had received loans in eleven groups. Four members were on their third loan and three were on their second. In September, PAL hit its target of 15 active groups, which ensured its continuation beyond the pilot stage.

PAL's relatively slow take-off foreshadowed many of the difficulties that Metrofund would eventually face. In a large urban area, it took time to build up a brand name and, even more importantly, a name that was both understood and trusted. Calmeadow's most effective marketing mechanism – word of mouth – was only efficient within a small circle of friends, so information about PAL seeped slowly through the city's networks. Also problematic was the fact that the group lending mechanism was a new concept for many potential borrowers, and this made it more difficult to explain and sell the product.

PAL remained at CCED until September 1993 when it moved into a small storefront office on the western-most edge of Skid Row. *(Continued on next page.)*

[6] The seven institutions were Calmeadow, ACCION International, CWED, The Lakota Fund, The Nebraska Micro Enterprise Initiative, Working Capital and The Good Faith Fund.

[7] Calmeadow, "Going Forward," Conference Report from The Peer Group Lending Exchange, November 2-4, 1993, 3.

The Peer Assisted Lending Program / Calmeadow West (cont.)

The move was made for a number of reasons, namely to increase the program's visibility, to satisfy the need for a small group meeting space (which was not available at the credit union), to improve the level of service provided to clients, and to facilitate the program's expansion into other areas of Vancouver. CCEC was a community-based credit union with a history of working with people on the economic fringes of society. PAL's clients generally felt comfortable there, but the fact that it had only one branch and was not hooked up to the ATM network made the CCEC relationship inconvenient for many borrowers. Both CCEC and PAL found the loan processing cumbersome and Ireland's lack of access to up-to-date information on the status of borrowers' repayment made PAL's delinquency management difficult. To grow, PAL knew it would need a new financial partner to help administer its loans, and it found one in the Royal Bank of Canada.

In July 1994, PAL completed its pilot phase and Calmeadow decided to convert its operations into a permanent loan fund, Calmeadow West. Members of the local business community came together to form a Steering Committee, which was led by the well-known British Columbia entrepreneur, Milton Wong. The involvement of these local business leaders was critical in raising the funds, community support and awareness to make Calmeadow West a reality. By June 1995, a new loan fund manager, Virginia Weiler, was on board and Calmeadow West had a business plan to transform itself into a Vancouver-based non-profit organization. By February 1996, the fund had 84 active borrowers, an outstanding portfolio of $86,000, and a 96% repayment rate.[9]

Later that year, a member of Calmeadow West's Management Board put the fund in touch with VanCity Credit Union, which had become interested in serving microentrepreneurs in the Greater Vancouver area. VanCity was the largest credit union in Canada at the time.[10] *Rather than continue the difficult and expensive process of transforming Calmeadow West into an independent institution, the decision was made to sell Calmeadow West's portfolio to VanCity, which would incorporate peer group lending into its regular business activities. The transfer was made in November 1996 and has been notably successful, providing Vancouver microentrepreneurs with access to a network of branches and a range of services that would have been impossible to provide as a non-profit organization. In 1997, VanCity's Peer Lending Program made 87 new loans averaging $1,560 and maintained a repayment rate of 96%. By 1999, it had 179 loans outstanding worth $170,000.*[11] *This fusion between a credit union and a microloan fund presented an interesting model for the potential commercialization of microcredit in North America and had a major impact on Metrofund's future development.*

capital, networks, and support."[8] They disagreed, however, on how to help make those things available to microentrepreneurs. Integrated programs were generally able to provide many services to a few clients, while minimalist programs were able to reach more clients with a few services, but no program had yet figured out how to provide its services in a way that covered its costs. Indeed, the experiences of the last five years had led some at the conference to conclude that North American peer lending programs would never be self-sufficient. They were a public good that would have to be, and deserved to be, sustained through subsidies.

Next Steps for Calmeadow

Calmeadow did not accept this view. It still believed that a self-sufficient peer lending program was feasible in North America, and it remained convinced that the minimalist model of reaching many people with a few services was the way to get there. Having seen what the model was capable of in other countries, Calmeadow was determined not to give up on it until it had been rigorously tested in the Canadian environment.

Assessing its experiences with FPF, PARD and PAL, Calmeadow began to consider creating a loan fund in Toronto for two main reasons. First, Calmeadow's initiatives to date seemed to suggest that for microenterprise lending to be effective on a large scale, it had to take place in an area with a high concentration of prospective clients. If it were to find such a market anywhere in Canada, it would be in Toronto. Research conducted in late 1993

[8] Calmeadow, "Going Forward," 13.

[9] Calmeadow News, Spring/Summer 1996, 4.

[10] Robert McVeigh, Chairman, Credit Union Central of Canada, Statement before the Standing Committee on Finance of the House of Commons, September 24, 1996.

[11] VanCity, Social Audit Report 1997 and 1999.

indicated that there was a need for microenterprise loans in Canada's largest city. In fact, a survey of 363 microentrepreneurs in the Toronto area showed that 86% of those with existing businesses and 76% of those with start ups were interested in the peer group loan product.[12] The research also identified a number of training courses and business assistance programs that supported and promoted self-employment in the city. Together, the data suggested that the ground was primed for the introduction of a minimalist microcredit program.

Second, Calmeadow wanted to do something in its own backyard. It wanted to take a shot at running a stand-alone microloan fund that did not depend too much on local communities or other banking institutions. It wanted to have the control necessary to thoroughly and methodically test the minimalist model. It wanted to take advantage of the expertise of Calmeadow's leaders and its international staff, who were based in Toronto. Certainly, launching an initiative in its own backyard would be highly visible and, therefore, a risky undertaking, but Toronto was the Canadian market Calmeadow knew best, and it seemed to be the market best positioned for success.

Launching Metrofund

Metrofund was created as a demonstration model to prove that microlending in North America could be self-sufficient. The objective was an admirable one, given that no microloan fund in North America had yet proven that this was possible, and it created great expectations with respect to the fund's performance. These expectations shaped Metrofund's subsequent development and will be explored in more detail later in the document.

The Strategy

Metrofund is dedicated to providing credit to self-employed entrepreneurs who are marginalized from formal credit markets, using a sustainable model of lending.

As illustrated in the mission statement above, Metrofund was launched with two objectives, one social and the other commercial. Its social objective was to provide business credit to low-income, self-employed persons that would result in economic growth and job creation. It would serve entrepreneurs who were the least advantaged in terms of their access to business credit, focusing on women and 'newcomers' to Canada.[13]

The fund's commercial objective was to develop a sustainable model of lending for the microenterprise sector in Canada that was both innovative and efficient. It wanted to find an operational structure that would generate adequate revenues to recover the costs of lending and, with time, relieve the loan fund from dependency on external financing and move it to a position of self-sufficiency.[14]

Calmeadow's strategy for meeting those objectives was, of course, shaped by the historical experiences described above, but it was also influenced by two mentors: Jeffrey Ashe and Mohammed Yunus. Ashe worked with ACCION International for many years before starting his own U.S.-based microlending organization, Working Capital. Yunus was famous for founding the Grameen Bank.

Both Ashe and Yunus were strong advocates of action research – the "you just gotta start doing it" approach. Ashe, in particular, became a legend within Calmeadow ranks for his "ready, shoot, aim" strategy, which encouraged practitioners to learn-by-doing and to avoid, as Ashe called it, paralysis by analysis. The rationale behind his strategy was as follows: since no one has yet figured out how to make microlending effective in North America, no one knows exactly what to aim for, and thus, the best way to proceed is to just try something, learn from the experience, and then aim more accurately the next time.

Under the influence of Ashe and Yunus, Calmeadow adopted an action-research orientation toward Metrofund. It prepared carefully for the fund's launch and established clear goals and guidelines for its operation, but it understood that once Metrofund became a reality, the fund would have to learn by doing. Experimentation was an important part of its mandate from the beginning.

[12] Jill Burnett, "Toronto Loan Fund Report," December 1993, 21.

[13] Burnett 21.

[14] Calmeadow Metrofund, "Business Plan: Development Phase 1997-2001," 7.

Table 1: Calmeadow Metrofund Ten-Year Financial Forecast, 1994 to 2003

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Cumulative amount lent ($000s)	300	1,130	2,849	5,252	8,983	13,927	19,813	28,849	39,725	51,421
Outstanding portfolio at year end ($000s)	88	292	675	960	1,587	2,122	2,814	4,684	6,283	6,825
Cumulative number of clients served	150	410	736	1,128	1,605	2,194	2,930	3,748	4,564	5,306
Individual loans as a percentage of total portfolio value	0%	37%	39%	43%	56%	58%	61%	63%	70%	71%
% Cost coverage	11%	22%	40%	48%	61%	60%	58%	82%	87%	92%

Source: Calmeadow, Ten Year Financial Forecast, April 24, 1994.

To prepare for Metrofund's launch, Calmeadow conducted research in Toronto to determine the specific credit needs of the microenterprise sector, the extent of financial services available to low-income groups, the non-credit barriers that microentrepreneurs identified as inhibiting their success, and the existence of training and/or support services in these areas.

Based on the market information it gathered, Calmeadow developed a plan that laid out where it thought Metrofund could be in ten years and it established annual targets that would need to be met to achieve its objectives. The financial forecast prepared in April 1994 is summarized in Table 1. As shown in the table, Calmeadow estimated that Metrofund would be able to lend more than $51 million to more than 5,300 microentrepreneurs and would generate sufficient revenue to cover 92% of its annual expenses by the end of its tenth year of operations.

Metrofund's operational strategy was similar to that used in Calmeadow's other loan funds. It embraced an essentially minimalist philosophy and was based on the solidarity group lending methodology. The emerging trend in North America at the time was to shift toward a more integrated approach to microenterprise development, which included in-house training and other non-financial services in addition to credit. Calmeadow believed, however, that it could serve Toronto microentrepreneurs best by specializing in one service – the provision of credit – and focusing on providing that service as efficiently and effectively as possible to as many people as possible. Since other institutions in the Toronto area provided non-financial services for microentrepreneurs, Metrofund planned to refer clients to those institutions as appropriate, rather than attempt to provide similar services itself.

Metrofund's operational strategy was distinct, however, from earlier Calmeadow initiatives in two important ways. First, Metrofund was to lend from its own pool of capital. Previously, the loans made by Calmeadow's Canadian loan funds were administered through local banks with Calmeadow providing the guarantees. This indirect approach limited the loan funds' control over loan delivery and follow up, it added an extra layer of administration, and it limited the funds' revenue-generating options (since interest revenue went to the banks).

By lending from its own pool of capital, Calmeadow believed that Metrofund could provide better customer service and would have a greater chance at financial self-sufficiency by generating income from both interest and fees. Calmeadow also expected that by making use of the automated payment services of its Toronto banking partner, the Royal Bank, Metrofund would be able to significantly reduce the administrative costs of lending and enable its staff to maximize the amount of time they spent developing new markets and serving borrowers.

Second, although Metrofund would begin operations with a peer group loan product like that of Calmeadow's other funds, it planned to introduce other "second-level" financial products once it completed its first year of operations. Calmeadow's market research identified individual loans, credit lines and saving services as products that successful clients would find valuable as their financial needs expanded. The research also indicated that these products would appeal to a different segment of Metrofund's potential market – microentrepreneurs who did not run the smallest or poorest businesses, but who lacked access to bank credit, usually because they could not meet the collateral requirements or because they desired a loan amount that the banks found too small. Calmeadow's medium-term plan was for Metrofund to develop services that could serve this type of client as well.

The Product

When Metrofund opened its doors, it offered one product: a peer group loan. Potential borrowers were asked to form groups of four to ten microentrepreneurs, each of whom had to agree to guarantee the loans of the other members of the group.[15] Because of this cross-guarantee requirement, Calmeadow did not demand collateral or a business plan from its borrowers. It helped facilitate the formation of groups by providing information sessions and establishing a core set of eligibility requirements (see Table 2), but it insisted that the borrowers manage their own selection process.

Table 2: Summary of Metrofund's Initial Eligibility Requirements
• Each member of the group must have his or her own business
• Each group member must have an account in a financial institution
• No more than two family members per group [16]
• No two group members can borrow for investment in the same business
• Groups must have no more than 25% of its members in the start-up phase
• Groups must establish individualized by-laws (based on a template provided by Metrofund)

Source: Burnett 17.

Microentrepreneurs were expected to assess each other's character, personality, trustworthiness and business ideas to form a group upon which they believed they could depend. Each group then took primary responsibility for assessing the loan applications of its members, as well as for monitoring and enforcing loan repayment. If one member fell behind in his or her payments, the other group members had to make up the difference in order to continue to be eligible for future loans.

Metrofund's initial loans ranged from $500 to $1,000 and subsequent loans were available for up to $5,000. They were repaid in monthly installments over three to twelve months and carried an annual interest rate of 12% and a 3% administrative fee. Payments were debited directly from borrowers' accounts on a pre-arranged monthly basis and the activity on each borrower's account was monitored through direct computer link-up with the Royal Bank.

The Clients

Metrofund aimed to serve self-employed microentrepreneurs from disenfranchised, low-income and minority groups. There were numerous reasons why such microentrepreneurs might not have been able to obtain loans from traditional financial institutions. Their business might have been too young, the amount of money they wanted to borrow might have been too small, they might not have had the required documentation or known how to prepare a business plan. Many probably lacked collateral or had a poor or non-existent credit history. Others may have felt threatened or discriminated against because of their poverty, sex, skin color, or language. Whatever the reason, if they had a legitimate business, Metrofund wanted to provide the access to credit that might assist them in developing their enterprises.

> *"Our kind of lending focuses on capacity – what people can and are doing, rather than what they do or don't have."*
>
> *~ Mary Coyle, former Executive Director, Calmeadow*

Clearly, Metrofund's potential client base was diverse. Prospective borrowers included home-based or part-time business owners throughout the greater Toronto area, start-ups, persons who were recently laid off and decided to try self-employment as a means of earning an income, and those trying to get off public assistance.

[15] Group members were not legally liable for each other's outstanding debts, but the repayment performance of the group as a whole affected each individual's ability to access subsequent loans.

[16] This eligibility requirement was later changed to allow only one member of a household per group.

> ***What can a microentrepreneur do with $1,000?***
>
> - ⇨ *Launch a marketing campaign*
> - ⇨ *Buy or lease business equipment, tools or computers*
> - ⇨ *Pay for the first or last month's business rent*
> - ⇨ *Purchase materials or stock*
> - ⇨ *Finance an upgrade course in their field*

In general, Metrofund intended to serve all of these clients, but it planned to target women and recent immigrants in particular. Its research indicated that these two groups were acutely under-served by traditional financial institutions even though they tended to be good credit risks. Recent immigrants were often highly skilled and hard-working, but possessed few assets and no credit history. Women frequently fell into the same category because their assets were registered in the name of their husband and they lacked a means of establishing an independent credit history. In the early 1990s, the financial system's traditional methodologies and requirements were inadequate for judging repayment capacity within these two groups; Metrofund believed that with its peer group loan product, it could step in to fill the credit gap.

Metrofund also believed that of all the potential market segments, women and immigrants would be most receptive to the peer lending mechanism. Women tended to be more social than men and immigrants often recognized the methodology as being similar to the informal financial services prevalent back home.

The Financing

Calmeadow faced a potentially daunting task as it endeavored to fundraise over $1 million in loan capital and operating support for Metrofund. Surprisingly, it had little difficulty obtaining this goal. The United Way of Greater Toronto contributed $300,000. The Royal Bank of Canada gave $200,000. The Bank of Montreal provided $150,000, and a number of private foundations and other donors contributed an additional $557,970.

This impressive level of support made a strong statement about the attractiveness of the project. Clearly, a variety of players were interested in providing sustainable financial services to Toronto's microentrepreneurs. The show of support also reflected the degree to which Calmeadow was respected in this field, and had been successful in selling its case to the Toronto community. Because of its fundraising success, Metrofund began its life as a five-year, fully-funded pilot project.

The Nascent Loan Fund

When Metrofund opened its doors, it had a staff of two. Peter Coburn, a certified management accountant, was its manager and Miranda Ogilvie, a volunteer, eventually became its first loan officer. Coburn and Ogilvie moved Metrofund into its first office at 56 Esplanade in downtown Toronto on Monday, April 11, 1994. The following day a press conference was held which officially launched the fund and Metrofund's phone began to ring even before all the boxes were unpacked.

An Overwhelming Response

The initial response to Metrofund was so strong it was literally overwhelming. Coburn and Ogilvie screened more than 1,000 phone calls as a result of the media campaign, mailed hundreds of brochures and gave dozens of information sessions. In a recent interview, Coburn humorously recounted his attempts to respond to potential clients who were knocking at the door at the same time as he was trying to explain the peer group loan product to callers on the phone. Metrofund was swamped with interest.

"The launch was on the nerve-racking side of thrilling, but it was amazing nonetheless."

~ Peter Coburn, former Metrofund Manager

By the end of its fourth month, Calmeadow Metrofund had made loans to ninety-seven clients in twenty-four groups. This made it larger than any other microloan fund in Canada at the time. The major public relations effort surrounding Metrofund's launch gave it a head start that Calmeadow's other loan funds had not had. The combination of television, newspaper and radio coverage was extremely successful in getting the initial word out. The tremendous response seemed to confirm that the market in Toronto was primed for the kind of service Metrofund was offering, and that its potential for success was high.

The success of the media campaign was a double-edged sword, however. The mass public relations strategy created so much interest that staff spent a great deal of time and energy screening hundreds of calls from people who were not part of its target market. Many wanted to start a business but had no firm plan yet to do so; others simply misunderstood what the loan fund was about. Coburn and Ogilvie waded through a number of inquiries from interested parties before finding a client whose needs it could actually meet. As Coburn wrote in August 1994, "more time was spent on not lending money than time spent on lending money."[17]

A lesson learned: it's not just the volume of inquiries received that matters; it's whether the inquiries are coming from the right kind of market. To avoid having to spend a great deal of time sifting through calls, include very specific eligibility criteria in your promotional materials so that potential borrowers can screen themselves.

Because the demand for loans came all at once like a tidal wave, Metrofund staff could not spend sufficient time preparing and screening their first clients. They had planned to use the start-up period to work closely with a few select groups and to test the peer lending methodology in the Toronto environment. The response to the launch was so positive, however, that Metrofund had little time to set up the necessary administrative procedures, much less test and revise them before implementing them on a significant scale.

"Be careful what you wish for; you might just get it."

~ Peter Coburn commenting on the public's initial response to Metrofund

For the most part, Coburn and Ogilvie took this in stride. They agreed with Calmeadow's action research approach and did their best to improvise despite their lack of background in banking and their limited experience with peer group lending. Because Metrofund was the first loan fund in Toronto to experiment with the peer group methodology, it had little choice but to learn by trial and error.

The paradox of its initial success was that the lessons learned had greater implications than they would have had if the fund stuck with its original plan and experimented first with a small number of

[17] Calmeadow Metrofund, "Loan Fund Summary," August 1994, 1.

groups. After six months, its arrears – defined as the amount of overdue payments as a percentage of outstanding portfolio – were at 8%. While still within reason, this ratio was higher than Calmeadow had experienced with any of its previous initiatives and it caused great concern.

Adjusting for the Future

By the fall of 1994, the intensity of interest in Metrofund had leveled off and staff were able to devote more attention to fine tuning the mechanics of the group lending process. Coburn and Ogilvie had gained some valuable insight into the unique issues of working with groups in Toronto's sprawling, urban environment. They used that knowledge, and the insight offered by other Calmeadow staff, to make two immediate modifications to Metrofund's lending process.

First, they attempted to improve borrowers' understanding of what it meant to be a Metrofund client by providing clearer information about the peer lending approach and the specific requirements of a successful borrower group. The content of Metrofund's information sessions was revised to provide more detail on the group screening process and to emphasize the long-term nature of the relationship that Metrofund hoped to establish with its clients.

With the assistance of Jennifer Harold, the Manager of Calmeadow's Technical Support Unit, a new borrower information package was developed, which included an introductory letter, a Metrofund brochure, background articles, information session dates, and a group resume form.[19] The group resume listed the business experience of the group members, gave some personal information about the group as a whole (for example, how the members know each other), and identified the credit needs of each potential borrower. Metrofund hoped the process would be useful as a first step in developing group cohesiveness, and in gathering and discussing information that would give group members (and the

A Client Snapshot: Six early borrower groups [18]

<u>The Banton Group</u> *is composed of five women who all reside in the east end of Toronto. Two create afro-centric accessories such as hats, scarves, and beaded jewelry. One group member frames African posters, which she sells to people in her community, another distributes afro-centric books to schools, friends and family, and the final member puts together gift baskets for special occasions.*

<u>Music and Ice</u>. *Three of the four participants in this group are involved in the music and entertainment industry. One woman is a publicist who promotes local bands and another started a record company a year ago and needed a loan for advertising and promotion. The third group member is a local musician who already put out a CD but needed a loan for advertising. The fourth member is a figure skater with many years of training behind her who set up a business called "fun skate" to teach toddler-age children how to skate.*

<u>Odyssey Group</u>. *The four men in this group are long-time friends with experience in running small businesses. One group member has a small paralegal firm just outside a Toronto courthouse and spends most of his time in small claims court litigation. The second borrower has a business serving legal documents and the third rents and sells new and used video games at flea markets and retail outlets across the city. The fourth member is currently researching a plan to start a trade publication focusing on cross-border business opportunities under Free Trade.*

<u>HELP</u>. *The members of this group met at a self-employment training course. One member, a tattoo artist, shares his studio with another member, who manufactures body jewelry. The two used their loan to upgrade the equipment in their shop. Another member of the group is self-employed as a mover of delicate furniture for offices. The fourth member created her own line of Victorian jewelry, which she sells to stores and at trade shows across the city.*

<u>Group 25</u>. *This diverse group also has four members. One borrower runs a part-time catering business cooking West-Indian fare for office parties and weddings. The second borrower is a nutritionist who used her loan to purchase the medical equipment necessary to set up a part-time business as a consultant in people's homes. Two other members distribute clothing, which they purchase wholesale; one sells uniforms to schools.*

[18] Calmeadow Metrofund, "Semi-Annual Report," July 1 to December 31, 1994, 2.

[19] The Technical Support Unit was created in 1995 as Calmeadow's community outreach unit. Its primary mandate was to assist communities across Canada that wanted to set up their own loan funds, but it provided support to Calmeadow's other units as well.

fund) a better understanding of each borrower's character, financial position and needs.

> *"Certain groups are focused on getting that first loan and worrying about the future in the future. Our loan product and orientation has to be adapted to discourage this."*
>
> *~ Internal Metrofund Loan Summary, August 1994.*

Second, they reduced the maximum first loan from $1,000 to $500. Metrofund found that most of its defaulters demonstrated quite early that they did not take their financial obligations seriously. After making just one or two payments, they stopped servicing their loan. Since the fund had few mechanisms for protecting itself against duplicitous groups, it reduced the amount of its initial loan to screen out irresponsible clients at a lower risk to the institution.

Throughout the next six months, Metrofund made many other adjustments. It hired a new staff member, Vicky Scully, to develop a more targeted marketing strategy that essentially aimed to build a network of local community groups through which the fund could reach potential clients. It sent information packages and letters of introduction to dozens of community service organizations. It made presentations at community centers, women's shelters, conferences for minority business owners, neighborhood and ethnic associations, the Toronto New Business Development Center, the York Business Opportunities Center, and the Parkdale InterCultural Association, among others. It began holding social and networking events for its clients, including an annual picnic and a client market fair held at a luncheon Calmeadow hosted for its supporters nationwide.

Metrofund also used its second semester to improve its accounting procedures and controls. By April 1995, it had developed written statements of procedures and policies regarding loan issuance and second loan applications. It had established collection routines to deal with clients in serious default and had begun work on a Peer Group Lending Manual that was being designed to improve client understanding of the group lending process.

Dealing with the Past

These initiatives were important for setting a different tone for new borrowers, but they did little to resolve the complicated situation of current borrowers. Without the aide of prior experience and without the guidance provided by proper systems, many of the groups created in Metrofund's early months were weak and, consequently, many of the loans given during that period were extremely risky.

The fact that payments were made by direct withdrawal from borrowers' bank accounts rather than in group meetings also complicated delinquency management. Metrofund could not apply the "no partial payments" policy that was key to provoking group members to pressure each other for repayment. Nor could it access up-to-date information on borrower repayment, which made immediate follow up on poor performance difficult. Problems could fester for some time before Metrofund even knew they needed to be addressed.

It is hardly surprising that delinquency levels grew over the next year. As early as December 1994, Metrofund already had 18 of its 68 groups in serious default and 25% of its portfolio was delinquent. As of March 1995, 30% of its client base was delinquent and only one group had agreed to repay the loan of its defaulting member. By the end of that month Metrofund had made a $20,000 provision for write-offs, which amounted to 13.5% of the loans it had issued to date.

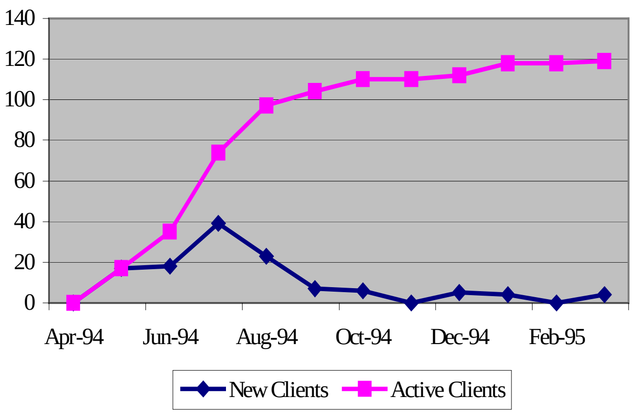
A lesson learned: If you shoot before you aim, you risk hitting an undesirable target.

The delinquency situation was difficult not only because of its effect on Metrofund's existing portfolio, but also because of its negative effect on new growth. According to Coburn, the clients in arrears consumed an inordinate amount of staff time, and at the end of 1994, it was still just he and Ogilvie trying to manage more than 100 loans, perform outreach activities, and cultivate new clients. Since the obvious priority was to get the delinquency situation under control, there was little time or energy available for engaging in initiatives that would facilitate new and healthier growth.

The One Year Review

Metrofund yielded mixed results in its first year. As shown in Figure 1, it got off to a vigorous start, but its growth stagnated by the sixth month.

Figure 1: Metrofund's Client Base, April 1994 to March 1995



The fund came close to meeting some of its performance goals, such as the number of clients served and the size of its outstanding portfolio, but it fell far short of other targets, as shown in Table 3. It generated significantly less revenue than planned during its first year. This was primarily due to fewer loans being disbursed and fewer dollars being lent, but it was also a result of the fund's decision not to implement the $25 annual membership fee that was included in the original budget projections.

By April 1995, Metrofund had lent only half as much money as anticipated, yet it had to provision nearly four times as much in loan losses. It remained within budget only by lowering expenditures in other areas, namely salaries, technical support and travel.

Table 3: Metrofund's First-Year Performance

	Actual	Budgeted
# of clients served	123	150
Total amount lent	$151,500	$300,000
Outstanding portfolio	$79,085	$87,500
Loan loss reserve	$20,228	$4,375

Source: Calmeadow

Reflecting on its first year, Metrofund identified two challenges with which it would struggle for the next five years, namely: 1) how to recruit the right kind of clients; and 2) how to achieve a sufficient level of volume to meet its internal objectives. Because of their importance to the overall Metrofund story, these challenges are explored briefly below.

Recruiting the Right Kind of Clients

To succeed, Metrofund had to access large numbers of microentrepreneurs who were in need of financial services and provide them with a product that could assist them in developing their businesses. An important lesson from its first year of operations was that finding appropriate marketing channels would be key to getting the word out about its product, and to accessing the right kind of client. Of course, Metrofund wanted to serve disenfranchised microentrepreneurs, but it also wanted to find efficient ways of ensuring that its customers would benefit from its services and would treat the relationship with Metrofund seriously.

Although the mass marketing strategy used to launch the project raised awareness about Metrofund, it was not an efficient way to recruit clients. In its first year, the fund estimated that it received 1,800 telephone inquiries and held information sessions for approximately 550 people. Of those, 123 became borrowers. Metrofund has used these numbers to calculate what it calls its "closing success rate," i.e. the number of people to whom it actually made loans as a percentage of the total inquiries it received during a given time period.

Technically, its closing success rate was a mere 7 percent between April 1994 and March 1995. Evaluating the rate on the basis of the number of people who were interested enough to attend an information session, Metrofund's success ratio was still less than 25 percent. Given that Toronto was just getting to know Metrofund and Metrofund had not yet honed in on its market, the low closing success rate was hardly surprising, but was still disappointing and frustrating to staff.

As described above, the fund initiated a variety of activities in early 1995 designed, in part, to improve that ratio. It began developing a more targeted outreach strategy that it hoped would be more effective in identifying clients who could make good use of its services. It improved the quality and depth of its promotional materials to explain more clearly to potential borrowers how its product worked and why. It also introduced policies and procedures to strengthen the process of group formation and screening.

Besides these initiatives, Metrofund began to question by the end of its first year whether the loan product it offered adequately met the needs of its intended clients. Certainly, for some, the group lending product worked well. By December 1994, eleven clients had paid off their first $1,000 loan and nine had requested and received a follow-up loan of $2,000. Several of these borrowers remarked that the peer group mechanism not only facilitated their access to capital, but also provided valuable support and networking opportunities.

The peer group lending methodology did not work well for everyone, however, and it was often a difficult product to sell. Potential borrowers frequently had trouble finding three acquaintances with whom they could form a group, and they did not want to guarantee the loans of microentrepreneurs they did not know. Some found the time requirements of group formation and management too consuming. Established microentrepreneurs often complained that the loan amounts were too small and did not enable them respond to timely opportunities. Metrofund knew it could not recruit serious microentrepreneurs if its product did not serve their needs, so it planned to devote significant effort in its second year to improving its service.

Meeting Volume Targets

The number of loans Metrofund hoped to disburse in its first year proved optimistic for three reasons. First, as described above, the fund's difficulty in identifying and recruiting appropriate clients hindered its ability to serve a larger number of borrowers. Second, the turnover rate (defined as the average number of times that each client is expected to borrow in a given year) was estimated at 2.0. This value proved unrealistic due to longer average loan terms, higher delinquency and lower client retention than Metrofund had expected.

"The original estimate of loans per year per borrower was unrealistically high."

~ Peter Coburn, former Metrofund Manager

The third issue, delinquency, was by far the most serious. Because Metrofund policy required all members of a group to repay their loans in full before any member of the group could receive a new loan, delinquency of one person affected the turnover and retention of at least three others. As of April 1995, Metrofund estimated that the members of fourteen of its 30 groups would be ineligible for future loans because one or more of the group members was defaulting on a loan. This meant that only sixty clients were members of groups that were in good standing. If its estimates were correct, Metrofund stood to lose half of its client base in the coming year due to delinquency.

Metrofund knew it had to get the problem under control, both for its own sake, and for its clients. Of course, it wanted to minimize the number of disingenuous borrowers who managed to secure loans, but it also wanted to avoid lending to borrowers who did not have the capacity to carry debt and would only be harmed, and harm others, by doing so. When borrowers such as these defaulted, their credit histories and their self-esteem were damaged and, consequently, their entrepreneurial development was hindered instead of supported.

A lesson learned: For some microentrepreneurs, credit is a sub-optimal intervention; it can do more harm than good.

Metrofund realized that it needed to be more careful about whom it lent to and not just focus on the number of needy clients that it was able to serve. Clearly, not all microentrepreneurs were in a position to benefit from the service it had to offer, so Metrofund needed to find a way to identify, access and serve those clients who could. It also needed to pay careful attention to the elements of the peer lending methodology that had made it successful elsewhere and ensure that those elements existed, or could be created, in the local context.

Consolidation and Client Service

Metrofund's second year was perhaps its most difficult. The complications from its first year had to be resolved at the same time as new ideas and initiatives were developed. The fund quickly realized that it had to set priorities. Interestingly, all of Calmeadow's Canadian microloan funds were dealing with similar situations at the time and the minutes of their joint technical meeting in September 1994 shed some light on how they planned to proceed:

> *"We agreed that our priority is sustainability, which has at least four components: quantity, quality of loans, high impact and low cost. We questioned whether all of these can be met at this point in time. The clients where we see the greatest impact also seem to need more input from us which increases our costs. Quality of loans also seems to go hand in hand with high involvement of staff, but cannot be accomplished by one or two staff over a large number of clients. In the end, the priority is to first get the right product for our target group, which should result in good repayment and a high impact. Once this is achieved we will focus on scale and reducing costs."* [20]

Metrofund continued to build its referral base and experiment with different outreach strategies, but its second-year agenda was primarily focused on improving its client service and consolidating its portfolio.

Service Quality

Although Metrofund never strayed from its credit-led focus, it definitely adopted the view that its service involved more than issuing loans and collecting repayments. It recognized that peer group lending was inherently 'credit plus'– credit plus networking, plus peer support, plus increased responsibility for and control over business finances.[21]

Besides its basic credit service, Metrofund believed that it could and should provide some complementary networking and marketing services that could help borrowers form connections with each other and with their external markets. This conclusion was reached during the fund's planning stage, when market research identified the lack of social and business connections as a barrier to microentrepreneurs' development in Toronto.[22] It was felt that networking initiatives, in particular, would be a unifying force for the fund and could be provided without too much difficulty by involving borrower and community volunteers.

A lesson learned: Clients need to see that they are gaining something of value from their administrative fee. Otherwise, they will perceive it as just another cost of borrowing.

Metrofund began moving in this direction under Peter Coburn's leadership, but it picked up additional momentum when a change in management brought Vida Dhaniram into the picture in August 1995. An immigrant herself with eight years of banking and community development experience, Dhaniram was well poised to help Metrofund move into a new phase. One of her earliest and clearest goals was the improvement of the fund's client service.

Dhaniram built momentum in this area by developing the fund's relationships with its clients. She did this mostly by maintaining regular telephone contact with borrowers and by using the conversations to discuss not only clients' loans, but also their businesses and other needs. She formed a client advisory committee, which she convened and consulted regularly to obtain feedback on the fund's performance, to test new ideas, and to stay informed about changes in her clients' needs.

"The Client Advisory Committee not only provided invaluable information, but also gave excellent hands-on support and guidance."

~ Vida Dhaniram, former Metrofund Manager

Armed with stronger rapport and more information about what its clients wanted, Metrofund began to sponsor additional activities. In September 1995, it introduced monthly breakfast meetings that provided clients with an opportunity to network, hear guest speakers, exchange business ideas and showcase their products and services. The gatherings were held in a meeting room at City Hall, which Dhaniram managed to negotiate free of charge, and were well received by clients. Later that year, a group of borrowers formed a committee they called PEP (People Empowering People), which took responsibility for organizing the monthly events.

[20] Calmeadow, "Technical Meeting Minutes," September 1994, 1.

[21] Calmeadow, "Going Forward," 12.

[22] Burnett 28-30.

Metrofund also established a self-help business center within its offices, which included a reference library, computers, a printer, a copy machine and a bulletin board on which clients could post announcements and referrals for low-cost services from both member and non-member businesses.

It introduced a client directory in 1996 entitled, "Clients Helping Clients," which was kept in the business center and was taken to each networking event. All Metrofund clients were welcome to complete a one-page description of their business to be included in the book. The goal was to raise awareness of the resources available within the fund and to encourage clients to utilize each other's services whenever possible. Initially maintained by a Metrofund staff person, this project was eventually taken over by a Metrofund client volunteer.

A lesson learned: Metrofund found that its networking activities were most effective when they were organized by a committee of client volunteers and supported by a staff member who was interested in seeing the committee succeed. In Metrofund's case, that staff member served as a valuable source of information, motivation, quality control and continuity.

Later, Metrofund began distributing a one-page newsletter called "Did You Know?" in its monthly mailing to clients. The sheet contained business tips, information about community events and organizations that help small business owners, announcements about trade shows, useful website addresses, and more. One feature article discussed the elements of a good business plan, while another provided a checklist on the fatal flaws of business ideas. A sample of "Did You Know?" is provided in Appendix A.

Initiated by Metrofund staff in early 1997, the newsletter was taken over by volunteers a few months after it started with production being facilitated by a Calmeadow administrative assistant. No statistical analysis has been done on the benefits that the newsletter provided to clients, but their willingness to support the newsletter's production does suggest that they believed it was valuable.

Portfolio Quality

Metrofund's other key priority during its second year of operations was the consolidation of its portfolio. Several former employees acknowledge that they were naïve in their initial attitude toward the peer group lending methodology and in their assumptions about the ability of the methodology to facilitate successful borrowing among clients who were not yet ready to assume the responsibilities of debt. Staff had expected the peer group lending methodology to reduce the risk and administrative costs inherent in lending to microentrepreneurs, but they found that this tended not to happen.

Why? Three main reasons were identified. First, effective peer screening was lacking; second, Metrofund's systems were weak; and third, many of the environmental factors that had contributed to the methodology's success elsewhere were either not present or were minimized in the Toronto context. As a result, the majority of the loans generated during Metrofund's first year were of poor quality. Eventually, half of them had to be written off.[23]

To improve its portfolio quality, Metrofund had to consider all three of the above causes. It had to try to understand why peer screening was lacking and it had to identify the environmental factors that had contributed to the methodology's success in other contexts. It then had to explore how Metrofund might create some of these elements artificially or find substitutes for those that did not occur naturally in the Toronto environment.

It occurred to Calmeadow that one of the reasons for poor peer screening might be borrowers' lack of knowledge about the types of questions they should ask each other and the types of things they should look for to effectively assess each other's creditworthiness. To respond to this weakness, it developed a client lending manual for the use of all of its funds, which was implemented by Metrofund in March 1995 as the Business Credit Group Workbook.

The workbook contained a step-by-step explanation of the group lending process, a business profile template to be completed by each member of the

[23] Eric Santor, "The Incidence of Borrower Default," Calmeadow Metrofund Survey Research Report, November 1999, 1.

group, and a list of questions for group members to consider when visiting the sites of each other's businesses. It also included short case studies about the prevention of problems that groups had faced in the past, sample group by-laws and formats for meetings and minutes, a loan approval checklist (see Table 4) and other useful tools.

Table 4: Group Checklist for Loan Approval

- □ Do all group members completely understand the purpose of the requested loan?
- □ Does the amount requested seem realistic for what it is intended to be used?
- □ Are the applicant's income and expense projections realistic?
- □ Can the applicant adequately explain how this loan will earn them money?
- □ Will the applicant be able to generate an immediate return to pay back the loan?
- □ Is the applicant asking for too much money, or not enough?
- □ Has the applicant planned for repayment of this loan if the business has financial problems?
- □ Does the applicant have other sources of income?
- □ How committed has this applicant been to attending group meetings?
- □ Do you feel this person can and will repay this loan in a timely fashion?

Source: Calmeadow, "Business Credit Group Workbook," 20.

Another reason for poor peer screening was the difficulty that clients encountered in forming groups, even when they had guidelines on how to do it. The creation and management of groups in a large, urban setting was complicated by a variety of factors: transportation logistics and distance, the small number of microentrepreneurs as a percentage of the population, and their dispersal throughout the city.

Borrowers could not interact with each other in the casual, regular manner in which borrowers generally interacted in a place like Bolivia. There, up to 90% of a community's population was self-employed, compared to a mere 13% in Toronto.[24] In the North American environment, it was more difficult for microentrepreneurs to find each other. The people whom they knew and trusted were either not microentrepreneurs, were not in need of a loan, or did not live or work anywhere near them. Many potential borrowers ended up meeting other microentrepreneurs and forming groups after one of Metrofund's information sessions.

The problem with this method of group formation, and with many borrower groups in general, is that it resulted in a situation in which members did not know each other very well. The networking and social events, such as the annual picnic, helped borrowers get to know each other better, but were still inadequate. It took time to build trust and comfort within a group. Quite naturally, borrowers who had known each other for only a short period of time were hesitant to share detailed and honest information about their personal situations, their businesses, and their finances.

When such borrowers had a problem or concern, they tended to consult Metrofund staff directly rather than their group. Staff would have to guide them back to the group while trying to ensure that their problem or concern was dealt with appropriately. Several staff members believed that it took more time to nurture a group of borrowers than it would have taken to deal with them as individual clients. In response, Metrofund planned to place more emphasis on recruitment strategies that targeted ready-made communities, i.e. ethnic groups, neighborhood associations, training programs or other venues in which some level of trust already existed and from which a more solid borrower group might emerge.

A lesson learned: Group technologies tend to be more effective in closely-knit communities.

Last but not least, Calmeadow recognized that poor peer screening was sometimes a result of clients' not taking the system seriously. For some, it was an intentional effort to commit fraud. For others, it was simply a question of priorities. Some borrowers needed money, so they went through the application process, being careful not to disclose too much information and occasionally stretching the truth a bit, but being generally sincere. They repaid their loan if things worked out all right, but if things did not work out for them or for another member of their group, they did not worry about it. They did not consider the longer term consequences of their default, or if they did, they decided their money was

[24] The thirteen percent figure includes professionals such as doctors, dentists, architects and consultants.

better spent elsewhere than on repairing their own, or someone else's credit problem.

Metrofund reworked its orientation and pre-loan training to motivate clients to be more serious about their relationship with the fund. It also clarified internal policies and procedures and built in mechanisms for holding both staff and clients more accountable to the fund's standards. For example, before receiving a new group's loan application, a Metrofund staff person reviewed the workbooks of the group's members to ensure that each of the required steps of the group formation process had been carried out, and to discuss the information, questions and concerns that came up during the process.

In June of 1995 a new collections manual was developed to assist fund managers in handling delinquent loans. It was divided into two sections: theory and practice. The theory section defined delinquency, described the different strategies employed by delinquent borrowers, and suggested various counter strategies to be used in the debt collection process. The practical section used a case example to illustrate the use of these strategies.

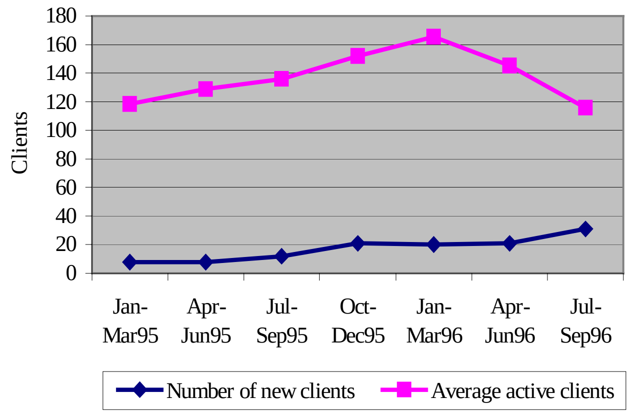
By the end of July, Metrofund had begun to implement the policies contained in the manual, particularly the written documentation of delinquency correspondence with clients. It had also set up a system with the TransUnion Credit Bureau to record clients' credit history with the fund. By September, a new loan management system, GMS, enabled Metrofund to identify late payments immediately. This further facilitated its delinquency management.

The establishment of these policies, procedures and systems brought increased rigor and discipline to the fund. The systems, of course, needed to be tested and integrated with other elements of Metrofund's operations, but they were an important next step towards sustainability. Clients were informed of all these developments so they would know what to expect in the case of delinquency and hopefully be discouraged from delinquent behavior.

Summarizing the Period

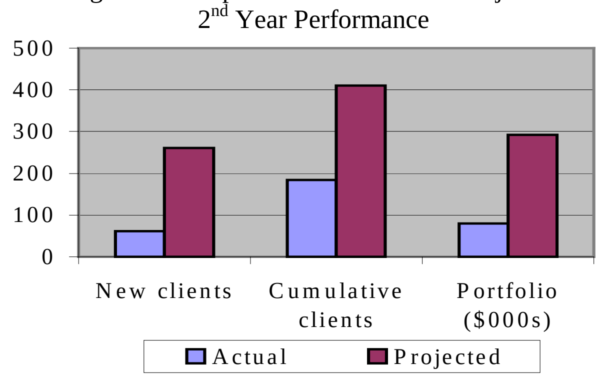
The actions taken by Metrofund since its initial boom-bust cycle began to show positive results by the end of its second year of operation. As shown in Figure 2, the number of new clients served each quarter grew consistently over the period. It grew sufficiently to maintain the fund's average active client base despite the number of individuals who were leaving the fund due to the delinquency problems described above. Metrofund's active client base reached a low of 104 borrowers in October 1996 and then rose for the next thirteen months in succession.

Figure 2: Metrofund's Client Base,
January 1995 to September 1996



The value of the fund's outstanding portfolio was also maintained. In March 1995 it was at $79,085 and one year later, it was at $80,041. By the end of October 1996, it had begun to grow and was valued at $107,722. As shown in Figure 3, Metrofund came nowhere near achieving the budget projections for its second year, but it did succeed in stabilizing its situation. Its housecleaning resulted in $52,659 in write-offs, and lowered its arrears to 3.5% of its outstanding portfolio.[25]

Figure 3: Comparison of Actual and Projected
2nd Year Performance



[25] Calmeadow Metrofund, "Statistical Summary at October 31, 1996."

The Development Phase

Once Metrofund brought its delinquency under control, established a referral network, consolidated operational policies and procedures, and installed an appropriate loan management system, the project was ready to move on. The strengths and limitations of its group loan product were clear. It could serve a portion of Calmeadow's target market effectively, but it was not an appropriate product for many of the clients Metrofund wished to serve. Borrowers wanted the option of working with Calmeadow on an individual basis and they wanted access to larger loan amounts than those available through the group lending product.

Metrofund believed that responding to these needs was key to its viability. Its five-year life as a pilot project was already half over and it was far from achieving its original objectives. Metrofund needed to attract more clients and it had to do a better job at retaining the clients it already had. Staff believed that the revisions made to the group lending product would make it more effective in the future, but they also believed that the fund needed to offer more than one product to attract and retain a sufficient volume of clients to achieve self-sufficiency.

In late 1996, Calmeadow's new Executive Director, Paul Royds, worked with Vida Dhaniram to create a business plan for what was called "the development phase." The plan was designed to respond to the client needs that had been identified and to focus Metrofund on the challenges of reaching scale and profitability. It was to guide the fund's activities for the next five years and aimed to move the fund from a client base of 116 active borrowers and an outstanding portfolio of $107,722 on November 1, 1996 to 1,436 active clients and an outstanding portfolio of nearly $4 million by the end of 2001.

New Products

At the core of Metrofund's growth strategy was the introduction of two new products: individual loans and a working capital line of credit.

The introduction of an individual loan product was anticipated for several years already. The 1993 feasibility study that led to Metrofund's creation had recommended it, but had suggested that individual loans be introduced as a "second level" product once the fund had established itself, refined its operations and management systems, and had the opportunity to gain more insight into its clientele.[26] By October 1996, Metrofund had achieved these things, so it was a logical next step to introduce the new service.

Metrofund's rationale for offering an individual lending product was three-fold:

1) To serve the needs of microentrepreneurs identified as having larger loan requirements than available through the peer group lending model, but who remained outside the scope of the formal banking sector.
2) To provide a continued source of credit to successful graduates from the peer lending program who had established themselves as creditworthy.
3) To generate additional revenue for Metrofund to assist it in achieving its goal of financial viability, while effectively subsidizing the cost of lending to the smallest and neediest microentrepreneurs through the peer group lending model.[27]

It was relatively easy for Metrofund to make the decision to provide individual loans to borrowers who had already participated successfully in its peer group lending program. The fund wanted to be able to reward the performance of such borrowers, and to give them the opportunity to manage their credit as independent actors according to loan terms that met their personal needs. Since Metrofund had already established relationships with these borrowers, it would be in a strong position to judge their creditworthiness, and therefore, could minimize the risk associated with providing partially collateralized loans to individual microentrepreneurs.

It was a much more difficult and riskier undertaking to offer large, individual loans to first-time borrowers. The fund did not have the systems or skills to manage this type of lending. It would have to define new eligibility criteria and documentation requirements, set policies on collateral registration and collection, develop more sophisticated screening mechanisms, and hire staff with lending experience

[26] Burnett 13.

[27] Calmeadow Metrofund, " Individual Lending Proposal," May 1995, 1.

Table 5: Calmeadow Metrofund Product Matrix as Proposed in 1996

Product	Peer Group Loan	Individual Loan	Line of Credit
Target Market	• Newer businesses • Smaller scale or less sophisticated entrepreneurs • Individuals who place high value on business and social peer support	• Established businesses (i.e. one year or more) • Larger scale enterprises wishing to have a one-to-one relationship with Metrofund	• Established businesses (i.e. one year or more with a Metrofund borrowing record) • Businesses requiring supplementary working capital • Requires one-to-one relationship with Metrofund Account Manager
Pricing	• 12% fixed interest rate • 5% fee at commencement	• 12% fixed interest rate • 6.5% fee at commencement	• 12% fixed interest rate • $10 flat monthly fee
Maximum Term	3 to 24 months	3 to 60 months	3 to 60 months
Limits	$500 to $5,000	$1,000 to $15,000	$1,000 to $15,000
Product Features and Benefits	• Borrower participation in approval process • Continued borrowing through group repayment • Proving ground for individual or conventional loans • Knowledge and experience gained reviewing group business plans • Mutual professional and personal support from borrowing group	• Borrowers receive one-to-one account service • Flexible loans geared to need • Service is consistent with conventional lending approach • Higher level of planning and training experience • Speaks to freedom of choice for microentrepreneurs	• One-to-one service to supply working capital needs • Alignment with chartered bank account management facility using Calmeadow "brand" • Established, successful borrowers will qualify • Sophisticated borrowing tool in the hands of mature borrowers

Source: Calmeadow Metrofund "Business Plan: Development Phase 1997-2001," Appendix F-1.

and business analysis skills. Employees who were around at the time confirm that it was not an easy process, yet in March 1997, Metrofund made its first two individual loans, and by the end of the calendar year, it had made ten more.

Metrofund lent up to $15,000 to individual clients based primarily on their character and repayment capacity. Borrowers had to be in business one year and, in the absence of a strong guarantor, they had to provide some kind of collateral. They also had to present a business plan, a credit bureau report, and references. With an annual interest rate of 12% and an administration fee of 6.5%, the individual loan product was priced below the services of finance companies and department store credit cards but higher than regular credit cards. Its price reflected the higher cost of personally managed small-balance business loans.[28]

Beginning in the second year of its development phase, Metrofund planned to make an additional product available to its clients: a working capital line of credit. Lines of credit were to be authorized for up to $15,000 to clients with an established business who had at least one year of successful borrowing with Metrofund or who could supply appropriate collateral and/or guarantor support. The product was intended to serve borrowers who needed financing for inventory purchases. For them, an operating line of credit would be far more appropriate and beneficial than a fixed-term loan.

Table 5 summarizes the characteristics of Metrofund's new package of products. As shown in the table, the group loan product remained essentially the same in the development phase, although its administrative fee was raised from 3% to 5% of the original loan amount. For both group and individual loans, Metrofund decided to set a higher fee for initial loans and to lower that fee over

[28] Burnett 6.

time as a borrower's loan size increased. This was to help compensate for the higher relative cost of processing borrowers' initial loans. Line of credit clients would simply be assessed a flat administrative fee of $10 per month.

Getting to Scale

The increased product offerings were key to Calmeadow's strategy of getting to scale. With more products, Metrofund would be able to provide valuable services to a wider range of clients. It would be able to improve its client retention by offering an alternative to clients who outgrew their groups. Larger individual loans would also mean higher portfolio volume, lower costs, increased operational efficiency, and therefore, higher cost recovery.

Contributing to Calmeadow's optimism about the opportunities available to Metrofund in its development phase was the increasing evidence of a large and growing demand for microcredit in the greater Toronto area. In a 1996 SEDI-sponsored project, Bain & Company estimated the number of self-employed entrepreneurs requiring microloans to be approximately 15,600.[29] With the termination of the Youth Venture Loan Program, and the closure of both the Greater Toronto Loan Fund and the Black Community Credit Union, there were few surviving loan funds available to meet this demand.

Metrofund was well-positioned to supply the needed services, yet by the end of 1996, it had only 114 active borrowers. Clearly, translating microentrepreneurs' identified need for credit into a demand for Metrofund's services would be a major challenge in the years to come.

Although it still lacked clear answers, Metrofund was much more knowledgeable about its target market than it had been three years ago. It was beginning to understand what it meant to serve an invisible and very dispersed market. Most of its clients ran home- or street-based businesses. Many were not registered, few belonged to an industry or professional association of any kind and most did not publicize their enterprise beyond word-of-mouth.

Metrofund was also beginning to understand the diversity of its market. It served young and old, men and women, immigrants from Africa, the Caribbean, Eastern Europe, South Asia, East Asia, and South America. It lent to clients from 24 different neighborhoods in the greater Toronto area, some with Masters degrees and others with less than high school education. Some borrowers were social assistance and employment insurance recipients; others had full-time jobs. Together, they operated a wide range of businesses, as shown in Table 6.

Table 6: Types of Businesses Operated by Calmeadow Metrofund Borrowers

Business Type	% of Clients
Clothing: Design and Manufacture	15.4
General Sales (Retail, Wholesale, Import/Export)	12.8
Health and Hygiene: Hair Salon, Barber, Massage, Cosmetics, Fitness	11.0
Arts and Crafts (including jewelry)	7.3
Restaurant/Catering/Food Preparation	6.4
Graphic Design, Printing, Copies, Desktop Publishing, Books, Newsletters	6.4
Audio-Visual (Photography, Video, Music)	6.1
Computer Consulting (Webpage Design, Networking, Hardware and Software Sales and Service)	5.8
Janitorial/Cleaning Services	5.2
General Services	5.5
Professional: Accounting, Bookkeeping, Legal, Insurance, Finance, Administration, Temp	4.4
Teacher/Tutor/Daycare	2.6
Mechanic/Repair: Bicycle, Car, Appliance	2.6
General Consulting	2.3
Furniture: Manufacture and Sales	2.0
Other	2.0
Construction/Contracting	1.2
Landscaping/Plant Nursery	0.9

Source: Calmeadow 1998 Annual Report

[29] Cited by Rafael Gomez, "The Market for Microcredit in the Greater Toronto Area: A Summary," Calmeadow Metrofund Market Research Report, December 1998, 2.

With such a diverse and hard to reach clientele, Metrofund concluded that another key to its future growth would be the continued strengthening of its referral network. It had already established numerous contacts with community, ethnic and other social organizations, training centers, banks, and financing companies, as well as with provincial, federal and municipal governments. In its development phase, Metrofund planned to leverage its marketing efforts by building on these relationships. The more that strategically placed organizations knew about Metrofund, the greater the chance that a microentrepreneur would come into contact with someone who would share information about Metrofund's services. Already, Metrofund had noticed more information requests coming in from a larger variety of sources as its contact network spread.

Metrofund was unsuccessful at identifying one particular type of organization from which it could recruit a jackpot of clients, but it thought it might be able to identify specific neighborhoods or communities that would be more receptive to its services than others. It allocated a monthly budget of $500 to experiment with local advertising efforts designed to build awareness of Metrofund in specific communities.

While the massive public relations campaign that helped to launch Metrofund ultimately proved problematic, it certainly succeeded in raising the visibility of the fund. Similar initiatives in neighborhoods with a concentration of the kind of clients Calmeadow wanted to reach might be more effective. Metrofund experimented with media outlets such as community newspapers, ethnic organizations' newsletters, women-oriented publications, radio advertising and community television advertising (when pro bono air time was available). A brochure emphasizing the nature and target market of Metrofund's products was produced and distributed in libraries, community centers, immigration centers, training centers, ethnic chambers of commerce, and educational institutions.

In addition, Metrofund made two more important moves that were designed to help it grow. First, it physically relocated to an office downtown that was near bus, streetcar and subway lines and had space for a conference room and client business center. Although criticized for being located in the center of Toronto's intimidating financial district, rather than a storefront office in a more welcoming neighborhood, the Bay Street location was a reasonable solution because it provided relatively easy access for clients coming from all over the city.

A lesson learned: When searching for loan officers, look for individuals who: 1) come from a similar socio-economic background as the clients to be served; 2) have an aptitude for field work; 3) are committed to the program and to people in general; 4) are able to relate easily and well to the target population; and 5) are honest, independent and responsible.

Second, Metrofund hired additional personnel. Previously, the fund had been run by a manager and one other loan officer or administrative assistant, and maybe a volunteer or two, but this organizational structure was deemed insufficient for implementing the changes described above. In January 1997, Violeta Quintanilla was hired as a full-time outreach coordinator. In March, Sergei Sawchuck was brought on board as a credit officer. In May, a former Metrofund client, Susan Weekes, was hired as an account administration officer. The three employees were hired not just for their technical skills, but also for their ability to relate to prospective clients. This mix had a very positive impact on Metrofund's outreach efforts as described in more detail later in the document.

A lesson learned: Hire someone who is familiar with a particular ethnic community to do outreach and build a referral network within that community.

Achievements and Challenges

During the April 1997 – March 1998 fiscal year, Metrofund reached new heights. Its active client base grew 112% while its outstanding portfolio grew 135%. Outreach during the period was extremely successful, particularly within the Latino community where Quintanilla targeted her marketing efforts. More first-time loans were made between February and August of 1997 than had been made during the previous 36-month history of the fund.

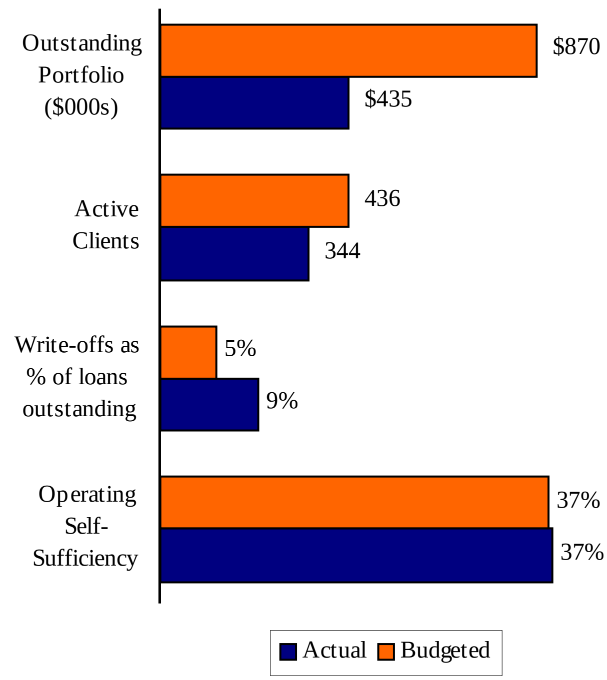
The year ended with mixed results, however. After reaching a high of 358 active clients with an outstanding portfolio of $455,603 in November 1997, Metrofund experienced a decline in both the number of clients it served and the quality of its portfolio. It was a modest decline, but a decline nonetheless, and it was a disappointment to those who thought the fund had finally taken off on a sustainable growth path.

As highlighted in Figure 4, Metrofund fell short of the goals it had set for the first year of its development phase. It made fewer loans, retained fewer clients, disbursed less money, and wrote off a larger percentage of its outstanding portfolio than it had hoped. However, despite all of this, it covered 37% of its operating costs with the revenue generated by its operational activities. This is exactly the target that it had been shooting for, and was a significant improvement over the 14% cost coverage that it had achieved the year before.

The next four months were uncertain ones for Metrofund. The total number of active clients continued to decline, but the rising number of individual borrowers resulted in an outstanding portfolio volume that remained essentially unchanged over the period. The lack of growth was attributed to several factors including seasonal variations, personality conflicts among staff, and a leadership vacuum. Calmeadow's Executive Director resigned for personal reasons in late 1997 and Dhaniram left in May 1998. Morale was low among the three Metrofund staff who remained, but their commitment to Calmeadow was still high. Weekes, Sawchuck, and Carla Kendall, who was hired as a senior loan officer in November 1997, believed in what Metrofund was trying to do and longed to play a more participatory role in helping it achieve its goals.

Certainly, a great deal of progress had been made thus far. Metrofund was still the largest microloan fund in Canada and was among the largest in North America. It had more than four years of experience working with the peer group lending methodology and more than a year's experience working with individual loans. It had experimented with a variety of outreach strategies and had shown that high growth rates are achievable. What Metrofund had not yet been able to prove was the long-term viability of its operations. Was growth sustainable? Could it ever reach sufficient scale to cover the costs of its operations? What did it need to change to achieve this goal? These are some of the questions with which Metrofund entered its next stage.

Figure 4: Comparison of Projected and Actual Performance during the First Year of the Development Phase



Testing the Viability of the Model

In July 1998, Tony Farebrother came on board as Metrofund's third manager. With a background in finance and accounting, a commitment to community economic development, and more than seven years experience managing the Bread and Roses Credit Union in Toronto, Farebrother brought a fresh and informed perspective to the fund. His expertise, together with Metrofund's level of maturity, made it possible to put the stand-alone microloan fund model to a fairly rigorous test.

Under Farebrother's leadership, Metrofund set out to determine three things in particular:

1) How many microentrepreneurs could it realistically hope to reach? Is the potential market large enough to provide economies of scale?
2) With economies of scale, could Metrofund serve its market in a sustainable manner? Could it generate enough income to cover the costs of its services?
3) Using the stand-alone microloan fund model, could Calmeadow have the impact it desired on its clients' economic development?

Metrofund sought the answers to these questions through a combination of initiatives that included internal efforts to increase efficiency and volume, an intensive marketing experiment in a neighborhood with a high concentration of potential clients, and empirical research into the delinquency and impact of the fund. Each of these areas is explored in more detail below.

Operational Initiatives

The operational issues that Metrofund dealt with during this phase were no different than those addressed in previous phases. It endeavored to provide a valuable service, and through that service, to generate sufficient revenue to cover its costs. What changed during this phase was the program's emphasis. Metrofund now needed to focus on the long-term viability of its operations. In particular, it needed to concentrate on increasing its income and decreasing its costs.

Metrofund had three options for increasing the amount of revenue it generated. It could: 1) raise its prices; 2) expand its client base; or 3) increase the amount that the average client borrowed. Raising prices was an unrealistic option for the fund. Not only would it have been difficult to implement given the social pressure against charging higher interest rates to the poor, but it would also have been likely to hinder the fund's efforts to attract and retain quality clients. The fund was already lending at rates that were within the range of retail credit card companies and it wanted to stay below the rates of finance companies, which had a poor public reputation. Thus, Metrofund chose to focus on the second and third options, making a greater effort to be strategic in its outreach, to retain current clients, and to increase the scope of its individual lending.

On the cost side, Metrofund was fairly constrained. Since it already operated on a relatively tight budget, it had only two options for decreasing costs in any significant way. It could increase the productivity of its staff – either through the number of clients they served or the size of the portfolio they managed – or it could lower its arrears rate. Metrofund made efforts in both areas.

Individual Lending

During its first year of individual lending, Metrofund made 35 loans. This modest level of activity gave the fund an opportunity to experiment and to refine the new product while still operating at a relatively small scale. Based on its experiences with the introduction of its group loan product, Metrofund's caution seemed justified.

After a year of experimentation, however, everyone was eager to expand the fund's individual lending. Both loan staff and management believed that doing so would be key to increasing Metrofund's portfolio and, consequently, its income.

The product was expected to contribute to growth, first and foremost, by helping to retain customers. The group loan product was a hard sell to begin with, and those clients who bought into the idea of solidarity group borrowing often lost interest fairly quickly. By providing an individual loan, Metrofund hoped to reduce its desertion problems.

The individual loan product was also intended to attract more clients, particularly those who operated larger and more established businesses. This expectation seemed realistic in July 1998, given that Metrofund's average initial individual loan of $6,413 was more than six times as large as its average initial group loan of $1,060.[30]

To increase Metrofund's individual lending, Farebrother introduced two main changes when he came on board. First, he gave all credit officers the authority to manage a portfolio of individual borrowers (previously, only the manager dealt with these loans). He gave them the freedom, within certain established limits, to set loan size, collateral, and documentation requirements based on the merits of each borrower. The change was deemed feasible because Metrofund's two loan officers had sufficient experience to make wise credit decisions. Their recommendations, however, were reviewed by an external credit committee that was created to provide loan officers with feedback, oversight, and training.

Second, Farebrother made it an outreach priority to spread the word about the existence of the individual loan product. Few referral agencies were aware that a new product had been introduced, and those that did know had very little information about it. Clearly, the fund needed to market its new product better. It designed and distributed new brochures, updated its information sheets for the two loan products, and re-established its relationships with key referral agencies and their staff.

Together, these changes produced almost immediate results. As shown in Figure 5, the number of new individual borrowers began to increase in the third quarter of 1998. During the eighteen-month period lasting from July 1998 to December 1999, the number of active individual borrowers grew 413%, and the size of the individual lending portfolio grew 367%. This contributed to significant growth in Metrofund's total client base and active portfolio, as shown in Figures 6 and 7. By December 1999, individual borrowers represented 57% of Metrofund's 429 active borrowers and 79% of its $1.5 million outstanding portfolio.

Figure 5: Growth in the Number of Individual Borrowers

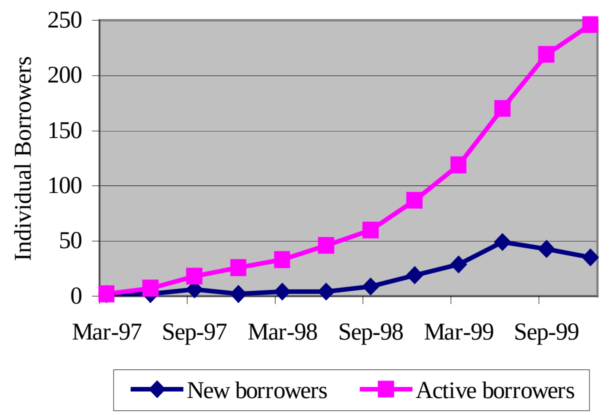


Figure 6: Growth in Metrofund's Portfolio, June 30, 1998 to December 31, 1999

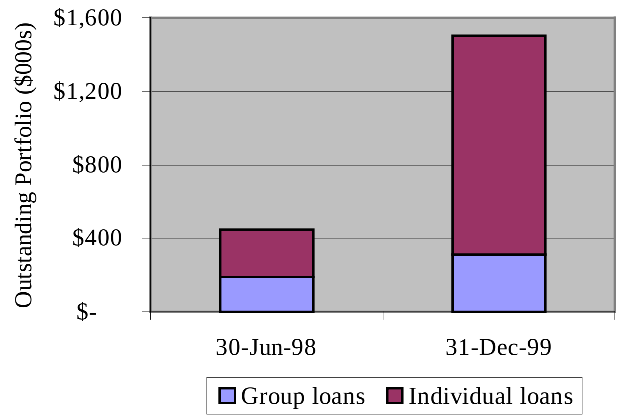
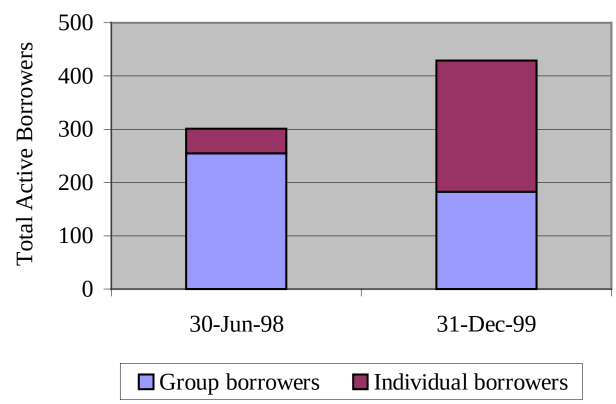


Figure 7: Growth in Metrofund's Client Base, June 30, 1998 to December 31, 1999



[30] Eric Santor, "Impact Analysis," Calmeadow Metrofund Survey Research Report, October 1999, 3.

Strategic Outreach

Metrofund experimented with a variety of different marketing channels during its first three years of operation. None of them had proven to be the link to a jackpot of potential clients. When Farebrother arrived, it was unclear how the fund might best recruit new borrowers.

There was a general sense that the fund needed to review its experiences thus far as well as undertake some additional research to identify outreach strategies that produced the best results. Metrofund had established contact with some 400 referral agencies, yet Farebrother found that few of these relationships had been maintained. Even in the self-employment training programs where Metrofund staff made regular presentations, teachers and advisors often had old information. Since these advisors thought they had "heard it all before," they left the room when Metrofund made presentations. Thus, they never found out about changes and developments within the fund, such as the introduction of its individual loan product.

In response, Farebrother and his team set out to make Metrofund more organized and systematic about its outreach. They identified key referral sources and sought to build stronger relationships with the staff of those organizations. Separate campaigns were developed for particularly strategic referral sources, such as the self-employment training programs. In March 1999, a research project was launched to help identify which outreach strategies were the most cost-effective.

Metrofund redesigned its information flyers to be more user-friendly. Appendices B and C contain the 1997 and 1999 versions of the flyer for individual loans to facilitate a comparison of the product and its marketing over time. The new flyer employed a question and answer format that explained the basic elements of the loan *process* and not just the requirements of borrowing. It was more specific about the details of the loan, yet it expressed Metrofund's desire to be flexible and to examine the merits of each application on a case-by-case basis. With sentences such as, "Your business is important to us," the new flyer was obviously designed to be a marketing tool, and not just a channel for information delivery.

Besides approaching its existing outreach methods more strategically, Metrofund experimented with several untested yet creative marketing approaches. First, it put its application materials on the Internet. The decision to do so was a rather casual response to an offer by Calmeadow's Technical Support Unit, which was revamping Calmeadow's website at the time. It proved, however, to be auspicious. The vast majority of potential borrowers who inquired about Metrofund had access to the Internet and, once they were given a website address, could immediately obtain additional information and an application. They did not have to wait for documents to be sent and Metrofund did not have to absorb the mailing costs. This was also a cost-effective way of processing preliminary inquiries by potential applicants.

A lesson learned: the Internet can be a cost-effective way of distributing information and application forms to both current and potential clients.

A second strategy involved hooking up with the call centers of major banks to access the upper echelons of their rejects. Metrofund actually negotiated an initial arrangement with the Business Development Bank of Canada that led to several referrals being made, but the relationship, and the outreach strategy in general, got bogged down in the nuts and bolts of facilitating the referrals. Most call centers dealt with callers from across the country, so it was difficult to single out only the Toronto candidates for referral. If a call center succeeded in doing so, it then had to figure out how to provide the referral in a way that preserved the confidentiality of the client's application, yet did not complicate its processes too much. Clearly, sending Metrofund a list of rejected clients together with their names and addresses was not an option, yet having call center representatives fax a special letter to rejected clients on a case by case basis advising them of Metrofund's services proved to be more trouble for the banks than it was worth. Ultimately, it was a good idea that no one could figure out how to implement.

A third strategy was Metrofund's brief attempt at adopting a more decentralized agent strategy to leverage its limited resources. It forged a partnership with the Lake Simcoe Self-Employment Training and Information Center through which the center would make loans on behalf of Metrofund.

According to Farebrother, it was a smart strategy for finding clients because the center was well-connected with the community and its staff could screen potential borrowers. It was also, however, a costly strategy. As Calmeadow found in its earlier experiences with the First People's Fund, decentralized operations could be labor-intensive. Metrofund had to train Lake Simcoe staff and guide them on their first few loan applications, but with very few borrowers, it was difficult for the local representatives to gain expertise. Soon, turnover at the Center necessitated additional training from Metrofund, which eventually realized that the partnership was going to drain rather than augment its resources. It abandoned both the relationship and the decentralized strategy in general.[31]

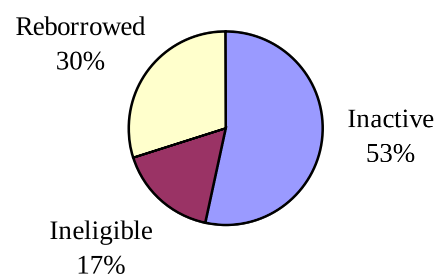
Client Retention

By June 1998, Metrofund was well aware that client retention was critical to achieving sustainability. The more borrowers stayed with the program, the larger the fund's client base and portfolio would grow. Repeat borrowers generally borrowed larger amounts, so retaining clients would also increase the fund's average loan size. Furthermore, since loan officers tended to spend less time on the application and assessment processes of repeat borrowers, retaining more clients should improve the fund's operating efficiency.

Unfortunately, by the end of May 1998, only 312 of the 653 clients that Metrofund had served over time continued to be active borrowers. Since the fund did not systematically track client retention, Farebrother did not know how to interpret this seemingly high dropout rate when he arrived at the fund. He conducted a small experiment, gathering data on all clients who had repaid their loans during the four-month period from February to May 1998 in an effort to understand Metrofund's current retention pattern.

As shown in Figure 7, only 30% of the ninety clients who completed their loan during the period decided to borrow again. Seventeen percent were deemed ineligible for future loans because they had frequently been delinquent in making their loan payments. The remaining 53% of the sample consisted of clients with whom Metrofund would have liked to maintain a relationship, but who had decided not to borrow again.

Figure 7: Post-Repayment Decisions, February to May 1998



Farebrother attempted to contact the individuals who fell into this category to find out why they had chosen not to borrow. Many had either moved or changed phone numbers so they could not be reached, but of those who were contacted, five said they would be interested in taking a loan in the future, but did not want to do so immediately. Two were dissatisfied with some element of Metrofund's service, two were no longer in business, and one had decided she did not want to borrow again because she did not like having debt.

While Farebrother's informal sampling was hardly comprehensive, it indicated the presence of former clients who were interested in staying in touch with Metrofund, but with whom Metrofund was not staying connected. The fund's policy at the time was to drop clients from its mailing list once they no longer had an active loan. Farebrother changed that policy so that clients who Metrofund wanted to retain would be identified in the information system as "inactive" and would continue to receive updates from the fund.

Farebrother's informal sampling also prompted the fund to take a more in-depth look at why borrowers leave the fund. Loan officers began conducting more systematic exit interviews with departing

[31] Working Capital has experimented with the decentralized agent model over a much longer period of time and recently completed a series of working papers on its lessons learned. Part three of the series was written by Jeffrey Ashe, the founder of Working Capital, and is a particularly interesting resource for any organization that is considering the implementation of a decentralized agent lending model.

borrowers, and external researchers helped gather extensive data on borrowers who had already left the fund. The results of this research are discussed later in the document.

Within three months of Farebrother's arrival, Metrofund introduced financial incentives to make it more attractive for existing clients to maintain their relationship with the fund. The pricing structure of both loan products was adjusted so that repeat borrowers would benefit from a lower interest rate and administrative fee commensurate with their on-time repayment performance. Beginning in September 1998, the annual interest rate on first time loans was set at 13% and was lowered by one-half percent per repeat loan to a minimum rate of 11%.[32] The administrative fee for first time borrowers remained at 6.5%, but was reduced by one quarter of a percent for every $1000 increase in the loan amount to a maximum of $425. Metrofund knew that these changes would decrease its revenue in the short-term, but if the changes succeeded in increasing client retention, the additional income generated would more than compensate for the loss.

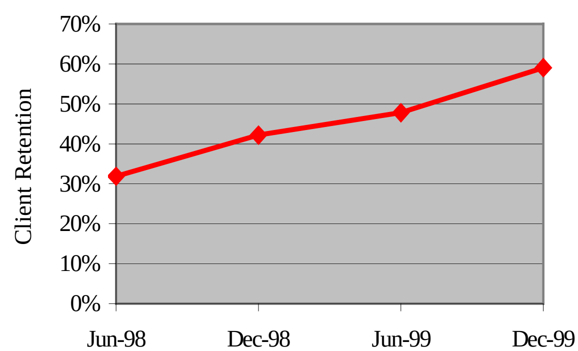
A lesson learned: Send good clients a letter of congratulations when they finish paying off their loan. It creates an opportunity to sustain a relationship with clients by providing information about their future borrowing options, and by inviting them to take advantage of other services the institution has to offer.

Metrofund also took a closer look at the non-financial services that it had introduced in the last two years. Calmeadow had recognized by 1998 that it was inappropriate to take a purely minimalist approach to providing credit for microentrepreneurs in Canada.[33] Its clients demanded other services, and it was Metrofund's willingness to provide these services that helped set it apart from other lenders. The fund's networking and marketing efforts had weakened during the first half of 1998, due in part to the departure of Quintanilla, the outreach coordinator who had supported client volunteers in making most of the events happen, and in part to uncertainty about the future direction of the fund.

During the second half of 1998, Metrofund placed renewed emphasis on these services. Five networking/marketing sessions were planned for the coming year in addition to the annual picnic, and the newsletter was reinstated as a bi-monthly publication that was timed to coincide with advertising for the events. A Quick Reference Guide for Small Business was compiled to help place useful referrals at borrowers' fingertips (see Appendix D). Calmeadow also formalized its relationship with CESO, an organization of volunteer, retired and semi-retired managers and executives, to make free business consultation services available to Metrofund's clients. Once a week, active borrowers could make an appointment to meet confidentially with a Volunteer Business Advisor.

These initiatives, together with others described in this section, proved effective in improving Metrofund's client retention rate, as illustrated in Figure 8. By December 31, 1999, the fund was retaining approximately 59% of its clients annually, whereas eighteen months earlier it had been retaining merely thirty-two percent.

Figure 8: Client Retention Rates, June 1998 to December 1999 [34]



Productivity

At the end of June 1998, Metrofund's client-to-staff ratio was at a level of 100 borrowers per loan

[32] Prior to September 1998, Metrofund's loans were all charged a 12% annual rate of interest. Due to a 1% rise in the prime lending rate earlier in the year, Metrofund decided to increase the interest rate on its first time loans by 1%, and to simultaneously institute the 0.5% rate reduction for each repeat borrowing.

[33] Calmeadow, "Annual Report 1998-1999," 11.

[34] Retention rates were estimated using the following formula: 1 – [(active clients one year ago + new clients – active clients at year end) / (active clients one year ago)].

Table 8: Calmeadow Metrofund Incentive Scheme

Minimum Requirements Targets that must be met for any reward to be received	Quantitative Incentive Portfolio-at-Risk (worth up to 7.5% GSDP)	Quantitative Incentive Growth in Active Client Base (worth up to 7.5% GSDP)	Qualitative Incentives (worth up to 5% of GSDP)
• Portfolio-at-risk over 30 days is < 10% • Loan loss rate (write-offs) for the previous 12 months is < 4% of average outstanding portfolio • Number of active clients increases during the period	• If portfolio-at-risk < 8%, reward = 1% GSDP. • If portfolio-at-risk < 7%, reward = 2% GSDP • If portfolio-at-risk < 6%, reward = 4% GSDP • If portfolio-at-risk < 5%, reward = 7.5% GSDP	• If miss target by less than 5%, reward = 2.5% GSDP • If miss target by less than 2.5%, reward = 4% GSDP • If meet target, reward = 5% GSDP • If exceed target by 2.5%, reward = 6% GSDP • If exceed target by 5%, reward = 7.5%	• Criteria are determined at the beginning of each quarter for each loan officer by his/her respective manager • Incentive is customized to each person's responsibilities and the unique circumstances of each quarter

Note: GSDP = loan officer's gross salary during the period

officer, with each loan officer managing an average portfolio of $150,000. These ratios were above average for North American institutions, but they fell far below the 250 clients and $615,000 portfolio per loan officer targets that Metrofund had set for the period.

One of the major challenges Metrofund faced during this stage was to test how close its staff could come to meeting the established goals. Calmeadow had calculated that a 250 client per loan officer ratio was necessary to achieve self-sufficiency, but it had yet to determine whether this level of productivity was attainable.

Productivity was a problem for two main reasons. First, many of Metrofund's clients were quite needy and they demanded a lot of time and energy from loan officers and other staff members. Often staff fulfilled the function of social workers and counselors to help customers work through emotional and financial crises.

Productivity was also undermined by geography. Metrofund served the entire metro Toronto area and some borrowers lived more than an hour away. Since all staff relied on public transportation, a business assessment or a delinquency visit for one client could take the better part of an afternoon.

Beginning in latter half of 1998, Metrofund staff strove to achieve higher levels of productivity, particularly the loan officers. They understood the challenge at hand and were relieved to have Farebrother give them more operational freedom and a larger role in decision-making than they had had in the past. The more participatory environment was initially very motivating. Later, Metrofund found that it had carried decentralization too far and needed to make adjustments to provide a level of structure and direction that effectively supported staff.

In early 1999, Metrofund made an effort to motivate its staff through financial rewards. It introduced a performance-based incentive system through which loan officers could earn quarterly bonuses worth up to 20% of their base salary by meeting certain portfolio volume and loan quality targets. As shown in Table 8, seventy-five percent of the incentive was awarded based on quantitative targets that applied to all loan officers equally. Twenty-five percent of the incentive was customized for each loan officer to motivate improvement in specific areas. Minimum standards had to be met for any bonus to be received.

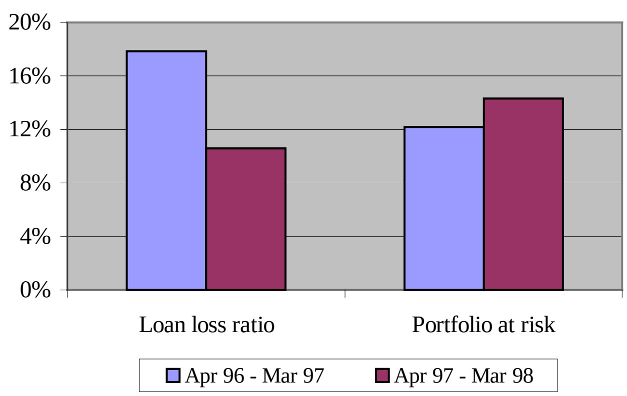
Loan officers were involved in designing the system and in identifying what they thought to be appropriate targets, yet the system ultimately proved ineffective in motivating their performance. Metrofund's portfolio quality took a turn for the worse soon after the system was implemented and few loan officers received bonuses after the first two quarters of 1999.

Nevertheless, by the end of 1999, Metrofund's loan officers were managing an average of 143 clients and a portfolio of $500,000, which represented a substantial improvement over the previous June. One loan officer actually achieved the goal of managing 250 clients, but she also came very close to burning out and ended up leaving the fund in January 2000. Interestingly, she noted that it was not the incentive system or the pressure placed on her by others that motivated her to work so hard, but rather, her relationships with her clients.

Delinquency Management

Even though Metrofund lowered the percentage of borrowers who defaulted during the 1997-1998 fiscal year, its loan loss ratio still remained relatively high at the end of March 1998 at 10.6% (see Figure 9).[35] Even more disturbing was the rise in its portfolio at risk ratio, from 12.2% to 14.3% during the same period.[36] Clearly, the fund still had delinquency problems and managing them became a top priority for the rest of 1998 and 1999.

Figure 9: Delinquency Management from 1997 to 1998



While the level of arrears was perhaps understandable given the high-risk market Metrofund was serving, it was also costly, both in terms of the financial losses sustained on defaulted loans, and in terms of the time and energy staff spent following up on delinquent clients. Farebrother and his team recognized this and began, almost immediately, to implement policy changes that would attack the problem from three different angles.

First, they attempted to move the fund slightly up market, so that it could diversify the risk it incurred when it lent to microentrepreneurs with start-up businesses or poor credit histories. For example, during the process of identifying key referral sources, staff paid attention not only to the quantity of referrals generated by each source, but also the quality of the clients. Many of the fund's most successful borrowers had been graduates of Self Employment Assistance Programs, which were intense and competitive training programs funded by the federal government. The microentrepreneurs who graduated from these programs were well prepared to take advantage of Metrofund's services and loan officers found it relatively easy to establish a conscientious relationship with them. The programs provided a limited market for Metrofund, since banks also served many of the graduates, but because of the quality of the referrals they provided, the fund worked hard to maintain strong relationships with them.

Second, as already discussed, Metrofund tried to strengthen the incentives to encourage clients to repay their loans on time. Group borrowers could hope to access individual loans, and all clients could look forward to lower prices if they paid on time. The fund also looked into the possibility of introducing a credit card or line of credit, since research had indicated that more than 85% of its current borrowers were interested in such a product.[37] Given the high demand, it would have probably been an effective carrot for motivating clients to develop a longer term and more serious relationship with the fund. Unfortunately, Metrofund found that the line of credit would be extremely complex to administer and would require some kind of partnership with a financial institution. A credit card product seemed more feasible, but its cost was prohibitive, particularly given the number of clients whom the fund would have trusted with the product.

The bulk of initiatives introduced in an effort to better manage delinquency fell into a third category, which consisted of internal policy changes designed to reduce risk through the fund's processing of loans.

[35] The loan loss ratio is calculated as the total amount written off during the period / average outstanding portfolio during the period.

[36] Unless stated otherwise, portfolio at risk is calculated as the outstanding balance of loans in arrears > 30 days / average total outstanding portfolio.

[37] Rafael Gomez, "A Summary of Calmeadow Borrower Characteristics: Evidence from the 1998 Calmeadow Client Survey," Calmeadow Metrofund/Nova Scotia Market Research Report, December 1998, 3.

- Weekly staff meetings were held to review all applications for loans over $2,000 as well as any collections problems. In Farebrother's words, "the meetings provided staff with an opportunity to understand and learn from each other, and it ensured that collections were given the priority they deserved."[38]

- An external credit committee was created to review all applications of $5,000 or more. It consisted of three volunteers: one from a national bank, one from a local credit union, and an accountant. Farebrother was present at the meetings, as were the loan officers who proposed the loans.

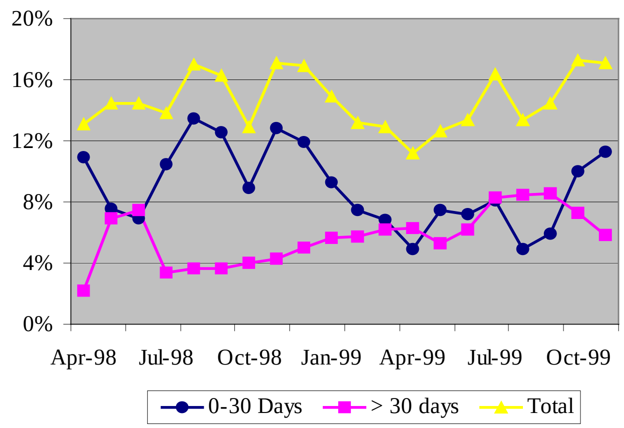
- An effort was made to rely less on collateral and more on guarantors in assessing individual loan applications. Since cosigners could vouch for the applicant's character and the potential of the enterprise, they were expected to provide a more effective guarantee than collateral, which was difficult to collect and often had little market value.

- A $50 application fee was introduced for new individual loans, which was deducted from the borrower's administration fee if the loan was approved. The idea behind the fee was to discourage less-than-serious applications. Given that several applicants' checks bounced during the first six months of the new policy, it seemed to have been a wise idea.

By the end of the 1998–99 fiscal year, Metrofund had reduced its delinquency to the lowest level in its history. It wrote off a total of $35,000 in bad debt, which represented 6% of the average outstanding portfolio during the year, and its portfolio at risk over 30 days stayed below 5% for most months of the period.[39]

But then things started to go wrong. By September 1999, Metrofund's portfolio at risk more than 30 days had risen to 8.5% of the current outstanding portfolio, and its total portfolio at risk (taking into account arrears of 30 days or less) was 14.4%. There was little consensus at the time as to what exactly was causing the higher delinquency, but recent interviews with staff highlighted several factors that were thought to have contributed to the problem.

Figure 10: Portfolio at Risk as a Percentage of Current Outstanding Portfolio[40]



First, the internal credit meetings had broken down. Rather than improve communication and learning, they had increased tension among staff and eventually became counterproductive. Loan officers found it difficult to have their decisions judged by peers, particularly when the criticism given was more personal than professional. Unfortunately, the meetings were never replaced with a more productive alternative and the quality of the loan approval process no doubt suffered as a result.

The external credit committee continued to operate, but it too had difficulty fulfilling its mandate. Metrofund had hoped to create a team of private sector advisors who would guide it in the prudent assessment of loan applications. The volunteers that served on the committee did their best to carry out this function and, indeed, provided some valuable hands-on training to loan officers in the assessment of loan applications. However, since the committee as a whole was not held accountable for the decisions it made, its effectiveness was limited.

If the external credit committee had been given a dual role of approving loans and reviewing performance, it would have had an opportunity to learn from its decisions and could have provided

[38] Tony Farebrother, Interview, October 26, 2000.

[39] Martin Connell, Letter to Calmeadow Board of Directors, May 20, 1999.

[40] This is the only table that tracks portfolio at risk as a percentage of current outstanding portfolio. Monthly data on average outstanding portfolio was not available so the current outstanding portfolio value was used for illustrative purposes.

more insightful advice in the future. It could have also transferred additional expertise to Metrofund staff by helping them resolve problems that developed with some of its larger loans. Metrofund had been reluctant to request this level of commitment from volunteers, but in retrospect believes that such participation would have made a significant difference in the effectiveness of the committee.

A lesson learned: For an external credit committee to be effective, it must be part of the process of monitoring performance on the loans it approves.

Despite its efforts to focus less on collateral, Metrofund found that few clients had a guarantor to offer as part their individual loan application. This meant that it had to rely on collateral, personal and professional reference checks, and site visits to assess a borrower's level of commitment. Unfortunately, it was difficult to judge commitment on the basis of the assets clients had to offer as collateral. Used equipment, inventory, or a four-year old computer could have a great deal of value to a client who was serious about her business and needed the assets to operate. However, they could also be odds and ends that were offered up by a not-so-serious borrower. In any case, they were small and could easily disappear. Reference checks and site visits were much more valuable ways of judging a borrower's commitment, but they were not always carried out as part of the loan approval process.[41]

Some suggested that these steps were skipped because of the pressures and time constraints that loan officers faced as they increased their portfolio volume. This definitely became a problem in the area of collections. Metrofund had a policy of giving loan officers thirty days to resolve collection problems with their clients before turning over any files to a collections officer. The idea was to encourage loan officers to take responsibility for the loans they had approved and to find ways of creatively resolving problems together with their clients, thereby taking advantage of, and perhaps strengthening, the staff-client relationship. Collecting past due payments was not an easy task, however, because loan officers had a lot of other responsibilities. They had to do marketing, enter data, make reference checks, approve loans, and counsel clients. Collections needed to be top priority, but it often was not.

Lessons Learned from Write-Offs: [42]

Be wary of loan applicants who:

- *are in a hurry to get a loan and who fail to fill their application in full. If they don't have the time to fill in their information properly, nor have the patience to wait a few days, then maybe they need the money for something other than business purposes.*
- *have poor credit histories and have done little to rectify their situation (i.e., they may have a loan in collections or written-off, but if they are making payments then it shows that they are assuming responsibility).*
- *lack a stable residence. There must be a place to run the business; if applicants move around too much, then their business can't be stable.*
- *have references (landlords, etc.) that are difficult to get a hold of. For organizations that do character-based lending, it is important to talk to others to verify what is stated on the application.*
- *have not disclosed their true credit position on the application. The most direct way to judge the honesty of the applicant is to compare their application to their credit bureau report—there should be very few differences.*
- *fail to present any business records when applying for repeat loans. For first loans, one can be flexible in terms of records requested, but for each larger subsequent loan the clients should become more serious about their record keeping.*
- *cannot provide identification and other supporting documentation.*

[41] Site visits were a contentious issue at Metrofund. Some managers believed they were vital to the loan approval process, while others believed they were not cost-effective, particularly for smaller loans. By the end of 1999, there was increasing consensus that a client's reluctance to accept a site visit was a fairly good indication that he/she was not being honest about his/her situation. For this and other reasons, the site visits were increasingly valued, but were still operationally challenging to implement.

[42] Excerpt from a memo written by Sergei Sawchuk, former Metrofund loan officer.

There are two more factors that were thought to have contributed to Metrofund's delinquency management problems: 1) insufficient training; and 2) growth. By the end of 1999, Metrofund's loan officers were convinced that they needed more training to effectively evaluate individual loan applications, particularly those of first-time borrowers. Without the benefit of an established client relationship or peer group support, loan officers had to rely more on their own assessment of clients' character and capacity to service debt, and they realized that their skills in the latter area were weaker than originally thought.

Finally, growth in the size and number of individual loans increased the concentration of Metrofund's portfolio. When the portfolio consisted entirely of $1,000 to $5,000 loans, a single bad loan did not do much harm, but as Metrofund began making more $10,000 to $15,000 loans, individual borrowers began to have a larger impact on the overall quality of the portfolio. In this respect, growth increased the fund's portfolio risk, particularly when the factors discussed above combined to decrease the effectiveness of the loan approval process in general.

The Davenport Project

The Davenport project was a marketing strategy and a research initiative rolled into one. Designed to test the depth of the market that Metrofund was trying to reach, the project consisted of two components: a targeted outreach campaign and a market research initiative, both of which were applied within a specific geographic area – the federal political riding of Davenport, just west of downtown Toronto.

The Davenport area had a population of approximately 84,000 at the beginning of 1999, which represented 3.6% of the total population of Toronto. It was chosen as Metrofund's test market because of its high concentration of potential clients. The area had relatively high rates of self-employment and unemployment, a large immigrant population, and a lower than average household income.

Outreach Analysis

The outreach component of the Davenport project began in March 1999 and lasted nine months. Its aim was to generate as many new clients for Metrofund as possible by focusing outreach intensely on a limited geographic area.[43] By targeting its efforts, Metrofund hoped to eliminate some of the problems it faced when trying to serve a widely dispersed population, and perhaps generate some new ideas about how to operate efficiently in a large, urban context.

The fund also hoped to gain a better understanding of the unique characteristics of the Davenport community. It wanted to use this enhanced understanding to build and maintain a more intricate network of referral sources, to improve its assessment of loan applications, and to forge closer relationships with clients, since they would be located nearby. It expected that stronger relationships with its referral sources and its clients would improve character assessments, encourage more borrowing, and bring Metrofund closer to sustainability.

To support the project, Joni Sharkey was hired as a full-time outreach coordinator and worked together with the Davenport-Perth Neighborhood Center to establish community networks, to promote Metrofund's loan products, and to generate referrals. General information sessions were held at the community center one evening each week, and a Metrofund loan officer was regularly present at the center to meet with both existing and potential clients.

Ultimately, the outreach project was less successful than anticipated. It generated a total of 184 referrals and 24 new clients over a nine-month period. Given that the result was made possible by the full-time effort of one staff person and the part-time effort of at least two others, the impact was significantly less than that achieved by Metrofund's other staff without the additional cost of an intensive campaign. During the same nine months, Metrofund's four loan officers recruited 166 new clients, more than three times as many new borrowers per person than in Davenport.

Of course, the short-term time frame of the Davenport project skewed its results. The research component of the project suggested that a significant

[43] This section draws heavily from the Calmeadow Research Report prepared by Suzanne Bradley and Joni Sharkey entitled, "Highlights from the Davenport Outreach Project, March-October 1999."

lag exists between the time individuals hear about Metrofund and the time they are ready to actually make use of its services. Thus, it is possible that the outreach initiative would have generated more significant returns if it had remained operative for a longer period of time.

Recognizing that the project was limited by its nine-month time frame, the results of the outreach campaign were still valuable, particularly in terms of the insight they provided into the effectiveness of various marketing strategies. Each of the outreach methods employed during the project was evaluated based on its cost and the number of inquiries and loans it generated.

A lesson learned: Mass-marketing can be a very useful tool for generating name recognition, but it is a difficult tool to focus. Grassroots marketing is more labor intensive, but can be used to target and develop contacts in specific communities with high demand potential.

In general, the outreach methods that proved to be most cost-effective within the budget and time parameters of the project were referrals from community groups and training organizations, press articles, in-person visits, and a collaborative self-employment workshop that was conducted with other community organizations. The methods that proved least effective—bus ads, newspaper advertisements and postering—were not only more expensive, but were also more likely to result in an inappropriate fit between the needs of potential borrowers and Metrofund's loan requirements. Additional details on the evaluation results can be found in Appendix E.

A lesson learned: Newspaper articles written about Metrofund proved to be more effective and less expensive than general advertisements in the same newspaper. Not only did they generate more inquiries, but they improved Metrofund's legitimacy and provided a more comprehensive profile of the organization than general ads. [44]

A lesson learned: Loan officers should make an effort to speak directly with the owners of the neighboring businesses of existing and potential clients. Besides helping assess the character of a borrower, it gets the word out about the service the loan fund has to offer.

Sizing up the Market

The second component of the Davenport project was a market research initiative to assess the demand *potential* for Metrofund's services. Conducted by Suzanne Bradley, it complemented the outreach campaign described above by providing a rich database that could be used to better understand the characteristics of the market in Davenport, and to offer some insight into the potential of Metrofund's Toronto market more generally.

The research initiative had three objectives: 1) to identify the needs of microentrepreneurs in the Davenport area; 2) to estimate the level of latent demand for credit; and 3) to estimate the size of the market for Metrofund's services. Data was collected over a four-month period through the use of a short survey, which was conducted by telephone and in person. Bradley used community business directories, local newspapers, door-to-door visits, and tear-away ads on bulletin boards to develop a database of more than 600 microentrepreneurs. Of this total, approximately 200 participated in the survey.[45]

The research concluded with several useful observations.[46] First, it indicated that nearly one-third of the microentrepreneurs surveyed had a latent demand for credit; in other words, they cited the inability to access credit as an impediment to the operation of their businesses. When asked to explain the reasons for their exclusion from the credit market, these microentrepreneurs responded as shown in Table 9 (see next page).

The research noted that microentrepreneurs with a latent demand for credit tended to own businesses that had been in operation for more than one year but

[44] Metrofund did not pay for articles to be written, but the advertising it purchased in local newspapers seems to have been important in establishing a relationship with the media.

[45] Suzanne Bradley, "The Davenport Market Research Project, July-October 1999," Draft Calmeadow Research Report, June 2000, 4.

[46] Bradley 19-20.

less than five years. They were also frequently members of an immigrant community, although the relationship between being an immigrant and having a latent demand for credit was not significant for all ethnic groups. There seemed to be a link between the degree of establishment of each ethnic community and its ability to access credit, i.e. the longer the community had been in the area, the more likely it was to have already built relationships with financial institutions. No clear relationship was found between having a home-based microenterprise and having a latent demand for credit.

Table 9: Credit Barriers Identified by Microentrepreneurs with a Latent Demand for Credit

Personal Barriers
Poor credit history (20%) No credit history (11%) Bankruptcy (5%) Lack of assets/collateral (5%) No guarantor (2%)
Business Barriers
Erratic business earnings (8%) Lack of documentation (3%)
Institutional Barriers
Poor bank services (12%): - high fees - impersonal process - red tape - strict qualifications - hassle - intimidating Assumed barriers to small businesses (9%) Ethnic/gender discrimination (5%)

Source: Santor, Cameron, Bradley and Sharkey, 19.

In addition to credit barriers, microentrepreneurs cited a number of other challenges to their businesses, both financial and non-financial in nature. Table 10 on the following page summarizes the results of a survey question that asked respondents to rank the primary obstacles to the operation of their business and to list suggestions for overcoming each obstacle. Based on these results, the research report recommended the provision of non-financial training in areas such as advertising, cash flow, market research, customer service and networking to assist microentrepreneurs in overcoming their respective obstacles.

Perhaps the most important outcome of the research was the identification of a vast gap between the number of microentrepreneurs with an interest in microcredit and the number with an interest in Metrofund's services. Twenty-one percent of those surveyed indicated an interest in microcredit, but only 2.5% of the total actually applied for a Metrofund loan.

The research suggested three reasons for this gap: 1) those who expressed an interest in microcredit may not have been prepared to apply for a loan during the time period of the research; 2) they may have disliked the services Metrofund had to offer; or 3) they may have decided that they would not meet Metrofund's borrower requirements and therefore self-selected themselves out of the potential applicant pool. Whatever the reason, the 2.5% ratio was surprisingly low and suggested that Metrofund's market may not be particularly deep.

Using a Human Resources Development Canada estimate of 121,169 total microentrepreneurs in Toronto, the Davenport research report suggested that although the aggregate level of demand for microcredit within the city was approximately 23,022 microentrepreneurs, the number of microentrepreneurs who would actually be willing to borrow from Metrofund at any given time was much smaller (see Table 11). Having observed a realized demand of 2.5% of the microentrepreneur population in Davenport, and having projected an actual demand in the area of 5.0%, the report estimated that Metrofund's real market potential lay in the range of 4,570 to 9,140 borrowers, representing a portfolio of $23 to $46 million.

Table 11: Estimating Metrofund's True Market Potential

	Percentage	Number
Total microentrepreneurs in Toronto	100%	121,169
Microentrepreneurs interested in microcredit	21%	23,022
Microentrepreneurs who would be willing to borrow at any given time	2.5 – 5.0%	4,570 – 9,140

Source: Santor, Cameron, Bradley and Sharkey, 22-3.

Table 9: Ranking of Business Obstacles and Challenges

Rank	Obstacle/Challenge	Suggestions from Microentrepreneurs
1	Lack of capital (15%)	- take out a loan - borrow from friends and family - work harder to find a job
2	Heavy competition (14%)	- diversify business/change business - provide better customer service - cut prices
3	No obstacles or challenges (13%)	N/A
4	Lack of a client base (10%)	- provide better service - increase level of advertising - close the business
5	Access to credit (8%)	- get a loan - get a government grant
6	Marketing/advertising (6%)	- advertise locally - network - hire a marketing staff
7	High taxes (5%)	- share location/change location
8	Cash flow (4%)	- find a part-time job - get overdraft protection or a loan
9	Government regulations (3%)	- lobby government/speak out
10	Lack of workspace (2%)	- change location
11	Lack of managerial skills (2%)	- learn by doing - take a business course

Source: Santor, Cameron, Bradley and Sharkey, 17.

Research Initiatives

Besides the market research carried out in Davenport, Metrofund engaged in several other research studies, which were carried out by two PhD students at the University of Toronto, Rafael Gomez and Eric Santor. Together, they collected and organized an impressive set of data on the entire population of clients who had been served by either Calmeadow Metrofund or Calmeadow Nova Scotia up to August 30, 1999. The data were drawn from client files and from a survey that Gomez and Santor designed and administered.

For Metrofund, the research yielded particularly useful information in the areas of delinquency and impact, so these are the two topics explored in more detail below. The statistics cited in this section pertain only to the 969 borrowers that were served by Metrofund during the time period of the study.

Delinquency

The research on delinquency was designed to help Calmeadow understand the incidence and causes of late payments and default and to provide suggestions to improve the application, assessment, and monitoring processes. For Metrofund, the research contained several surprises:

- It revealed that 25% of all borrowers had defaulted on a loan.
- It suggested that, all other things being equal, wealthier, more experienced borrowers were not better credit risks. Household income, assets, and business revenues were not correlated with borrower success.
- It showed that business characteristics such as start-up status, being home-based, or a sole proprietorship did not predict default.
- Finally, it argued that good repayment history was not an accurate predictor of future repayment.

On this last count, the research made two interesting observations. First, good performance on an initial loan did not necessarily signal good performance on later loans. Table 12 provides an example by assessing the repayment performance of borrowers who had obtained three loans from Metrofund by July 1998. The “active borrowers” repaid their loan in full and continued as active clients in August

1999. The "inactive borrowers" repaid their loan in full but were not active clients as of August 1999. The "delinquent borrowers" did not repay their loans.

Table 12: Average Number of Late Payments by Third-time Borrowers

	First loan	Second loan	Third loan
Active borrowers	0.70	1.35	2.40
Inactive borrowers	0.90	1.00	2.11
Delinquent borrowers	0.38	1.15	5.08

Source: Santor, "The Incidence of Borrower Default," 15.

As shown in the table, delinquent borrowers actually performed better on their first and second loans than did active borrowers. They had an average of 0.38 late payments on their first loan while active borrowers had an average of 0.70 late payments. On their second loan, delinquent borrowers had an average of 1.15 late payments; active borrowers had an average of 1.35.

The second observation proved to be the flip side of the first. Not only was a good repayment record not necessarily a predictor of success, but early repayment difficulties were not found to signal eventual default. As shown in Table 13, successful borrowers actually had repayment problems much earlier than those who eventually defaulted. On average, active borrowers made their first late payment just 1.2 months after receiving their first loan, while delinquent borrowers, on average, did not register their first late payment until 2.3 months after receiving their first loan.

Table 13: Average Number of Months before First Late Payment

	First loan	Second loan	Third loan
Active borrowers	1.20	1.60	2.10
Inactive borrowers	1.43	1.74	3.28
Delinquent borrowers	2.31	4.54	4.08

Santor, "The Incidence of Borrower Default," 16.

According to the research, demographic characteristics seemed to have a significant power in predicting delinquency. Borrowers were more likely to default if they were young, male, born in Canada, single, or had less than a high school education. They were less likely to default if they were older, married, or had self-employment training.

A lesson learned: Self-employment training implies a lower chance of default.

Despite the fact that the study analyzed more than twenty different variables, its regression analysis could explain only 23.5% of the causes of default. Although the implications of this finding were many, Santor summed them up when he wrote:

> Simply put, the quantifiable information contained in the loan application form may not provide much useful information for predicting the incidence of default and, thus, the screening process must acknowledge this reality….Loan managers will need to rely more on qualitative measures to screen potential clients.[47]

A lesson learned: Being a member of a club, team, association or organization that meets fairly regularly is significantly and positively correlated with business success. [48]

Impact

In the area of impact, Calmeadow was interested in answering two questions. First, was Metrofund reaching the type of client that it had set out to serve? Second, were borrowers better off because of having had access to Metrofund's loans?[49]

"Calmeadow has significant impact in economic terms."

~ Eric Santor, University of Toronto

Tables 14, 15 and 16 present an overview of the research results in this area. Together, they clearly indicate that Metrofund was reaching the kind of clients that it had been designed to serve, and

[47] Santor, Cameron, Bradley and Sharkey, 12.

[48] Rafael Gomez and Eric Santor, "Membership Has its Privileges: The Effect of Social Capital and Neighborhood Characteristics on the Earnings of Microfinance Borrowers," October 2000, 17.

[49] The data in this section is taken from Eric Santor, "Impact Analysis," Calmeadow Metrofund Survey Research Report, October 1999.

furthermore, that it had been doing so consistently over time. As of August 1999, the average borrower had a net worth of just $6,779 and a household income of $1,636 per month, which was below the poverty line as defined by Statistics Canada. The profit generated by their businesses ($1,258 per month) may seem small, but the impact was substantial for households that lived so close to the poverty line. Almost 40% depended on their business as their principal source of income.

Table 14: Profile of Metrofund's Clients as of August 1999

Demographic Characteristics
• 56% of all borrowers are female • Ethnically diverse clientele • 53% are immigrants (were not born in Canada) • 17% are less than 30 years old; 12% are more than 50 years old;[50] the average borrower age is 42 years
Household Characteristics
• Average household income of $1,636 per month • Over half of all borrowers receive income from government sources (SEA, EI, social assistance) • One-third of all borrowers do not participate in the labor market • 39% of borrowers rely on self-employment as principal source of income • Average household net worth is $6,779 • For 40% of clients Calmeadow is only source of credit
Business Characteristics
• Average business revenues of $2682 per month; profits of $1,258 • 74% of businesses are located in the home • 32% of businesses are startups • Average age of businesses is two years.

Source: Eric Santor, "Group Lending and Borrower Default: An Empirical Assessment," Working Paper, October 2000, Appendix 3.

The question of whether or not clients were better off as a result of having borrowed from Metrofund was more difficult for the researchers to answer. As shown in Table 15, the revenue, profits and net worth of Metrofund clients did increase, even for those who had completed just one loan. On average, borrowers' business performance increased with subsequent loans. Clients who had completed three loans saw the net worth of their business grow more than two and a half times more than clients who had completed only one loan.

Table 15: Changes in Household Income and Business Performance

Variable	Borrowers with a 2nd loan; n =	Borrowers with a 3rd loan; n =	Borrowers with a 4th loan; n =
Monthly household income	$51	$321	$122
Monthly revenue	$1,067	$1,031	$2,829
Monthly expenditures	$482	$801	$2,197
Monthly profits	$587	$229	$632
Assets	- $674	$3,657	$19,527
Liabilities	- $2,310	- $226	$15,103
Net worth	$1,637	$4,029	$4,423

Source: Santor, "Impact Analysis," 6.

Table 16 presents a trend analysis of borrower characteristics over time. Metrofund's total client base as of July 1998 was divided into four relatively equal groups, with group one being the first set of clients to join the fund and group four being the last. As shown, Metrofund served a greater proportion of immigrants and women over time. It consistently served start-ups and those who had no other access to credit.

Table 16: Trend Analysis of Borrower Characteristics (%)

Category	Group 1 (Apr to Aug 94) n =	Group 2 (Sep 94 to Mar 97) n =	Group 3 (Apr to Sep 97) n =	Group 4 (Oct 97 to Jul 98) n =
Immigrant status: born outside Canada	23.9	52.3	55.8	61.0
Female	47.8	51.2	56.0	62.2
Currently unemployed	31.3	37.2	23.7	42.1
Business income is major or only source of income	35.4	50.7	38.9	31.5
No other sources of credit	43.8	42.2	38.4	39.5
Start-up business	35.1	31.1	35.5	37.8

Source: Eric Santor, "Profiling Calmeadow's Borrowers," 7-9.

[50] Craig Churchill, "Calmeadow Metrofund and Nova Scotia Operational Review," June 1998, 7.

This suggested, but could not confirm, the fund's generally positive impact. Without a control group, there was no way to determine whether the changes had actually resulted from Metrofund's services, or whether they had been the result of a combination of other factors, such as client ambition or an improvement in the macroeconomic environment.

Santor and Gomez also expressed concern that, despite improvements in the average borrower's situation, Metrofund loans appeared to leave many borrowers worse off. They found that roughly one-third of all borrowers reported lower profits and business revenue after receiving a loan and nearly 25% of all borrowers eventually defaulted. Surely, this had negative implications for many borrowers' self-esteem, credit history, and business development.[51] Even those borrowers who improved their net worth often did so with a significant increase in their liabilities, as shown in Table 15.

Thus, although the two researchers recognized that Metrofund's loans "may help a significant number of individuals develop their own businesses and attain new levels of self esteem and empowerment," they also challenged the fund to "seek ways to ensure that its credit is extended to those borrowers who will be able to successfully capitalize on their new opportunities and not fall deeper into debt."[52] Their challenge was one of those considered as staff paused to reflect on the results of Metrofund's testing phase.

[51] Santor, "The Incidence of Borrower Default," 7.

[52] Santor, "Impact Analysis," 3, 6.

Reflecting on the Results

By November 1999, Metrofund was nearing the end of its sixth year, and Calmeadow had to make a decision about its future. Was Metrofund achieving its objectives, or at least, was it making sufficient progress toward its objectives to warrant additional fundraising?

There was little doubt that Metrofund was achieving its social objective. Clients such as Diego Nazar, Bibi Nusrat, Anna Mendez and Lisa Julian-Pitter were proof of the program's impact (see box at right). Their success stories, and the stories of others like them, made Calmeadow eager to find ways of continuing to provide microfinance services.

It was equally clear, however, that Metrofund had not met its commercial objective, and there was uncertainty about whether it could ever meet it. As of November, the fund was covering only 40% of its costs.[53] Could it do better, or was the credit-led, stand-alone microloan fund model an inefficient strategy with which to pursue sustainability? Some of the issues that Calmeadow reflected upon in an effort to answer this question are considered below.

The Potential Market

In the projections for its development phase, Metrofund had estimated that it would need 1,436 active clients and a portfolio of $4,213,478 to come close to breaking even. With 429 clients and an active portfolio of $1,528,560 as of November 31, 1999, Metrofund was only one-third of the way towards achieving that goal. Knowing that it would need to capture greater economies of scale to achieve self-sufficiency, Calmeadow re-evaluated the market environment within which Metrofund operated to determine the potential for future growth.

The environment had changed considerably since the early 1990s, when credit was tight, and privatization, corporate downsizing and a weak economy all contributed to the rapid expansion of self-employment. In 1993, Calmeadow's research had

[53] This forty percent figure is an overstatement of Metrofund's true level of sustainability since the fund received back office and oversight services from Calmeadow that were not included in its financial statements.

Stories of Client Success

Diego Nazar and his wife Jais Frenandas started D&J Cleaning Professionals, a housekeeping service. With a $1,000 loan from Metrofund, they advertised and distributed flyers in various neighborhoods of Toronto and then hauled their cleaning equipment on public transit to reach clients' homes. With a second loan of $2,000, they were able to buy a car and expand their business to serve clients in more distant locations. After three years in business, Nazar was contracting people to work for him while he went to school full-time to get a business degree.

Bibi Nusrat used her $1,000 Metrofund loan to start a daycare. After completing a four-month diploma course, she used the loan to design a play-room in her home, buy toys and books, and install a swing in her backyard. At the time of her second loan, she was caring for five pre-school children and made $21 per day for each child. Plus, she was able to care for her own four children.

Anna Mendez lost her job due to company downsizing. In the same month, her husband lost his job as well. They decided to be honest with the bank about their situation and asked to have their mortgage payments temporarily reduced. The bank responded by calling their mortgage and Anna and her husband were forced into personal bankruptcy. Deciding she had nothing left to lose, Anna turned to self-employment and started her own international marketing company. With her first Metrofund loan, she purchased the materials she needed to get started. With her second loan, she purchased a computer and printer. With her third loan, she financed a business trip to Argentina and secured contracts to export bicycles to Chile and Argentina. She later opened a warehouse and has since become one of the major contractors for salvage clothing and store returns in Toronto.

After Lisa Julian-Pitter's marriage broke up, she turned to self-employment to support herself and children. She designed a business plan for her own esthetics business during a course she took with the Self-Employment Development Initiative (SEDI). SEDI introduced her to Metrofund and with a $1,000 loan, she opened Natural Choice Mini Spa. Julian-Pitter started off in a small, one-room studio, but within four months, she had received a second loan, was employing a part-time assistant, and was looking to hire two hairdressers for the front of her salon.

described the potential for small business loans in Toronto as "vast."[54]

By 1999, the Canadian and Toronto economies had improved significantly. Jobs were more plentiful, unemployment was very low, and a smaller percentage of the economically active population was being forced into self-employment. An increasing percentage of the population was deliberately choosing self-employment as an alternate career path, but these microentrepreneurs tended to be educated, computer literate, and have access to financing.

Competition to supply small business loans had also increased quite radically. Thanks to credit scoring and automated teller machine technologies, banks were making loans under $15,000 in 24 hours or less through overdraft facilities, credit cards and lines of credit. The loans were approved by telephone based on a simple one-page application form. No business plan was necessary. Just three years earlier, it would have still been extremely uncommon to see a business loan of this size be approved by a bank.

Since Calmeadow's ultimate goal was for microentrepreneurs to have access to appropriate financial services, it saw the banks' movement down-market as a positive trend. Yet the change complicated Metrofund's strategy because the banks were effectively skimming off the top layer of the market that the fund had expected to serve. Those with a decent credit history could now obtain a bank loan no matter how small the amount or how short the term requested.

The increase in job and credit availability since 1993 begged the question of whether a market for Metrofund's services continued to exist. A number of surveys in the last three years suggested that there were still thousands of microentrepreneurs in the Toronto area who needed credit, but could not get access to it.[55] Using the HRDC's 1998 estimate of the number of microenterprises in Toronto, the studies would have predicted a potential market for Metrofund of between 27,000 and 54,000 microentrepreneurs.[56]

One could argue, of course, that those numbers were too high, since the studies estimated the number of microentrepreneurs who wanted access to credit and not the number who could actually benefit from a microloan. Metrofund's Davenport research suggested that the number of microentrepreneurs in the Toronto area who had the ability to service debt and would actually be ready to borrow at any given time was somewhere between 4,600 and 9,200.

Even if the Davenport estimates were correct, Metrofund could conceivably maintain an active client base of 1,500 clients. It would be difficult, though, particularly when its relatively high-risk borrowers would be scattered all over the city.

Reaching the Market

After six years of experimentation, the area of marketing remained something of a black box for Metrofund. It had tested a variety of different strategies, technologies and channels yet none of them had proven to be "the key" to effective marketing in a sprawling, urban community. If the fund were to continue operating, it would need to keep experimenting in this area.

A lesson learned: If you are trying to sell a loan product that is based on a personal relationship, you have to market it in a personal manner.

By 1999, Metrofund had learned that its marketing was most effective when it was carried out through referral relationships that were personal and well-maintained. Thus, its challenge in the future would be to develop a grassroots marketing strategy that affordably nurtured such relationships.

Metrofund saw no clear path to achieving this goal, but staff members generally felt that there was much that could still be done. For example, the fund could experiment with part-time outreach coordinators, who might even be interns contracted on a short-

[54] Burnett, 3.

[55] Calmeadow, "The State of Microcredit in Canada," February 1999. Also, Rafael Gomez, "The Market for Microcredit in the Greater Toronto Area."

[56] Calmeadow, "Calmeadow Metrofund: The Next Five Years, Sustainability and Success," Discussion Paper, December 1999, 15.

term basis, to do outreach in a particular neighborhood or ethnic community with which they were familiar. If such coordinators knew their community well, they could easily introduce Metrofund to key referral sources and could provide the links necessary to establish legitimate and appropriate relationships within the community. To maintain these relationships, Metrofund might find it more effective to work with five coordinators in five different communities who each worked just one day a week, rather than hire one full-time coordinator who would try to service all communities.

Metrofund could set up an ambassadors program similar to that of ACCION New Mexico, which trains select clients in leadership skills and public speaking so that they can become advocates for ACCION and for microentrepreneurs in general. Such client ambassadors could make presentations to policy makers, public officials, and the corporate and banking communities to inform them of the needs of the microenterprise sector and the potential to become involved as mentors for clients. They could also speak to community groups about Metrofund and host gatherings in their homes where other entrepreneurs could learn about the program.[57]

As Rafael Gomez pointed out in his 1998 research, Metrofund could also do more trade-based outreach. Gomez identified the occupations with the highest number of self-employed workers within the greater Toronto area and suggested that Calmeadow target some of its marketing to reach specific trades, namely property administrators, translators, interpreters, interior designers, and truck drivers.[58]

In sum, there were still options to explore, but exploring them would require a larger marketing budget, and that ran counter to the sustainability objective Metrofund was trying to achieve. As discussed later in this section, the gap between Metrofund's revenues and expenses was already quite large, and was growing. A significant increase in marketing expense would not be viable.

The Service Provided

Although Metrofund was designed to provide minimalist microcredit services, what it ended up offering was a basket of credit-led services that included a resource center, business advice, networking, mentoring, and more. Part of Calmeadow's reflection process was to consider the extent to which this basket of services actually met its clients' needs. Was the service it provided attractive enough to generate a sustainable volume of business?

"In order for a loan fund to be sustainable it must be relevant."

~ Mary Coyle, former Executive Director, Calmeadow[59]

Financial Services

On the credit side, Metrofund offered two products: a peer group loan and an individual loan. For more than five years, the peer group loan was its primary product. Then, in March 1999, it began to approve more individual loans than group loans, and by August, individual borrowers made up a larger percentage of its client base and portfolio than group borrowers.

Both staff and clients reportedly preferred the individual loan product, for many of the reasons cited in Table 17 (see next page). It was a more customized product and it avoided the hassle of group formation and management. Acknowledging, however, that the individual loan product was not appropriate for all borrowers, loan officers continued to recommend the group loan product to microentrepreneurs who they thought would benefit from it. Since March 1999, they disbursed an average of one group loan for every two individual loans, or approximately ten group loans per month.

By providing both loan products, Metrofund offered its clients a choice, and in many cases, a stepping stone for growth. Microentrepreneurs with no collateral, no cosigners and/or a poor credit history could get themselves established with a group loan and later graduate to a one-on-one relationship with Metrofund through an individual loan. The creation of this option no doubt contributed to the rising retention rates that were shown in Figure 8. These

[57] William Burrus and Katherine Stearns, "Building a Model: ACCION's Approach to Microenterprise in the United States," The US Issues Series, Document No. 1 (Colombia: ACCION International, February 1997) 24.

[58] Gomez, "The Market for Microcredit in the Greater Toronto Area," 5.

[59] See annex in Calmeadow, "Going Forward."

Table 17: Advantages and Disadvantages of Metrofund's Group and Individual Lending from a Client Perspective

	Advantages	Disadvantages
Group	• No formal collateral required • Group members can provide moral and/or monetary support • Feedback and brainstorming within the group can encourage more viable or creative business ideas • Offers networking and marketing opportunities • Can increase members' motivation and focus on the business due to the need to be accountable to the group • Useful for establishing or re-establishing a credit history	• Can be difficult and time-consuming to form groups and maintain them over time • Members are burdened with the financial risk of others • Everyone in the group must repay their loan before anyone can access another • Loan terms are not tailored to the needs of individual members • Personal information is shared with others • Members who are unfocused or unmotivated can be a drain on the group
Individual	• Tailored to clients' own financial and timing requirements • Retains confidentiality • Does not burden clients with the financial risk of others • Less hassle; no group meetings • Ultimate responsibility lies with one person	• No group support, networking or business advice • Must be in business for one year • Must have formal collateral or cosigner • Must have business plan

Source: Compiled from Churchill, 1998; and SELP, "Observations about Peer Group Lending in the US," February 2001.

rates, together with the solid level of new borrower interest observed in both 1998 and 1999, suggest that the financial services that Metrofund provided were valued by the market.

What Metrofund did not offer, and what its clients clearly wanted, was access to other financial services. According to research conducted by Gomez and Santor in July 1998, a line of credit would have been useful to 91.5% of borrowers; a Calmeadow credit card would have been useful to 88.3% of borrowers; and a Calmeadow savings account would have been useful to 63.3% of borrowers.[60] By not offering these products, Metrofund missed out on a dual opportunity to provide additional services of value to its clients and generate additional revenue for itself.

Metrofund's inability to find a cost-effective way of providing such services highlighted a strategic disadvantage of a stand-alone microloan fund. Resource constraints and scarce opportunities for cross-subsidization prevented it from developing a menu of financial services that would meet the majority of its clients' financial needs in the long-term. As a result, clients were forced to go elsewhere for such services and this weakened their relationship with the fund. Once they established a credit and business history, they could borrow from a bank or credit union and take advantage of all that relationship had to offer. This "graduation" of clients from Metrofund to a formal financial institution supported Calmeadow's ultimate objective – the economic development of microentrepreneurs – but it created problems for Metrofund's sustainability because it siphoned off the fund's best performers.

Non-financial Services

Metrofund offered a variety of non-financial services. These were not products in the traditional sense of the word. Metrofund did not charge for them. It provided them as a complement to its financial services in an effort to create a supportive environment for its borrowers and to distinguish itself from other lenders. Over the years, Metrofund experimented with a variety of these services in the hope of finding low cost ways of improving client satisfaction, retention and performance.

The service that proved most valuable was the support provided by Metrofund's loan officers. Besides guiding clients through the borrowing process, loan officers responded to requests for

[60] Gomez, "A Summary of Calmeadow Borrower Characteristics," 3-4.

business advice, gave technical assistance in the preparation of business plans, referred clients to other sources of support when appropriate, and offered personal encouragement. Most loan officers went out of their way to build relationships of trust and respect with their borrowers.

"Calmeadow has a multicultural staff, so when I talked about my difficulties and the barriers I faced in trying to establish my work, I felt that the representative could understand where I was coming from, instead of me talking to someone who had no knowledge of what it was like coming from another culture."

~ Chiyuka Savije, Metrofund client

Metrofund was wise to recruit loan officers who possessed not only the technical skills to manage a loan portfolio, but also the people skills to manage such relationships. The majority of its loan officers were women, many of whom belonged to a minority ethnic group. One was a former borrower. These loan officers could empathize with clients and could speak – both literally and culturally – in a language they could understand. Their ability to relate to clients was key to recruiting, motivating and managing borrowers in a character-based lending environment.

In their July 1998 survey, Gomez and Santor found that 85.3% of Calmeadow's clients rated the support they received from staff as either somewhat or very favorable.[61] Loan officers were proud of this record. Indeed, it was the strength of their relationships and the day-to-day impact of their interaction with clients that motivated them. This level of service was time-consuming, however, and the more Metrofund grew, the more difficult it became to provide the personal attention and support that clients demanded. Some loan officers counseled borrowers on their own time because they felt it was important, but they acknowledged that many clients needed more handholding than a sustainable Metrofund could provide.

Outside of the relationship with loan officers, the value of the non-financial services Metrofund provided was questionable. Certainly, the services proved useful to particular clients at particular moments in time, but on the whole, they did not seem to be highly valued. As of November 1999, only 15% of Metrofund's clients had taken advantage of the CESO business advisory service, despite the fact that 86.3% of clients had said that such a service would be useful in the July 1998 survey.[62] Few clients used the business center, and the turnout at networking events was increasingly disappointing. The client advisory committee had disappeared and volunteer interest in the newsletter had waned.

What happened? There is some evidence that Metrofund's reliance on volunteers and on the "spare time" of its loan officers to organize, market and implement non-financial services resulted in the deterioration of service quality as the fund's portfolio grew. With more loans to manage, staff members had less time to devote to non-credit activities and to motivating clients to take advantage of them. Furthermore, since Metrofund did not hire another outreach coordinator after Quintanilla's departure in December 1997, no one in the institution was specifically focused on the non-financial side of Metrofund's business. Under these circumstances it is hardly surprising that enthusiasm for Metrofund's non-financial services waned.

Of course, one must also question whether clients' lack of interest in Metrofund's non-financial services might have been due to their dissatisfaction with the nature of the service being provided. Did clients want the services Metrofund was offering? Did they need services that it was not providing?

"Our clients need more than just credit."

~ Carla Kendall, Senior Credit Officer

Even though Metrofund had not analyzed the impact of its non-financial services, its strong client relationships gave it a fairly good idea of what its borrowers wanted and needed. If it were to continue operating, Metrofund would need to take a closer look at the costs and benefits of the services it provided to make intelligent decisions about which services to discontinue, which to improve and how.

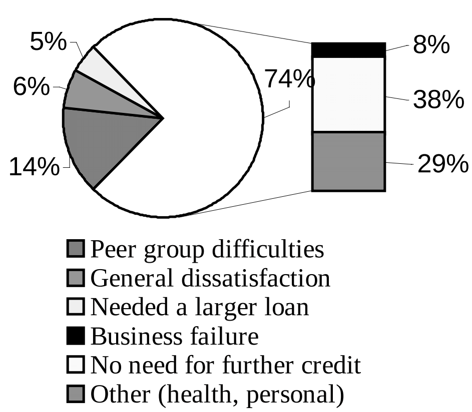
[61] Survey results reflect data collected from approximately 650 Metrofund borrowers and 70 Calmeadow Nova Scotia borrowers. Although Nova Scotia borrowers are included in the statistics cited, they are a relatively small number and the results did not differ significantly from the Metrofund only pool. See Gomez, "A Summary of Calmeadow Borrower Characteristics."

[62] Calmeadow, "Did You Know?" November 1999, 1. Also Gomez, "A Summary of Calmeadow Borrower Characteristics," 4.

This would not be a particularly complicated or difficult process. Staff were fully capable of gathering and analyzing the information necessary; they just needed to do so systematically, for example, by surveying borrowers or holding focus groups to identify in very specific terms what clients like and dislike and why.

The more difficult question concerned the services that Metrofund did not provide. Loan officers knew that borrowers had relevant business needs that were not being met and that this hampered their ability to manage their loans effectively. The survey conducted by Gomez and Santor seemed to support this conclusion. As shown in Figure 11, some 25% of clients left Metrofund out of dissatisfaction with some aspect of the program's current service while 75% left for business or personal reasons. Forty-six per cent of the time, clients left either because their business failed, or because it failed to grow enough to necessitate additional borrowing. If Metrofund wanted to retain these clients – if it truly wanted to see their businesses develop – did it need to offer services other than the ones that were currently in its basket? Did it need to do more to ensure that borrowers would be able to use its credit effectively?

Figure 11: Why Borrowers Left Metrofund [63]



Calmeadow's international experiences taught it that microentrepreneurs could benefit most from a minimalist approach to credit, but its domestic experiences demonstrated that the success of the minimalist model depended heavily on the environment in which it was implemented. In developing countries, the microenterprise sector was large and dynamic, there was a scarce supply of microcredit, and local economies were relatively undeveloped. This made it possible for microfinance institutions to provide affordable loans on a large scale, thereby removing the principal barrier to microentrepreneurs' development – the lack of access to financing.

The microenterprise sector in Canada, by contrast, was small, lacked cohesion and was hard to reach (see Table 18 on the following page). Microentrepreneurs faced complicated regulatory barriers, highly developed markets and exacting consumer quality standards. They had to compete with major suppliers of goods and services whose economies of scale gave them a huge price advantage. Access to credit was sometimes a barrier to microenterprise development, but it was only one of many.

To succeed as a microentrepreneur in such a demanding environment required commitment, creativity, a defined market, financing, and knowledge. Microentrepreneurs needed to know about accounting, business planning, quality control, health and safety regulations, and marketing.

What Metrofund provided was the financing, or at least, a piece of the financing. Even though its average loan was larger than that of most microfinance institutions in developing countries, its average loan as a percentage of per capita GDP was much smaller, as shown in Table 19.

Table 19: Average Loan Size as a Percentage of Per Capita GDP

Microfinance Institution	Average loan as a % of GDP per capita
Metrofund (Canada)	6
BancoSol (Bolivia)	104
BRI Unit Desa (Indonesia)	64
ADEMI (DR)	117
Calpia (El Salvador)	66
ABA (Egypt)	75

Source: Churchill 41.

Some staff members felt that Metrofund should be doing more to ensure that borrowers would be able to use those limited funds effectively. According to a recent article in the Journal of Development Entrepreneurship, ninety-five percent of microcredit

[63] Gomez, "A Summary of Calmeadow Borrower Characterisitics,"4.

Table 16: Comparison of the Microenterprise Sector in Developing Countries and in North America

Factor	Developing Countries	North America
Market Size	Majority of the population. Between 60 and 80% of the households in developing countries turn to self-employment to support their families.	Small minority of the population. Microenterprise accounts for 8 to 20% of employment.
Visibility	Large, visible demand for credit. Current clients do the marketing that attracts future clients.	Hidden demand for credit. Institution needs an aggressive marketing strategy.
Market Density	Concentrated. Fifty borrowers can be found in one local market.	Dispersed. Clients are expensive to reach – often one at a time.
Access to Financial Services	Extremely limited.	Many other options available.
Income alternatives	Few. No or poor welfare system. High unemployment and few formal sector jobs.	Many. Welfare system provides safety net. Low unemployment and vibrant formal sector.
Regulation	Less defined. Generally less constraining.	More complex. Lots of bureaucracy. Not always favorable to self-employment (e.g. licensing, taxation, zoning)
Barriers to Entry	Few.	Many (e.g. fierce competition from larger businesses, strict consumer quality demands, low profit margins).
Operational Costs	Relatively low for both clients and microfinance institutions.	Relatively high. Wages and rent, in particular, are expensive.
Loan Amounts	Nominally small, but relatively large (i.e. fifty dollars can have an impact). Average loan can be more than 100% of GDP per capita.	Nominally small and relatively small. Average loan just 6% of GDP per capita.
Interest Rates	Generally between 40 and 60% per annum.	Generally below 24% per annum.
Economies of Scale	Yes, incredible.	Difficult to achieve.
Experience	More than 25 years of experimentation with microcredit models.	Less than 15 years of experimentation with microcredit models.
Sustainable MFIs to Replicate	Yes	No

Source: Compiled from Churchill; Burrus and Stearns; and Schreinter.

organizations in the United States were providing training services or access to them by 1998.[64] Surely, Metrofund's clients would benefit from such services, but should Metrofund be the one to provide them?

If the answer to this question were yes, then Calmeadow would have to deem its current model inadequate. With its existing structure and strategies, it could not hope to provide an integrated package of credit and training services that would be fully self-sustaining. No stand-alone microloan fund in North America had come close to covering the costs of its financial services, much less its non-financial services. If Metrofund were to become a microenterprise development organization rather than a microloan fund, it would need to formulate a new set of objectives, a new operational model, and a new set of strategies for obtaining the necessary funding.

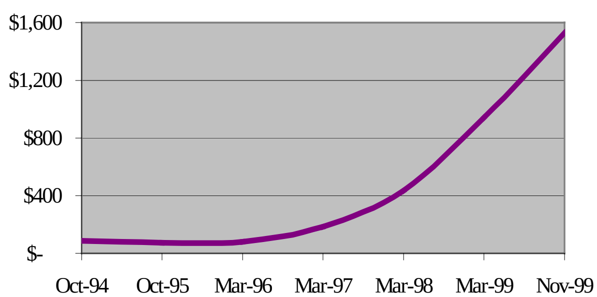
If Calmeadow believed that Metrofund should not be the one to provide these services, then the only question it needed to answer in deciding Metrofund's fate was whether or not its existing services could eventually generate sufficient revenue to cover their costs. Calmeadow considered trends in three main areas before making a decision: volume, delinquency, and staff productivity. Each of these is discussed below.

[64] Margaret Johnson, "An Overview of Basic Issues Facing Microenterprise Practices in the United States," Journal of Developmental Entrepreneurship, Summer 1998., 15

Volume

In the last eighteen months, Metrofund had made significant progress toward its volume goals. The value of its portfolio had grown 240%, to $1.5 million, and its client base had grown 43%, to 490 active borrowers (see Figures 12 and 13). In the last year alone, it disbursed $1.7 million, which was more than it had disbursed in the previous four years combined.

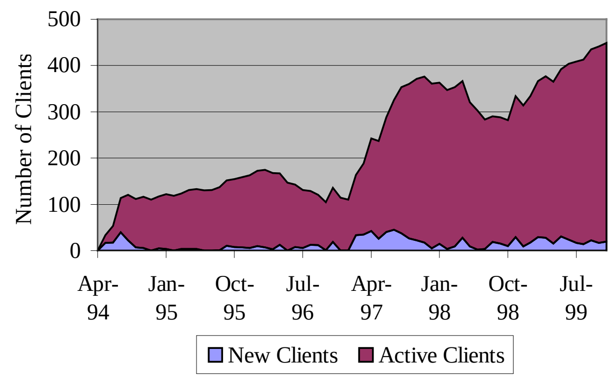
Figure 12: Outstanding Portfolio ($000s)



With this level of growth, Metrofund continued to be not only the largest microloan fund in Canada, but also a major player in North America. ACCION USA provides a useful point of comparison in this regard because it is one of the most established microlending programs in the United States and it uses a lending methodology very similar to that of Calmeadow. Four of its offices (in San Diego, Chicago, New Mexico and Texas) opened during the same year as Metrofund, yet only one outperformed Metrofund in 1999 – ACCION Texas. The other three offices had an average of 177 active borrowers and an outstanding portfolio of approximately C$1.1 million.[65]

A 1999 directory of 341 microenterprise programs in the United States listed loan funds with portfolios ranging from US$5,000 to US$12 million, with the average across all funds being US$738,626, or approximately C$1.1 million. By November 1999, Metrofund was performing 32% better than this North American average, but it was still failing to meet the goals laid out in its business development plan. By the end of 1999, it was supposed to have an active portfolio of $2.3 million and 922 active borrowers. Clearly, the fund had more work to do, but its recent growth made Calmeadow optimistic about what might be achieved.

Figure 13: Growth in Metrofund's Client Base, 1994 – 1999



Delinquency

The future did not appear as bright when one looked at the program's delinquency rates. Metrofund had been struggling since 1994 to get its arrears under control. Each new phase of development seemed to bring it closer to that goal, and then something would happen to move it one step back. The last eighteen months had been no exception.

As of November 1999, the fund had written off 6% of the total amount it had disbursed during its lifetime. This ratio was higher than projected, and it was higher than that of some of its closest peers, but it was still considered to be manageable. For example, of the four ACCION USA offices mentioned previously, three had cumulative loan loss rates below 2.5 percent at the end of 1999 and the fourth had a rate of five percent. Yet, the most recent industry data available suggested that a typical cumulative loan loss rate for a North American microenterprise program ranged from 8.9 to 10.5 per cent. Metrofund's six per cent rate was hardly unreasonable.[66]

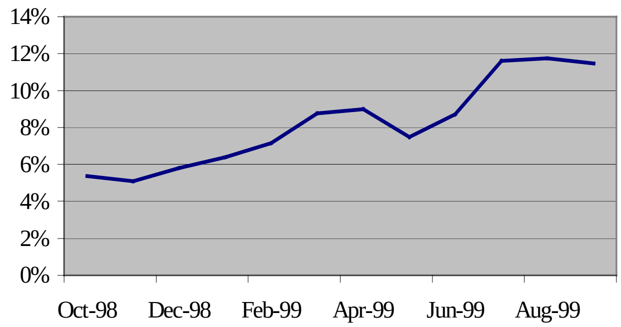
What caused Calmeadow concern was the fact that 44% of Metrofund's cumulative portfolio was still

[65] Averages calculated from the financial statements of the four ACCION offices, which can be found on the Internet at www.accion.org. United States dollars were converted to Canadian dollars at an exchange rate of 1US$ = 1.506C$.

[66] A 1996 SELP review of three U.S microenterprise agency peer groups found average historic loan loss rates to range from 8.9 to 10.5 percent. See Elaine Edgcomb, Joyce Klein and Peggy Clark, The Practice of Microenterprise in the U. S.: Strategies, Costs, and Effectiveness, (Washington, DC: The Aspen Institute, 1996) 54.

outstanding, and the level of arrears in that portfolio had risen significantly during the past year (see Figure 14). Could Metrofund reverse this trend? Could it handle the cost of a relatively high arrears rate as long as it kept loan losses below 6%? How great was the danger of not being able to keep losses below that level?

Figure 14: Portfolio at Risk > 30 days
as a % of average outstanding portfolio



Clearly, the danger was quite real. Metrofund's delinquency rate had been highly variable over time, and research had been unable to explain even one-quarter of the factors that had caused default. Data did suggest that individual loans were more risky than group loans (18% of group borrowers vs. 22% of individual borrowers had thus far defaulted), which helped to explain the rise in the fund's arrears as it shifted more of its portfolio to individual loans. Given that Metrofund intended to continue expanding its individual lending to reach economies of scale, Calmeadow would probably need to factor higher losses into its cost equation when assessing the fund's sustainability.

There were, of course, a number of adjustments that Metrofund could make in response to the past year's rising arrears. It had already recognized that additional training for its loan officers would be useful. It was experimenting with credit scoring. In the future, it could be more diligent about site visits and reference checks, and could consider new initiatives to strengthen its relationship with borrowers. All of these initiatives would have a cost, however, and no one knew if they would be effective. Calmeadow could not reasonably expect that the cost of delinquency management would decrease even if default rates did.

Staff Productivity

The nature of Metrofund's market had a major impact on the productivity of its staff. At best, the fund had served an average of 145 clients per loan officer, which was far below its 250 clients per loan officer goal. Some of the factors behind this result have already been mentioned, namely, the geographic dispersion of clients, the amount of time that had to be spent following up on delinquency, and the degree of handholding that many clients required.

These factors suggest that perhaps Metrofund's loan officers had reached a productivity limit. If this were true, then the sustainability implications for the fund would be major, since more staff would have to be hired to meet the fund's volume goals. Salary expense was already the single largest component of Metrofund's costs, and increasing this figure would make it much more difficult to break even.

There were other factors, however, that made drawing a conclusion about Metrofund's productivity potential difficult. The most important of these was the high degree of turnover within the fund. In six years, Metrofund had had three managers and nineteen different employees. Given that the average number of staff employed at any one time was five, this meant that the fund's entire staff had turned over four times.

The turnover hindered institutional growth since a great deal of time and energy had to be spent training new staff on the basics, rather than building on what had already been learned. It also interfered with Metrofund's ability to build customer and referral relationships, which was a particularly serious consequence given the trust-based nature of Metrofund's business.

The ability to cultivate strong relationships, both internally and externally, is key to any microfinance institution's success and Metrofund was no exception. Its referral relationships were the principal means through which it attracted clients. Its borrower-loan officer relationships motivated client retention and repayment, as well as loan officer performance. When these relationships were solid, and when positive relationships existed among staff, Metrofund's productivity was reported to be at its highest and institutional growth greatest.

A lesson learned: The human resource skills of a small loan fund manager are critical. Since successful loan officers are usually dynamic, independent thinkers, a manager's ability to supervise and motivate such employees can make or break the team.

Not surprisingly, when these relationships broke down, both morale and productivity within the fund suffered. Turnover was one factor that disrupted relationships, but personality clashes, stress outside the office, miscommunication inside the office, and unclear expectations also played a role. Metrofund's small size meant that any one person's problem could have a major impact on the fund as a whole. It also meant that there was no human resource person on staff who could help resolve personnel issues, pay attention to staff development, or ensure that job descriptions and office routines were formalized. These tasks were left to the Metrofund manager, who already had a full slate of responsibilities and was not necessarily skilled in such areas.

"With a small staff, every person has a huge impact on the success of the program."

~ Suzanne Bradley, Calmeadow

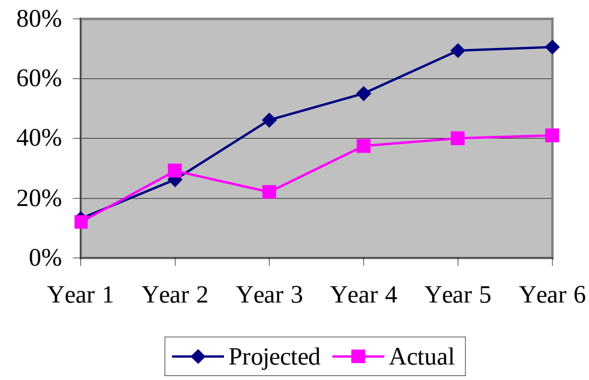
According to loan officers, the result was often a lack of effective support and guidance that significantly affected their productivity. All three of Metrofund's managers acknowledge that more could have been done in the areas of team and staff development, but they stress that it would have been difficult. There were many priorities to balance and limited resources with which to balance them. At the time, the needs of external clients seemed paramount; it was only in retrospect that the importance of meeting internal clients' needs also became clear.

If Metrofund provided its staff with additional training and support in the future, it could likely exceed its 145 client per loan officer record, but it was unlikely to achieve the productivity levels that Calmeadow had seen in developing countries and had initially expected from the fund. By the end of 1999, no stand-alone microloan fund in North America was known to have met the 250 clients per loan officer target that Metrofund had set for itself. Clearly, if the fund were to be sustainable, it would have to cover a higher level of costs than originally anticipated.

Covering Costs

As shown in Figure 15, Metrofund did succeed in covering an increasing portion of its costs over time. With the exception of the 1996-7 fiscal year, when Metrofund was in the process of consolidating its portfolio and preparing for the growth envisaged in its development phase, the fund's sustainability increased each year.

Figure 15: Cost Coverage



In recent years, however, the improvements were modest. By the end of its 1998-9 fiscal year, Metrofund was covering only 40% of its operating costs, which fell far short of the 69% level that it had expected to achieve.[67] Despite its immense effort to improve sustainability through increased volume and efficiency, Metrofund's cost coverage rose less than 4% between April 1998 and November 1999.

As shown in Table 18, there were two main reasons for Metrofund's poorer than expected performance. First, each loan dollar outstanding generated less revenue than projected. Calmeadow had assumed that the fund would be able to charge a 12% interest rate on group loans and 14% on individual loans in addition to a 6% administrative fee and a $25 annual membership fee. Metrofund's decision to reduce its interest rates and fees in 1998 resulted in less income being generated than planned. Continued delinquency problems also affected its revenues. When clients defaulted, Metrofund not only lost its

[67] These sustainability statistics do not include the in-kind subsidies from Calmeadow, the decapitalizing effects of inflation on loan fund capital, nor the real cost of donated funds.

Table 18: Comparison of Actual vs. Projected Results as a Percentage of Average Outstanding Portfolio

	Apr 96-Mar 97		Apr 97-Mar 98		Apr 98-Mar 99		Apr 99-Mar 00	
	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected
Revenue	38	30	26	25	21	26	17	24
Total expenses	189	64	70	45	52	37	40	34
Salary expense	111	27	42	22	34	18	18	17
Loan loss provision	18	7	11	6	7	6	14	5
Other expenses	61	30	17	17	11	12	9	10

Note: Donations are not included as revenue, but interest earned on Metrofund capital not loaned out at any given time is included

principal, but also lost the interest payment income stream that should have been generated by those loans.

The second trend made clear by Table 18 is Metrofund's higher than expected level of costs. The fund was unable to achieve the productivity goals it had set for itself, and delinquency management proved to be both complicated and expensive. In the 1998-9 fiscal year, Metrofund was able to keep loan losses under control with a higher level of personnel expense, but its subsequent efforts to maintain portfolio quality while decreasing personnel expenses (i.e. by increasing the volume of business handled by current staff) backfired. Losses rose significantly during the next fiscal year.[68]

Many of the assumptions with which Calmeadow launched Metrofund appeared unrealistic by 1999 (see Table 19). They had seemed feasible six years earlier, when microfinance in Canada was still in its honeymoon stage, perceived demand was high, and microfinance institutions in developing countries had already demonstrated their sustainability. Yet as of today, no microloan fund in North America has been able to achieve them.

Did this mean that higher levels of sustainability were impossible? No, of course not. Metrofund managed to lower its operating expenses as a percentage of average outstanding portfolio during the last four years in a row. Its cost per dollar lent decreased consistently as well (see Figure 16). There was no reason to believe that Metrofund could not continue to generate efficiencies in the future.

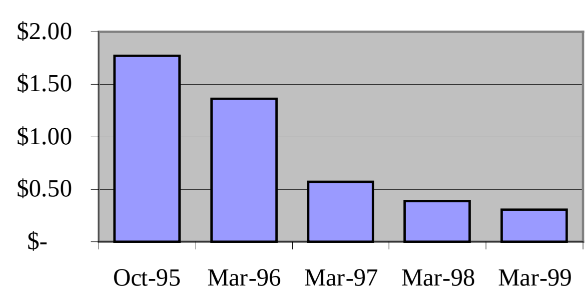
Table 19: Early Assumptions

	Assumption	Actual
Loan loss reserve (%)	5	7-26
Avg. annual client base growth (%)	60	30
Avg. annual portfolio growth (%)	101	71
Avg. no. of clients per loan officer	350	140
Avg. no. of clients per staff	160	71
Avg. client retention (%)	70	45

Source: Calmeadow

The real question, though, was whether Metrofund would ever be able to generate sufficient efficiencies to become self-financing. The probability of achieving sustainability without significant productivity improvements was practically nil. Negatively influencing this probability, and missing from the earlier cost models, was the adverse impact on efficiency resulting from a very dispersed and hard to find market, much more significant budgeting for marketing and outreach, and the costs associated with high turnover of clients. According to one estimate, Metrofund would need a portfolio of approximately $24 million and more than 5,000

Figure 16: Cost per Dollar Lent (C$)



[68] While March 2000 data was obviously not available to Calmeadow at the time of its decision-making with respect to Metrofund's future, the trends that show up in this data were already clear by November 1999. The March 2000 data are included here for illustrative purposes since a November 1999 Statement of Income and Expenses was not available.

active clients to break even at current productivity levels.[69] This level of volume was simply unattainable given the size of Metrofund's potential market.

Yet, even if the fund lowered its administrative expenses to 24% of its outstanding portfolio – which is the average for financially self-sufficient microfinance institutions in developing countries – Metrofund would not be able to cover its costs with its current level of income.[70] Using realistic estimates of Metrofund's existing capacity, Table 20 demonstrates the near impossibility of the fund ever being able to break even.

Table 20: The Challenge of Breaking Even

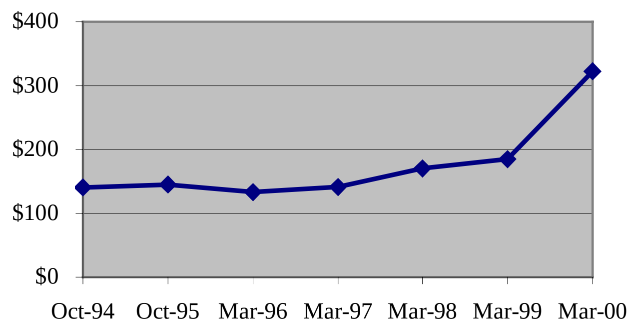
Number of clients per loan officer	150
Average loan	$3,500
Average income from interest and fees	20%
Total portfolio assuming one loan officer (=150*$3,500)	$525,000
Revenue for Metrofund (=$525,000*20%)	$105,000
Cost of capital (=$525,000*7%)	$36,750
Loan losses (=$525,000*6%)	$31,500
Labor costs (salary and benefits for loan officer)	$45,000
Balance before general, marketing and administrative expenses	($8,250)

Source: Calmeadow

Subtracting a 7% cost of capital and a 6% loan loss provision from its average income of 20%, Metrofund would have to lower its administrative and operational expenses to a mere 7% of its outstanding portfolio in order to break even, a feat that no microfinance institution in the world has yet achieved. It would need to consider raising its interest rates and fees, but doing so would be problematic given the competitive market environment, the state of public opinion, and the cost of doing business in Canada. With higher prices, it would be more difficult to attract and retain borrowers, and those who did stay would tend to be riskier clients. The fund's public image could suffer. Very likely, a decrease in business volume would offset any benefits of the increased revenue and Metrofund would still not break even.

The final factor influencing Calmeadow's decision was an immediate and very practical one. Even though Metrofund's level of sustainability was slowly rising, the dollar gap between the amount of revenue Metrofund generated and the expenses it had to finance was widening quickly and substantially (see Figure 17). To continue supporting the fund, Calmeadow would have to raise more than $300,000 a year for the next several years just to cover Metrofund's operational expenses. It would also need to raise additional capital for the revolving loan fund, but with a portfolio of nearly $1.5 million, its sources of inexpensive and easily available loan capital were nearly depleted. Soon it would need to negotiate a line of credit and the cost of capital would add to the subsidy requirements. Calmeadow did not believe it could raise such funds without a significant change in strategy and a willingness to sustain a heavily subsidized initiative.

Figure 17: Annual Subsidy Requirements



The Verdict

Ongoing and growing subsidies were exactly what Calmeadow had set out to avoid when it launched Metrofund in 1994. At that time, it gave the fund a five-year mandate to prove that it could become self-sufficient. By 1999, Metrofund had unfortunately failed to achieve that goal.

Our five-year experiment indicates that there is a need and a value in providing microenterprise loans, but that a 'stand alone' loan fund is not economically sustainable.

~ Tony Farebrother, Metrofund Manager[71]

After careful consideration and analysis, Calmeadow's Board of Directors concluded in

[69] Burrus and Stearns 56.

[70] Calmeadow, The MicroBanking Bulletin, February 2000, 42.

[71] Tony Farebrother , Letter to Ron Lauren, Senior Vice-President of Small and Medium Business at Scotiabank, December 22, 1999.

December 1999 that Metrofund was not sustainable as a stand-alone, microloan fund. Given the size of the market, the high operational costs and the limited possibilities for generating revenue, the model proved too expensive to maintain in the North American context.

With this decision, Calmeadow's domestic experiment with sustainable microfinance was, in most respects, over. It had set out to prove whether the stand-alone microloan fund model could be sustainable in Canada and it had presented fairly overwhelming evidence that it could not. Calmeadow still believed, however, that the services Metrofund provided were worth sustaining, so it set out to find a new way of making that happen.

In Search of a New Model

With this evidence in hand, Calmeadow turned to traditional financial institutions in search of new ideas. In general, these institutions were much more efficient than Metrofund, they made more effective use of technology, and they had more sophisticated back office operations. They did not, however, serve the type of client that Calmeadow wanted to serve.

Calmeadow began to consider the possibility of a collaborative effort with an existing financial institution to provide credit services to microentrepreneurs in a more integrated and sustainable manner. Supported by the generous and voluntary commitment of John MacIntyre, a senior officer of T.D. Securities who was then on sabbatical, Calmeadow conducted an updated business review of Metrofund's activities. The process generated two ideas that Calmeadow prepared to present to Toronto's major banks and to other financial institutions that had been supportive of Metrofund in the past.

Alternative Models

The first idea involved the incorporation of Metrofund's activities into the operations of an existing financial institution. From Calmeadow's perspective, this solution was attractive because it would integrate microenterprise lending into the formal financial system, providing microentrepreneurs with ongoing access to financial services.

Calmeadow knew the idea would be difficult to sell because it required the willingness and commitment of a financial institution to serve microentrepreneurs in the long term. Since Calmeadow could not prove the short-term profitability of its proposal, it could only argue that microlending had potential as a source of new and loyal clients, and as a mechanism for supporting economic development.

For the model to be viable, a financial institution would have to believe that the value added by microenterprise lending was worth the risk and trouble of investing in it. It would also have to overcome substantial cultural barriers to serving the microenterprise market, a feat that other institutions have found difficult to accomplish. Even if it did succeed, there would always be a risk that the financial institution would choose to provide services to the top few layers of the market only, leaving the bottom layers under-served.

The second idea involved the creation of a new, independent, non-profit organization that would be run as a joint venture by Calmeadow and a financial institution. Calmeadow developed the proposal in a December 1999 discussion paper entitled "Sustainability and Success," which laid out a broad, five-year plan for the creation of the partnership.

In this model, the financial institution would handle the back office and treasury functions, it would provide loan capital, and it would help finance the fund's core costs. Calmeadow would find, screen and support loan fund clients. It would also handle serious delinquency matters, in order to minimize the workload demands on the financial institution and to minimize the potentially negative impact of turning down or taking legal action against a client. Calmeadow would seek a government loan guarantee to cover most of the cost of write-offs. In addition, it would pursue core funding from both the government and private foundations to support the peer lending and outreach activities of the fund.

This second model was less risky, but it still required significant commitment from a financial institution, as well as additional fundraising. It would be more expensive and cumbersome to implement than the first proposal, but would create a middle ground that could bring microentrepreneurs the best of two worlds – the expertise and accessibility of Metrofund, and the resources and ancillary services of a mainstream financial institution. Such a collaborative partnership could serve as a stepping stone for full integration in the future.

The two proposals offered benefits to all concerned. Clients would gain the opportunity to build a long-term relationship with a full-service financial institution. This implied access to larger and longer-term loans, lines of credit, deposit instruments and other useful products, as well as the prestige of being associated with a mainstream financier.

The financial institution would gain new clients to whom it could sell various products and services. It would inherit the contacts, credibility, clients and experience that would enable it to enter the microenterprise market with a solid business base. In addition, it would gain the intangible benefit of community good will that would result from its commitment to microlending.

The loan fund, be it independent or integrated, would gain access to a large pool of capital, a more sophisticated accounting and control system, and a well-developed marketing program, including market research. It could lower its delivery costs and diversify its risk through the financial institution's other activities. Staff could have easier and more timely access to individual loan data and to the operational expertise and support of the financial institution. The stronger relationships with borrowers would no doubt improve client retention and fuel future growth.

Partnership Candidates

All of Calmeadow's bank partners said they were interested in seeing microenterprise loans continue to be available in the Greater Toronto Area, but none was willing to consider the full integration of microenterprise loan delivery into its regular branch network. Thus, the model that Calmeadow pursued with banks was the independent non-profit model.

In February 2000, one of the bank partners expressed interest in Calmeadow's second proposal, although it placed two important conditions on collaboration. First, the loan fund would have to be owned by Calmeadow (the bank did not want to create a joint venture), and second, Calmeadow had to obtain a government loan guarantee to cover at least 85% of the write-offs.

The arrangement was less than ideal, since it represented a limited commitment by the bank to the loan fund's success, but the potential of being tied to a chartered bank made it an attractive proposal nevertheless. Collaboration with the bank could be an exciting step towards the provision of microcredit services on a massive scale, not just in Toronto, but throughout Canada.

At about the same time, Metro Credit Union (MCU), a local financial institution that had been approached by Metrofund, expressed interest in pursuing the fully integrated model. MCU served 44,000 members with $380 million in assets and ten branches located in various neighborhoods of Toronto. Some three thousand of its members were small businesses and community organizations.

MCU had experimented with two microlending programs in the past and neither was successful, but the credit union had not given up on its desire to serve that segment of its potential market. At the time, it was providing back office support for two of Toronto's smaller loan funds, the Anglican Loan Fund and the Riverdale Loan Fund, and it saw Calmeadow's proposal as an opportunity to get involved in microenterprise lending at a previously unattainable scale.

Although Calmeadow initially hoped to form a partnership with one of the major banks, the idea of collaborating with a local credit union was attractive for a number of reasons. MCU had a social mission and a commitment to community. It valued and encouraged member participation. It was less bureaucratic, more focused on local realities and concerns, and more ideologically aligned with Calmeadow than the banks. Furthermore, the successful transfer of Calmeadow West's portfolio to the VanCity Community Credit Union in Vancouver provided a precedent for this type of collaboration. The lessons VanCity learned as it integrated Calmeadow's portfolio into its own operations could help guide a successful transfer of Metrofund's portfolio to MCU.

"VanCity was a major factor in our feeling confident to move forward."

~ Larry Gordon, Vice President, Development, MCU

Metro Credit Union hired a consultant, which Calmeadow paid for, to visit VanCity and assess how to integrate the operations of Metrofund into MCU's current lending program. The visit was highly effective, not only because it resulted in positive recommendations from the consultant, but also because it demonstrated to MCU that the model it was considering had already proven successful elsewhere. VanCity's individual microloan program was fully covering its costs and its peer lending program was sustainable, in part, through cross-subsidization with its other operations. The information gained gave MCU a comfort level that they would not have had otherwise.

The VanCity Model for Sustainable Microlending [72]

The VanCity Community Credit Union began making what it calls Self Reliance loans in 1995 as a response to the massive layoffs occurring in the greater Vancouver area and the perceived need to provide access to credit so that individuals could become self-employed. The initiative was quite bold for VanCity since it financed start-ups and did not require collateral from its borrowers. The program initially provided loans of up to $15,000 for terms of up to five years, and the interest rate charged was generally prime plus 4%. In its first year, the program lent $600,000, growing to $1.5 million in year two, and was approaching $5 million in approvals by 1999 with an outstanding portfolio of $3.5 million. Over the life of the program, delinquencies ranged between 5 and 10%, while write-offs ranged between 3 and 5%.

Self-reliance loans were delivered through VanCity's retail lenders and not through its business lenders. It was felt that commercial lenders would find it too difficult to put their normal lending criteria aside, but even on the retail front, there was significant resistance to the new product. The program eventually took off because a small group of lenders believed strongly in the growing trend in the economy towards self-employment and thought the program was worthwhile. They were encouraged by a local champion who happened to be the manager of financial services for one of VanCity's major branches. By mid-2000, four out of forty branches were involved with the loans.

After two years, VanCity wanted to extend the self-reliance program to less advantaged borrowers, but was concerned about the risk. It was aware that the federal government operated a loan guarantee program under the Western Economic Diversification Program (WEDP) and had been guaranteeing loans to some of the chartered banks. It approached WEDP and a loan loss guarantee program was established. VanCity is the only microlender in the Vancouver area that is working with the program. Shortly after the guarantee was initiated, VanCity increased the size of its term loans to a maximum of $25,000 and began to provide clients with line-of-credit loans, which were also covered by the WEDP guarantee. The L/C loans have proven to be invaluable to the success of the program.

In 1997, VanCity purchased Calmeadow West's peer lending portfolio. Since then, the portfolio has almost doubled in size with $173,000 outstanding at the end of 1999. The peer lending program has a staff of three holding down two full-time positions, plus a head office person who mentors the program. Two of the staff members previously managed Calmeadow's portfolio, and the third came to the peer lending program from the VanCity branch providing the greatest number of self-reliance loans. The peer lending office resides in a stand-alone neighborhood facility, but clients can conduct transactions at any of its branches.

VanCity does not require that peer group borrowers get formal business training, but it heavily promotes such training. Potential borrowers are required to obtain their own credit histories, which are reviewed with a peer loan specialist one-on-one. Groups are then formed and a specialist sits down with the group to go through a workbook – adapted from Calmeadow's workbook – to prepare the members of the group for a loan. As is typical in a peer group model, members act as loan officers and assess their peers' businesses, their character, and their loan requests. Once loans are granted, VanCity does not meet regularly with the groups, but asks for monthly minutes from the group and follows up promptly if they are not received.

Peer group loans bear an interest rate of prime plus 3% and can range in size from $1,000 to $5,000, with the average loan being about $1,500. Borrowers are required to have $50 in VanCity shares, in exchange for which they are provided with a client card. They must also pay a 7% administration fee.

At the end of 1999, VanCity's peer group lending program was serving 277 active clients, and eleven borrowers had graduated to the self-reliance program that year. During the entire life of the program, it had granted more than 380 group loans for a cumulative amount of over $570,000. Default averaged 5.5%. The peer lending program is not covered by the WEDP loan loss guarantee, but VanCity considers it to be an integral part of its operations. Its current budget is slightly less than $140,000 per year, of which approximately 30% is covered directly by revenue generated from the program's activities, and the remaining 70% is financed through VanCity's other business activities. In this way, its microlending program as a whole is sustainable.

[72] This box was created using excerpts from Hirsh Tadman's study, "How to Integrate the Operations of Calmeadow Metrofund into Metro Credit Union's Lending Program," February 2000.

Metro Credit Union was established in 1949 as the University of Toronto Employees Credit Union. Today it is a full-service, community-based, member controlled financial institution with 10 branches, 45,000 members and over $380 million in assets. It is one of only two Canadian financial institutions to conduct regular, externally verified social audits (VanCity Savings is the other). The audit evaluates how MCU's business operations affect employees, members, the community and the environment. A copy of MCU's most recent social audit can be downloaded at http://www.metrocu.com/about/socialaudit_light.pdf.

On April 7, 2000, Metro Credit Union sent Calmeadow a letter of intent regarding its interest in taking over the ongoing operation of Metrofund. It would require that a government guarantee program be in place for existing loans transferred from Metrofund and for new loans written in the next three years so that it could develop a track record and experience base. After the three-year period ended, MCU would review its loan loss experience and determine if and how the program could be managed without ongoing guarantees.

MCU estimated that the peer lending program would require funding of $100,000 per year in addition to the loan administration costs and support to be provided in-kind by MCU (primarily for staff salaries). It looked to Calmeadow to help identify and arrange the necessary funding to support these costs during the three-year pilot phase at MCU. Metro Credit Union intended to make the program self-sustaining by the end of that three-year period.

A Promising Resolution?

The feasibility of both the bank and the credit union proposals depended on Calmeadow being able to produce a government guarantee similar to the one that had been secured by VanCity. Calmeadow's management made a vigorous effort to obtain such a guarantee from both the Federal and Province of Ontario governments, but was ultimately unsuccessful.

By early May, the effort to secure guarantees was abandoned and Calmeadow found itself in a difficult spot. Metrofund's funding would run out in June and, on paper, neither the bank partner nor MCU was willing to proceed without a government guarantee. What facilitated a resolution was the desire of MCU and Calmeadow to find a way to make the transfer of the fund happen.

Calmeadow itself ended up providing a limited three-year loan guarantee for the portfolio it would transfer to MCU. It also stepped up its search for funding to help cover the cost of the transition and MCU's three-year pilot period. When that funding failed to materialize, MCU and Calmeadow agreed that Metrofund's individual loan portfolio would be sold to the credit union, but its peer group lending program would be closed down.

The Transfer

On July 1, 2000, 239 clients and 70% of Metrofund's total portfolio were transferred to Metro Credit Union. Clients with a poor repayment history were retained by Calmeadow, which passed its loan portfolio to a financing company, VFC, Inc., for collection. Calmeadow had worked with VFC previously in the collection of particularly stubborn loans and VFC had treated its clients with respect, so the existing relationship was merely extended. Calmeadow now pays the company a monthly fee per delinquent client in exchange for its collection services.

MCU was given three months to review the portfolio it purchased and return any loan that did not meet its standards. By September 30th, it had returned 36 loans to Calmeadow worth $128,555, leaving itself with a portfolio of $672,682 and 203 new members.

MCU hired one of Metrofund's loan officers, Susan Weekes, to run its new program and she spent an intense several months converting Calmeadow's clients into MCU clients. The process of opening new accounts for 203 borrowers was time-consuming and, at times, technically challenging. Fortunately, Weekes received strong support from her colleagues at MCU and is optimistic about how things will proceed. She has already noticed a difference in the resources available to her and has gained additional skills in the vetting of business plans and the analysis of credit histories. Though she will no doubt have her hands full in the coming months, Weekes generally feels more secure about where she and the fund are headed.

The Future

The closure of Metrofund's peer group lending program was disappointing, and there will no doubt be a certain segment of Toronto's microentrepreneur population that will lose access to financial services as a result. One can only hope that others will be inspired in the public, private and philanthropic sectors to put their heads together to find ways of being more supportive of this usually neglected component of the small business sector.

The closure of the group lending program should not diminish, however, the significance of the loan fund transfer carried out by Calmeadow and MCU during the last six months of 2000. More than fifty percent of Metrofund's borrowers are now clients of a full-service financial institution. As summarized in Table 21, they have access to a wide range of credit, savings, advisory and other services in a community-based environment that is unique among Toronto's financial institutions. The benefits that could accrue from this kind of relationship, for both the credit union and its members, are hinted at by the experiences of another promising venture south of the border, the Neighborhood Trust Federal Credit Union in Manhattan (see box on the following page).

"The service we need is a bank that integrates itself into the community."

~ Ramon Murphy, Entrepreneur

For Calmeadow, the opportunity to sustain the core of Metrofund's program through MCU is a positive and promising outcome following years of exciting but often challenging and frustrating experimentation. The knowledge that its efforts to develop microlending in Canada are now being carried out in Toronto and Vancouver with two major credit unions is important to all of those staff, donors, and volunteers who participated in the Metrofund experiment with such personal commitment.

For its part, MCU believes that its new members will make a positive, and ultimately profitable, contribution to the credit union. It plans to track the lifetime profitability of its former Metrofund clients to determine whether their growth and their use of other credit union services make MCU's cross-subsidization of its microlending program worthwhile. If its hunch proves correct, MCU's observations could contribute significantly to the expansion of microfinance services elsewhere in North America in the years to come.

Table 21: Services Available to MCU Members

- Payroll deposits
- Savings accounts
- Regular checking
- Daily interest checking
- Regular term deposites
- Nest egg term deposits
- RRSPs
- RRIFs
- US dollar savings/chequing account
- Foreign exchange
- Standard mutual funds
- Socially responsible mutual funds
- Financial planning educational seminars
- Term life insurance
- Financial planning services
- Daily interest savings
- Personal loans
- Personal lines of credit
- Car leasing
- First and second mortgages
- Multi-option mortgage
- Home equity line of credit
- Auto insurance
- Home insurance
- Credit insurance
- Mortgage, life & disability insurance
- Loss of employment mortgage insurance
- Debit card
- Car facts center
- AutoBuy
- ATM card
- MasterCard
- Business accounts
- Organization accounts
- Telephone banking
- PC banking
- Safety deposit boxes
- Travelers checks/insurance
- Children's accounts
- Senior's packages
- Utility bill payments
- Spare change fund

Thus, even though Calmeadow is withdrawing from domestic microlending, its experiment with sustainable microfinance continues. Because of its pioneering efforts, there is a solid legacy of heightened awareness and acceptance that credit is an important tool in stimulating economic

Neighborhood Trust Federal Credit Union

The Neighborhood Trust Federal Credit Union (NTFCU) opened its doors on March 20, 1997 in an abandoned bank branch in a neighborhood of New York City known as Washington Heights. It is one of the city's most densely populated and economically disadvantaged areas, with an average per capita income that is just two-fifths the national average. The credit union is operated by a nonprofit organization called Credit Where Credit Is Due (CWCID). CWCID promotes economic empowerment by increasing low-income residents' access to, understanding of, and control over financial services. Towards that end, it sponsors NFTCU and runs a multi-tiered, bilingual financial literacy curriculum. It was founded by a 27-year old former schoolteacher, Mark Levine .

NTFCU offers fully and partially secured loans to individuals who want to establish or repair their credit history. Loans range from US$500 to $10,000 with an average of $2,500. The credit union evaluates loan applications based on traditional underwriting criteria, but it factors character references and records of on-time bill repayment heavily into its decisions. NTFCU does not use credit scoring. It charges 14.5% interest on signature loans and 8% interest on loans that are secured by deposits in the credit union. There is an application fee of $15. Borrowers can open no-fee checking accounts with a minimum of $100 and must maintain a balance of $50 to avoid paying fees. If the balance falls below, there is a $1 monthly charge.

Since its founding four years ago, over 3,500 local residents have joined the credit union, 65% of whom have never before held bank accounts. By the end of its first year alone, NTFCU had 665 borrowers and deposits over $500,000. At the end of 1999, NTFCU was 80% self-sufficient. Currently, it has more than 3,000 depositors and loans outstanding of more than $1 million. Its assets are valued at more than $5.5 million, which is double the amount of deposits in most neighborhood credit unions. NTFCU has made more than 800 micro loans, approximately 30% of which have been for microbusiness purposes.

In July 2000, CWCID opened a new facility, equipped with a second branch of Neighborhood Trust and a second CWCID training center. Within three months, more than 400 residents were using the services of the new branch. Today, NFTCU's two branches are approximately 60% self-sufficient. Together, they have a 97% repayment rate and a 30-day delinquency rate of 5%.

How have they achieved such remarkable numbers? Without going into detail, three factors are worth noting. First, NFTCU operates in a densely populated, economically vibrant community. In the three-square-mile area known as Washington Heights, 80% of the 300,000 residents are from the Dominican Republic, the largest single concentration of Domincans in the United States. Metrofund's experiences suggest that this level of demographic cohesion would have provided fertile ground for the credit union's microlending activities.

Second, in comparison with Metrofund, NFTCU located itself in an area with a huge demand for and very limited supply of financial services. The credit union's members tell stories of previously having no option but to borrow from loan sharks at interest rates of 4% per week, which compounds to 341% annually. Prior to NFTCU's opening, there were only two bank branches in West Harlem for over 75,000 people. The area was ripe for the credit union's intervention.

Third and finally, NFTCU and CWCID seem to have succeeded in creating a package of financial services that add significant value to the community. Through their school banking programs, personal financial literacy classes, and entrepreneur education programs in particular, they have demonstrated a commitment to their community and residents are responding by making a commitment to the credit union. Eighty percent of the staff who work at NFTCU were hired from within the neighborhood; thirty percent had been on welfare before they got the job. The Neighborhood Federal Trust Credit Union is a stand-alone financial institution in that it runs its own front and back office activities, yet it hardly stands alone. The partnership with CWCID, and with the community in which it works, provides another promising example of how the credit union model could be key to microfinancial intermediation in North America. For additional information on NFTCU, check out their website at www.cwcid.org.

development for those historically operating at the margins. It is somewhat ironic that, in the final analysis, Calmeadow's major contribution to North American microfinance may not be the accomplishments of its own loan funds, but rather, its willingness to let go of the programs it worked so hard to build so that they might develop more sustainably as part of the larger financial system.

Appendix A

Calmeadow Volume 1 Issue 3
Metrofund June 1997

Did You Know?

An Information Newsletter for Calmeadow Members and Associates

Calling All Members: Your "Small Business Tip" Could Win You a Column in Next Month's Issue!

Cut Costs by Obtaining **FREE and Useful STUFF!**

You can get a free copy of the **Canadian Government Small Business Services Guide** by calling 1-800-761-5133.

You can get useful information on the internet and learn from a variety of computer products free at the **Community Learning Information Centres** located at three branches of the public library:

Lilian H. Smith 239 College St. (416) 393-7746

Parkdale 1303 Queen St. W. (416) 393-7686

Riverdale 370 Broadview Ave. 393-7720

Videos on marketing are available from the **Business Development Bank** by calling 1-888-info-BDC.

The **Canadian Chamber of Commerce** offers events for small business. You can reach them at (613) 238-4000.

The **Toronto Board of Trade** now houses the World Trade Centre for Toronto. They have an ongoing listing of people who want to buy and sell products. Call (416) 366-6811 or fax them at (416) 366-2444.

If you have some questions on packaging and labeling you can call (416) 224-3950 to obtain advice from the **Consumer and Corporate Affairs Office**.

The **Canadian Industrial Innovation Centre**, a non-profit organization is in the business of helping inventors and entrepreneurs in any area of counselling. Call the Innovation Centre toll free at 1-800-265-4559.

The **Canadian Federation of Independent Business** has a new web site at www.cfib.ca with an extensive menu of small business offerings.

Remember: To submit your Tips, please call: Louise Sankey at (416) 487-5291

Client of the Month: Margaret Gonya, Owner of M. Gonya Designs

M. Gonya Designs is owned and operated by Margaret Gonya. Her company manufactures and loomed sweaters for women in natural fibres, with emphasis on texture and colour. For ten years Margaret operated a retail store on Queen St. West in Toronto but now she has turned her attention to building up a wholesale Business and is happy to concentrate more on manufacturing. She can be reached at her studio on Niagara St. at (416) 504-3187.

News from Kim Koh, Business Manager at Rexdale Community Micro skills Development Centre

The Women's Enterprise and Resource Centre is an initiative in progress that currently runs a self employment program for women. This program will provide business skills training, personal and business counselling and business start up support for low income women who have good business ideas. Everyone is invited to an Open House event at 1 Vucan St. in October 1997. For more information contact Kim at (416) 247-7181, ext. 229.

✓ Check this Out!

The **Toronto Kitchen Incubator** offers an affordable way for your small food processing company or catering operation to make larger quantities of food and increase the size and profitability of your business. The 2,000 square foot fully equipped commercial kitchen with access to office equipment and space, management and marketing advice is located at 200 Eastern Avenue, Toronto.

The **Small Business Centre, City of Scarborough**, is holding a seminar on June 19, 1997 from 6:30 – 9:30 p.m. called "Winning Internet Marketing Strategies for Business." For more information call (416) 396-7169. The cost is $25.00.

Microsoft Canada is holding an exciting business show called "Success – It's Your Business." This is a two day interactive event for business owners and entrepreneurs taking place on June 6 and 7. For more information call (416) 234-6434.

Desh Pardesh Festival and Conference will take place from June 11 to June 15 at the Factory Theatre. Desh Pardesh brings together participant from the U.S., India, Pakistan, Sri Lanka and the Caribbean for five days of concerts, artist talks, discussions, panels and workshops. The event is free. For more information, call Melina Young at (416) 504-9932.

A Million Thanks!!

Linda Darmanie, Chief Editor of the Magazine ***Upwardly Mobile***, has kindly donated copies of her magazine to be available at our self-help center. ***Upwardly Mobile*** is a magazine for small business entrepreneurs, just like you! Calmeadow Metrofund would like to thank Linda Darmanie for her generous contribution to our clients.

This information sheet was designed thanks to the contribution of Calmeadow Metrofund Advisory Clients Committee.

Appendix B

CALMEADOW METROFUND

SELF EMPLOYMENT BUSINESS CREDIT

Individual Loans Program

(Effective March 3, 1997)

Calmeadow Metrofund has now launched its new individual loans program. Calmeadow's attempt is not to move away from its pioneer approach to lending in Canada (peer group model), but rather, to provide an alternate choice for those entrepreneurs who do not wish to access credit by forming a peer group.

The following is the criteria you need to consider when applying for an individual loan:

- You business must be in operation for at least one year.
- Calmeadow Metrofund will request a credit report from a credit reporting agency for each application submitted. (From both existing clients & new clients.)
- Calmeadow Metrofund will request a personal financial summary as well as a business financial summary. (This information is to be included in the application form.)
- Lending limits must range from $1,000 up to $15,000.
- The administration fee for an individual loan is 6.5%.
- An upfront fee of $10.00 will be collected at the time your application is submitted. The fee will become part of the administration fee once your loan has been approved. If you loan is not approved the fee will not be refunded.
- The interest is at base of 12%.
- The borrower must be able to meet with Calmeadow Metrofund's Account Manager on a regular basis.

Notice to Calmeadow Metrofund's Existing Clients:

- The same criteria specified above will apply to existing clients.
- An existing client wishing to apply for an individual loan must meet with his/her group members to discuss this matter. The group will be given 6 months to find a replacement unless the existing client wishes to remain in his/her peer group. The client must make an appointment to meet with his/her peer group and Calmeadow Metrofund's Account Manager prior to completing an individual loan application.

To apply for an individual loan you must arrange an appointment by calling us at (416) 362-9125. The application is to be completed in our offices the day of your appointment.

Appendix C

CALMEADOW METROFUND

SMALL LOANS FOR SMALL BUSINESSES

INDIVIDUAL LOANS: Frequently Asked Questions

Who is eligible for an individual loan from Calmeadow Metrofund?

Individual loans are designed for entrepreneurs who have operated their businesses for some time, at least 12 months, with a proven track record and individuals who graduate from Self Employment Training Programs. These loans are available to individuals 18 years or older in the Greater Toronto Area.

What documentation is required?

The documentation requirements depend on the loan size you request and the information you have available. For example, if you already have a business plan, then we would like to see it; but if you do not have a plan, we will work with you to prepare a written business plan and cash flow projection.

We generally like to see current financial records, such as an income and expense statement, sales receipts, bank statements, a list of your assets and liabilities, and any relevant contracts. What is important is that you can demonstrate a track record, you have a solid plan for your business and that you can demonstrate that your business will have the capacity to repay the loan.

What loan amounts are available from Calmeadow Metrofund?

First time individual loans are usually $1,000 to $5,000 depending on the merits of the business and the assessment of your character. The maximum loan size available from Calmeadow is $15,000. Loan terms can very from 6 months to 5 years.

What collateral is required?

The collateral requirements are determined on a case by case basis depending on the loan size and the merits of the business. With smaller loans, household effects or business equipment can be used; with larger loans, more tangible collateral is expected, such as a vehicle or property. In all cases, guarantors can be used to reduce the collateral requirement.

Is there an Application Fee?

Yes, we ask for $50.00 non-refundable Application Fee (this is only required for first time borrowers). If you loan is approved this amount will be deducted from the Administration Fee.

How long does it take to approve the application?

Your business is important to us. Once all the relevant paperwork is submitted, you should generally receive a response in 48 hours. It does take longer to process loans over $5,000.

How are disbursements and repayments conducted?

Once your loan is approved and documentation signed, we will issue a cheque for your loan. In some cases the cheque may be jointly payable to you and the company you are buying equipment from. Monthly loan payments will be automatically deducted from your bank account on the date and for the amount agreed under the terms of your loan agreement.

How much does the loan cost?

Calmeadow charges competitive interest rates on its loans as well as an Administration Fee. The actual costs of an individual loan depend on the loan size and the applicant's history with Calmeadow. Our long standing clients receive preferential pricing. Total costs of the loan include the interest and the Administration Fee.

What type of business does Calmeadow Metrofund finance?

We provide loans for any legal business activity. We do not have a preference for specific types of industries. The business can be full or part time.

Calmeadow loans can be used to pay for anything that helps your business. For example, you can use your loan to purchase supplies, buy equipment, or to launch a marketing campaign.

Calmeadow Metrofund, 365 Bay Street, Suite 600, Toronto, ON, M5H 2V1 Phone (416) 362-9125
Fax (416) 362-0769 E-mail: metorufnd@calmeadow.com Printed May 1999

Individual Loan Documents Required

Completed Individual Application

Projected Cash Flow for next 12 months

Independent verification of past business income please provide either

- Audited statements or
- Several of the following:
  - ♦ Notice of Tax Assessment
  - ♦ PAST/GST Remittance Forms
  - ♦ Bank Statements (at least previous 6 months)
  - ♦ Copies of Contracts or Invoices
  - ♦ Client Names and Telephone Numbers

A list of assets or information on the guarantor offered to secure the loan

Photo Identification (submit one)

- Driver's License
- Passport
- Citizenship Card

Void cheque from the account where the monthly payments would be drawn from

Confirmation of the business and home address

Proof of other income (if applicable)

Business Plan (if available), otherwise a one or two page summary of how you plan to sue the loan and how it would help you improve your business revenue

$50 application fee, fist time Borrowers only

If you are interested in proceeding, please contact one of Calmeadow Metrofund's Loan Officers for an appointment and the loan application package.
Tel: (416) 362-9125   Fax: (416) 362-0769

Calmeadow's 1999 Quick Reference Guide

for Small Business

CALMEADOW METROFUND

Small Loans for Small Business
365 Bay Street, Suite 600
Tel: (416) 362-9125
www.calmeadow.com

Accounting/Bookkeeping

Certified General Accountants
240 Eglinton Ave. E.
Ph: 322-6520 Web: www.cga-ontario.org
⇒ Free booklets such as 'ABC's of Accounting'

Revenue Canada Tax Services
General Equiries: 954-3500
Business Enquiries: 954-3400

Books on the Topic:
Budgeting for a Small Business by Terry Dickey, Crisp Publications Inc. 1994
⇒ Practical Advice for Financial Success

(Obtain Your) Credit Rating

Trans Union of Canada Customer Relations Department
PO Box 338, LCD1 Hamilton, ON L8L 7W2
Ph: (905) 525-0262
Fax (signed requests): (905) 527-0401

Equifax Canada Inc
Customer Relations Department
P.O. Box 190, Station Jean-Talon, Montreal, Quebec H1S 2Z2, Ph: (800) 465-7165
Fax (signed requests): (800) 363-4430

Credit Sources

Acce$$ Riverdale Business Loans
742 Queen St. E, Web: www.riverdale.org
Ph: 462-0496, Email: rcbc@web.ent

Anglican Community Development Fund
Anglican Diocese of Toronto
135 Adelaide St. E., Ph: 363-6021

Business Development Bank of Canada
150 King Street W., Ph: 973-0341
Web: www.bdc.ca

Calmeadow Metrofund
365 Bay Street, 6th Floor, Ph: 362-9125
Web: www.calmeadow.com
⇒ Small business loans for start-up and existing small businesses. Peer and Individual loans from $1,000 to $15,000.

Small Business Loans Act
Federal Government Guarantee Program
⇒ Contact your local bank for details.

Toronto Jewish Free Loan Casse
4600 Bathurst St., Rm 340, Ph: 635-1217
⇒ Small, no-interest business loans. Requires 2-3 guarantors.

ESL (English as a Second Language)

COSTI Education Center
760 College Street, Ph: 534-7400
Web: www.costi.org
⇒ ESL full-time and part-time courses, TOEFL, reading and writing courses

Skills for Change
791 St. Clair Ave W., Ph: 658-7090 (info line)
Web: www.skillsforchange.org
⇒ ESL computing, bookkeeping, customer service, business writing and more

Government Help Lines

The Small Business Handbook (on line)
http://strategis.gc.ca/SSG/mi02983e.html

Canada-Ontario Business Service Centres
INFO LINE: 954-4636, Web: www.cbsc.org
⇒ Assistance on various topics in the area of small business and self employment.

InfoExport
http://infoexport.gc.ca

Ontario Business Connects
Web: www.ccr.gov.on.ca/obcon.welcome.htm

Home-Based Business

Home Business Report (quarterly magazine)
Ph: (800) 672-0103
Web: www.homebusinessreport.com
⇒ Provides information and support to home business owners

Incubators

Toronto Fashion Incubator
325 Adelaide St. W, Ph: 971-7117
Web: www.fashionincubator.on.ca
⇒ Shared space and resources for the fashion industry of Toronto.

Legal Services

Artists Legal Advice Services (ALAS)
410 Richmond St W, Ste 440, Ph: 340-7791
⇒ Legal advice for artists of all creative disciplines.

Enterprise Legal Services
84 Queen's Park, Ph: 978-0590
⇒ Free legal assistance (with some eligibility requirements) for small business issues, i.e. contracts, partnerships.

Publications Ontario
880 Bay Street, Ph: (800) 668-9938
⇒ Government bookstore, copies of laws.

Pre-Paid Legal Care of Canada Corp.
C/o Sam Burke, Ph: 656-5366
Web: www.pplsi.com
⇒ Personal and business legal insurance.

Kensington Bellwoods Community Legal Services
489 College St, Ste 205, Ph: 924-4244
⇒ Community legal clinic for residents in area who meet financial eligibility reqs.

Licensing/Registration

Ministry of Consumer & Commerical Relations
375 University Ave., Ste 200, Ph: 326-8555
Web: www.ccr.gov.on.ca
⇒ To register a business name.

Enterprise Centres-City of Toronto
Toronto City Hall, Main Flr, Ph: 392-1328
Scarborough Civic Centre, Ph: 396-7169
North York Civic Centre, Ph: 395-7434
Etobicoke Civic Centre, Ph: 394-8237

Toronto Licensing Commission
939 Eglinton Avenue E., Ph: 392-3000

Marketing/Networking

Accessing New Markets
http://strategis.gc.ca/SSG/mi02983e.html

LETS: Local Employment and Trading System
Ph: 595-5477
⇒ Low cost advertising and bartering for services.

Books on the Topic:
The Power of Exhibit Marketing by Barry Siskind, Self Counsel Press, 4th ed., 1997
⇒ A 288 page handbook offering successful exhibiting tips an techniques.

Making Contact by Barry Siskind, MacMillan Canada 1995.
⇒ A 182 page step-by-step guide taking the reader through the networking process with exercises and examples of successful business networking.

Resource Centres

Small Business Ontario
Main Flr, 900 Bay Street, Ph: 325-6532

Calmeadow Metrofund
365 Bay Street, 6th Floor, Ph: 362-9125
Web: www.calmeadow.com
⇒ Self-help resource center with books, brochures, magazines and computers.

Community Business Resource Centre
145 Front Street, E, Ste. 101
Ph: 415-2370 Web: www.cbrc.com
⇒ Non-profit training and consulting organisation.

Ontario Crafts Council
190 Bedford Rd, Ste 300 Ph: 925-4222
⇒ Provides craftspeople with professional support and promotion. Also run a retail store.

Enterprise Centres-City of Toronto
Toronto City Hall, Main Flr, Ph: 392-1328
Scarborough Civic Centre, Ph: 396-7169
North York Civic Centre, Ph: 395-7434
Etobicoke Civic Centre, Ph: 394-8237

"It's Your Business" Workstations
⇒ Oakwood Village Library
341 Oakwood Ave, Ph: 394-1040
⇒ Mount Dennis Library
1123 Weston Rd, Ph 394-1008
⇒ Maria Schuka Library
1745 Eglinton Ave., W, Ph: 394-1000

Riverdale Community Business Centre
742 Queen St. E., Ph: 462-0496
Web: www.riverdale.org; email:rcbc@web.net
⇒ Small business support services and workshops for the Riverdale community.

Start-up Tips

Business Development Bank of Canada
150 King Street W, Ph: 973-0341
Web: www.bdc.ca
⇒ Free start-up kit with detailed business plans.

Enterprise Centres-City of Toronto
Toronto City Hall, Main Flr, Ph: 392-1328
Scarborough Civic Centre, Ph: 396-7169
North York Civic Centre, Ph: 395-7434
Etobicoke Civic Centre, Ph: 394-8237

Ontario Business Connects
www.ccr.gov.on.ca/obcon/welcome.htm
⇒ Business toolkit on the website with information on business trends, new business ideas, and a sample business plan.

Mississauga Business Enterprise Centre
Mississauga Central Library, 4th Flr
301 Burnhamthorpe Rd., Ph: (905) 615-4460
⇒ Business start-up contacts.

GST Office
1 Front Street W, Ph: 954-3400
⇒ GST, Business numbers.

PST Office
5 Park Home Ave, 2nd Flr, Ph: 222-3226
⇒ Retail Sales Tax and Vendor Permits

Revenue Canada Tax Services
(see Bookkeeping/Accounting)

Books on the Topic
Starting a Small Business in Ontario
Ministry of Economic Development, Trade & Tourism
880 Bay Street, Ph: 326-5300
⇒ A sound business approach to setting up your own company.

Technical Assistance

Industrial Research Assistance Program (IRAP)
234 Bay Street (TD Centre), Ph: 216-2104
Email: steve.guerin@IRAP.nrc.ca
⇒ Small companies desiring to enhance their technological capability may be eligible for technical and financial support.

Science, Technology & Innovation
http://strategis.gc.ca/SSG/mi02983e.html

Training/Skills Development

COSTI "Yes I Can" Program
700 Caledonia Rd., Ph: 789-7925
Web: www.costi.org
⇒ Small Business workshops for women.

Black Enterprise Network
1183 Finch Ave., W, Ste. 502, North York
Ph: 739-7222, email:
benetwork@benetworks.com
⇒ Services for the African Canadian community in self-employment and entrepreneurial activities.

Canadian Youth Business Foundation
http://www.cybf.ca
⇒ Youth business website devoted to supporting and developing young entrepreneurship in Canada.

Community Business Resource Centre
145 Front St., E, Ste. 101, Ph: 415-2370
⇒ Non-profit training & consulting.

Enterprise Centres-City of Toronto
Toronto City Hall, Main Flr, Ph: 392-1328
Scarborough Civic Centre, Ph: 396-7169
North York Civic Centre, Ph: 395-7434
Etobicoke Civic Centre, Ph: 394-8237

Food Ventures Workshops
Community Business Resource Centre
145 Front St, Suite 101, Ph: 415-2370
Web: www.cbrc.com
⇒ A variety of workshops designed to equip entrepreneurs with strategies and tools to successfully advance their food products.

Immigrant Women's Job Placement Centre
2221 yonge St, Suite 201, Ph: 488-0084
Fax: 488-2527, www.interlog.com/~iwjpc
⇒ Self Employment Assistance Program

Interactive Training Inventory
Ph: 397-INFO, Web: www.trainingiti.com
⇒ Simple access to courses, programs, seminars, and workshops across Ontario.

Jewish Vocational Service
74 Tycos Dr., Ph: 787-1151
⇒ Self Employment Assistance Program.

Management and Skills Development
http://strategis.gc.ca/SSG/mi02983e.html

Ministry of Skills Development
165 Dundas St W., 4th Flr (Mississauga)
Ph: 279-7333
⇒ Access coordinators provide information for women interested in training programs in skilled trades.

Riverdale Community Business Centre
(see Resource Centres)
⇒ Small business support services and workshops (for the Riverdale area only).

Self Employment Development Initiative (SEDI)
1110 Finch St., W., Ph: 665-2828
Web: www.sedi.org
⇒ Self Employment Assistance Program

Toronto Business Development Centre
107 King W., Ph: 345-9437
⇒ Self Employment Assistance Program and incubator services.

Women's Enterprise Resource Centre
7 Vulcan St, Ph: 247-1660, ext. 221
⇒ Full and part-time programs for women starting their own business.

Women's Institute for Leadership and Development (WILED), Ph: 693-5683
Email: dreamsinmotion@yahoo.com
⇒ Workshops, networking, training and ½ hr free consultation for women and girls.

YMCA Enterprise Centre
42 Charles St., E, Ph: 928-3362, ext. 4232
⇒ Provides self employment training and support services including SEA and Ontario Works.

York Business Opportunity Centre
116 Industry, Ph: 767-1855
⇒ Self Employment Assistance Program and incubator services.

Young Entrepreneurs Association
1209 King St. W, Suite 205, Ph: 588-0908
⇒ Seminars and networking for young entrepreneurs.

Appendix E: Summary of Outreach Methods: Inquiries, Loans, Cost Ratio

OUTREACH STRATEGY	INQUIRIES	LOANS (at study end)	COST RATIO *
MASS MEDIA	Total: 23	Total: 4	
• Articles Written about Metrofund	13	3	LOW
• Ads in Community Newspapers	2	0	MODERATE
• TTC Bus Ad Campaign	3	1	HIGH
• Website	2	0	LOW
• Posters	3	0	MODERATE
COMMUNITY REFERRAL SOURCES	Total: 60	Total: 11	
• Community Groups	46	7	LOW
• Libraries	3	1	LOW
• Banks	5	1	LOW
• Linkages to Business Service Providers	2	1	LOW
• Business Improvement Associations (BIA)	2	0	LOW
• Local Political Offices	1	1	LOW
• Faith Communities	1	0	LOW
EVENTS	Total: 53	Total: 0	
• Neighbourhood Events: Street Fairs	6	0	MODERATE
• Exploring Self-Employment Workshop	47	0	MODERATE
MARKET RESEARCH	Total: 42	Total: 6	
• In-Person Visits	22	4	HIGH
• Database Development (Telephone Surveys)	20	2	HIGH
OTHER	Total: 6	Total: 3	
• Word of Mouth Referrals	6	3	N/A

* Low = $500 or Less; Moderate = $500 - $1,000; High = More than $1,000

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