



# The Risk of Mission Drift of Microfinance: A Case Study of the UK

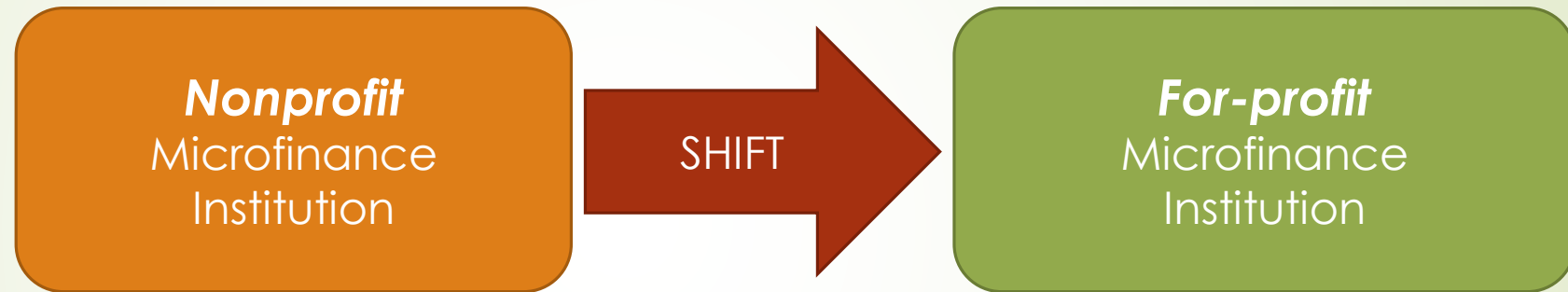
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# 1. Introduction

- Issue of Self-sufficiency vs. Social mission of Microfinance
- In developing countries...



## Features

- Social mission oriented: non-profit organization
- Depth of outreach: targeting the poorest (more costly)
- Not self-sufficient: relying on grant income

## Features

- Profitability oriented: for-profit company
- Breadth of outreach: targeting the less poor (less costly) with big capital
- Self-sufficient: relying on earned income and investment

# 1. Introduction

- **Mission Drift:** “an over-preoccupation with profitability at the expense of poverty reduction and other development goals” (Copestake, 2007)
- In developing countries, it is likely that a Microfinance Institution (MFI) becomes **profitable**.



**Earn  
more  
profit!**

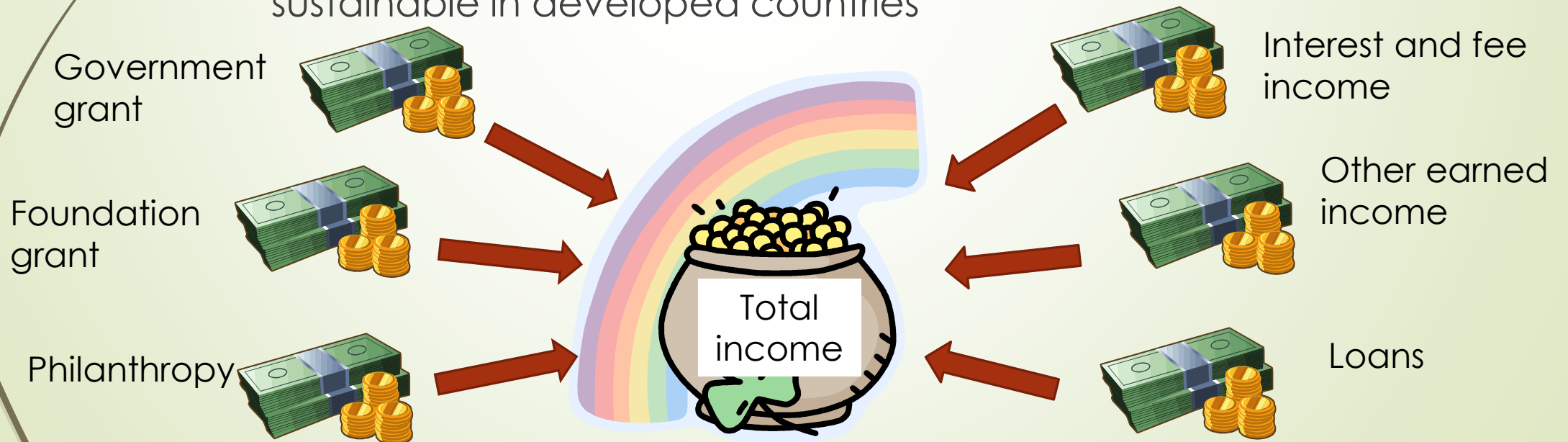


**At the expense  
of social mission...**



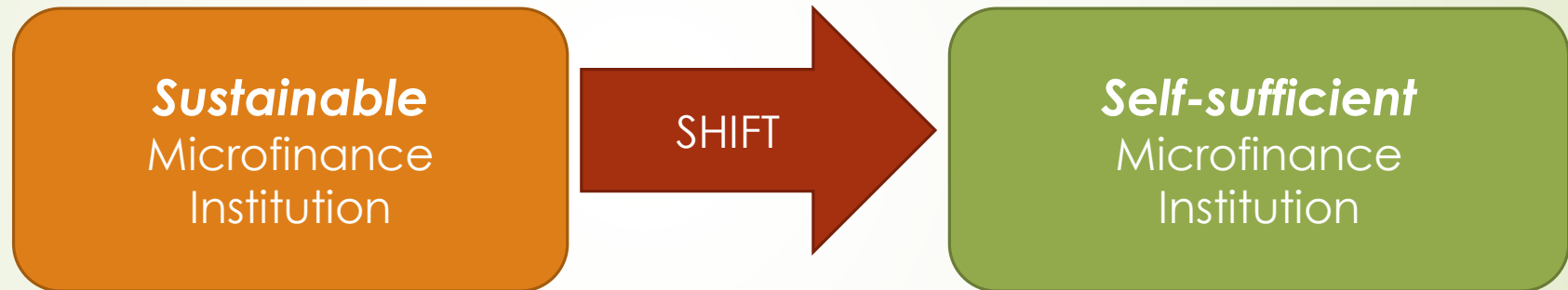
# 1. Introduction

- Different characteristics of MFIs in developed countries
  - Focusing on technical assistance/business support
  - Not scalable
  - Lower interest rates
  - Individual lending scheme etc. (Servon, 2002)
- MFIs are not usually self-sufficient and need grant income to be sustainable in developed countries



# 1. Introduction

- ▶ What will happen if grant income fades out?
- ▶ Risk of Mission Drift
  - ▶ Not led by profitability, but driven by the continuity of organization



## Features

- Social mission oriented
- Depth of outreach: targeting the poorest (more costly)
- Not self-sufficient: relying on grant income

## Features

- Self-sufficiency oriented
- Breadth of outreach: targeting the less poor (less costly)
- Self-sufficient: relying on earned income



## 2. Purpose and methods

- ▶ Purpose: to examine the risk of mission drift of MF programs in developed countries
    - ▶ Case study of Community Development Financial Institutions (CDFIs) in the United Kingdom
  - ▶ Method: In-depth research interviews / References and Data collection
    - ▶ 12 CDFIs and government officials (July 2013)
- 
- North London Community Finance (NLCF)
  - Big Issue Invest(BII)/ The Social Enterprise Loan Fund (TSELF)
  - Greater London Enterprise (GLE) one London
  - The Prince's Trust
  - Community Development Finance Association (CDFA)
  - Capitalise Business Support
  - Aston Reinvestment Trust (ART)
  - Fredericks Foundation
  - London Rebuilding Society (LRS)
  - Black Country Reinvestment Society (BCRS)
  - Street UK
  - Start-Up Loans/ Ministry of Business, Innovation and Skills (BIS)

### 3. Overview of recent policies on financial inclusion and CDFIs in the UK

(1) Tackling with financial exclusion by Labor party (1997-2005)

Year	For businesses	For consumers
1997	<b>Labor party administration started</b>	
1999	-PAT3 (enterprise) report with recommendations -The Phoenix Fund created	-PAT14 (financial services) report with recommendations
2000	-Social Investment Task Force recommendations	
2002	-Community Investment Tax Relief (CITR) introduced -Community Development Finance Association (CDFA) founded	-Credit Union Act amended to deregulate credit unions
2004		-Report "Promoting Financial Inclusions" -Financial Inclusion Fund (FIF)
2005		-Financial Inclusion Taskforce founded

### 3. Overview of recent policies on financial inclusion and CDFIs in the UK

(2) Slightly changing the policies of Labor party (2006-2009)

Year	For businesses	For consumers
2006	<ul style="list-style-type: none"><li>-The Phoenix Fund ended, and delegated into Regional Development Agencies (RDAs)</li><li>-Small Firms Loan Guarantee Scheme (SFLG) became available for CDFIs</li><li>-Local Enterprise Growth Initiative (LEGI) started</li></ul>	
2008	<ul style="list-style-type: none"><li>-The leftover of the Phoenix Fund ended</li><li>-Financial Crisis: SMEs faced difficulties of raising capital</li></ul>	
2009	<ul style="list-style-type: none"><li>-SFLG switched to Enterprise Finance Guarantee (EFG) to introduce the annual cap</li></ul>	



### 3. Overview of recent policies on financial inclusion and CDFIs in the UK

(3) After Conservative & Liberal Democrats coalition (2010-present)

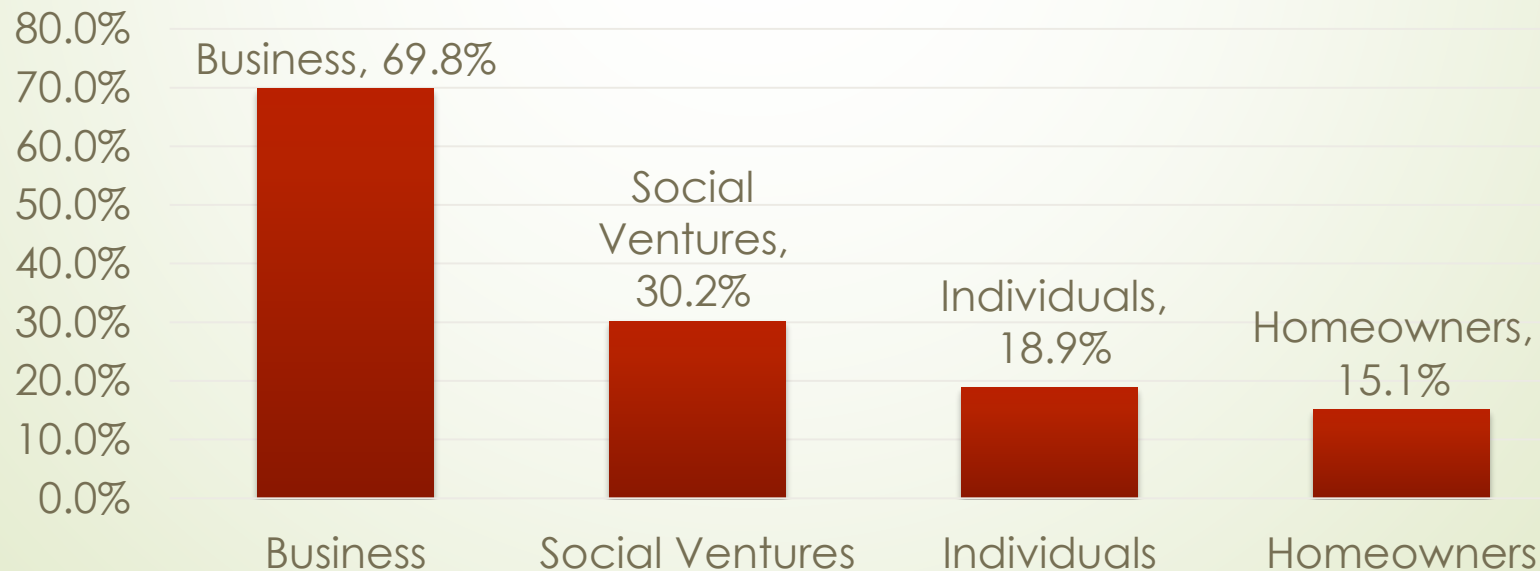
Year	For businesses	For consumers
2010	<b>Conservative and Liberal Democrats coalition started</b>	
2011	-Local Enterprise Growth Initiative (LEGI) ended -Regional Development Fund (RGF) started -New Enterprise Allowance (NEA) started	-Financial Inclusion Taskforce ended
2012	-Regional Development Agencies (RDAs) closed -Local Economic Partnerships (LEPs) started -Start-Up Loans (SUL) pilot started	-Financial Inclusion Fund (FIF) ended

## 4. Findings

### (1) Overview of CDFI sector in the UK

- Community Development Financial Institutions (CDFIs)
  - [CDFA website](#): "Community development finance institutions (CDFIs) lend money to businesses and people who struggle to get finance from high street banks. They are social enterprises that invest in customers and communities."
- Four sub-sectors of CDFIs

**CDFI sub-sectors in the UK, 2013**

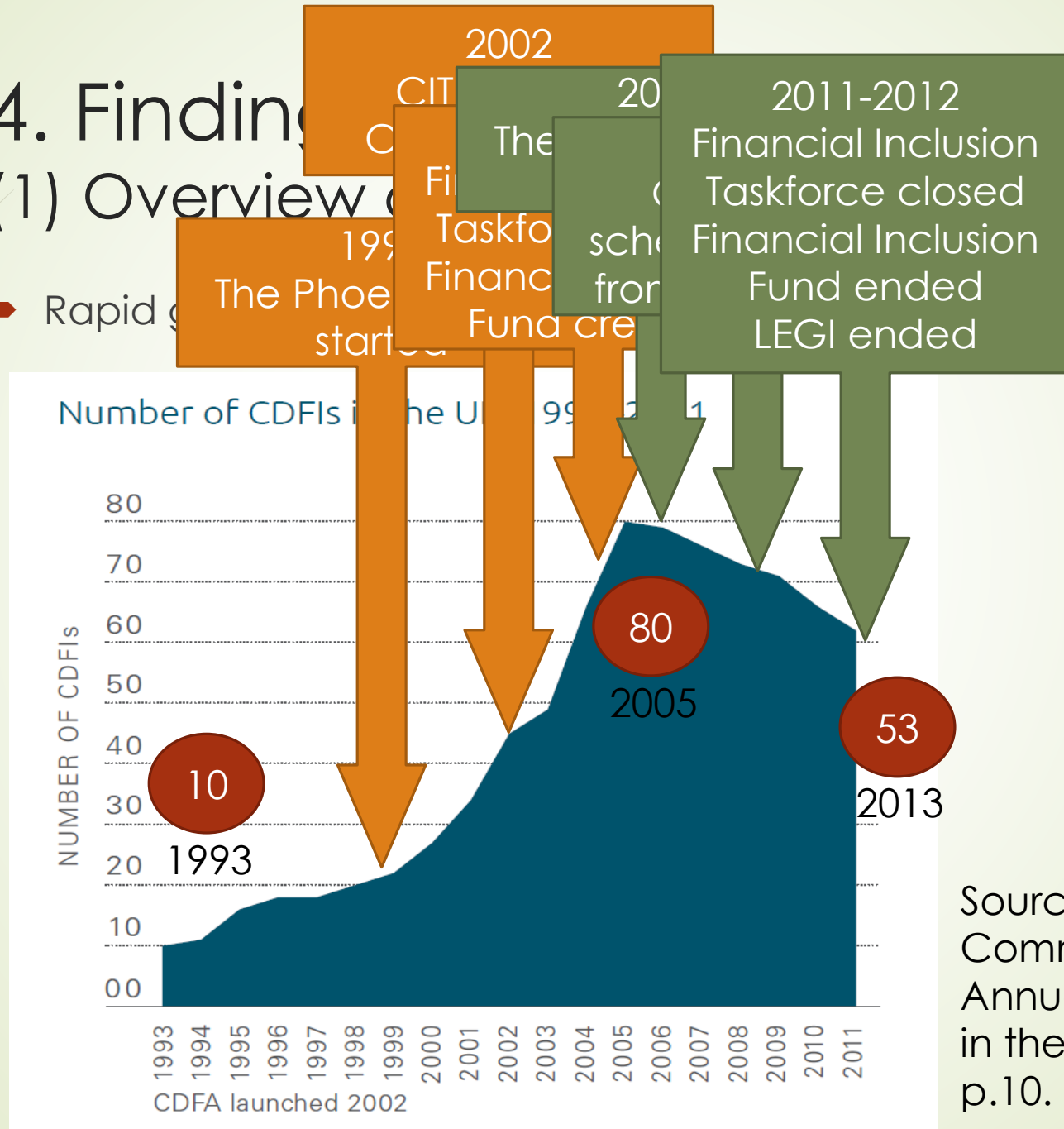


Source: CDFFA, "Inside Community Finance: The CDFI Industry in the UK 2013", February 2014, p.9.

# 4. Findings

## (1) Overview

Rapid growth



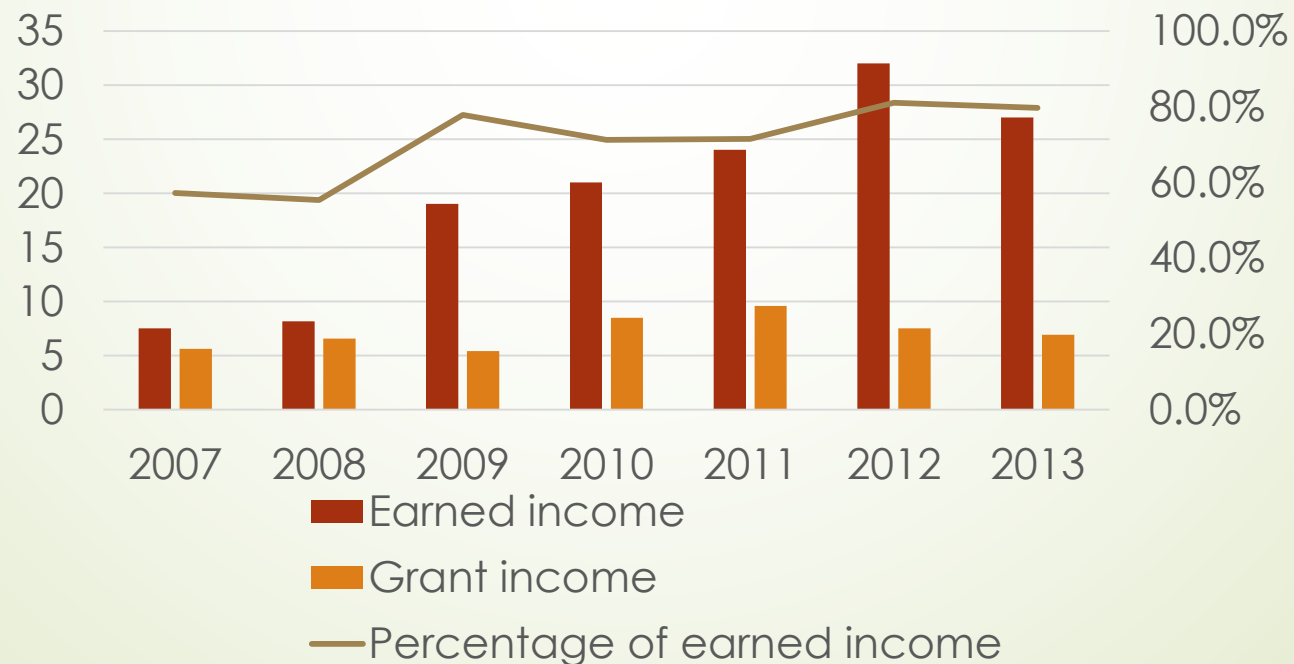
Source: CDFA, "Inside Community Finance: Annual Survey of CDFIs in the UK", June 2012, p.10.

## 4. Findings

### (1) Overview of CDFI sector in the UK

- Percentage of earned income (self-sufficiency) has increased since 2007

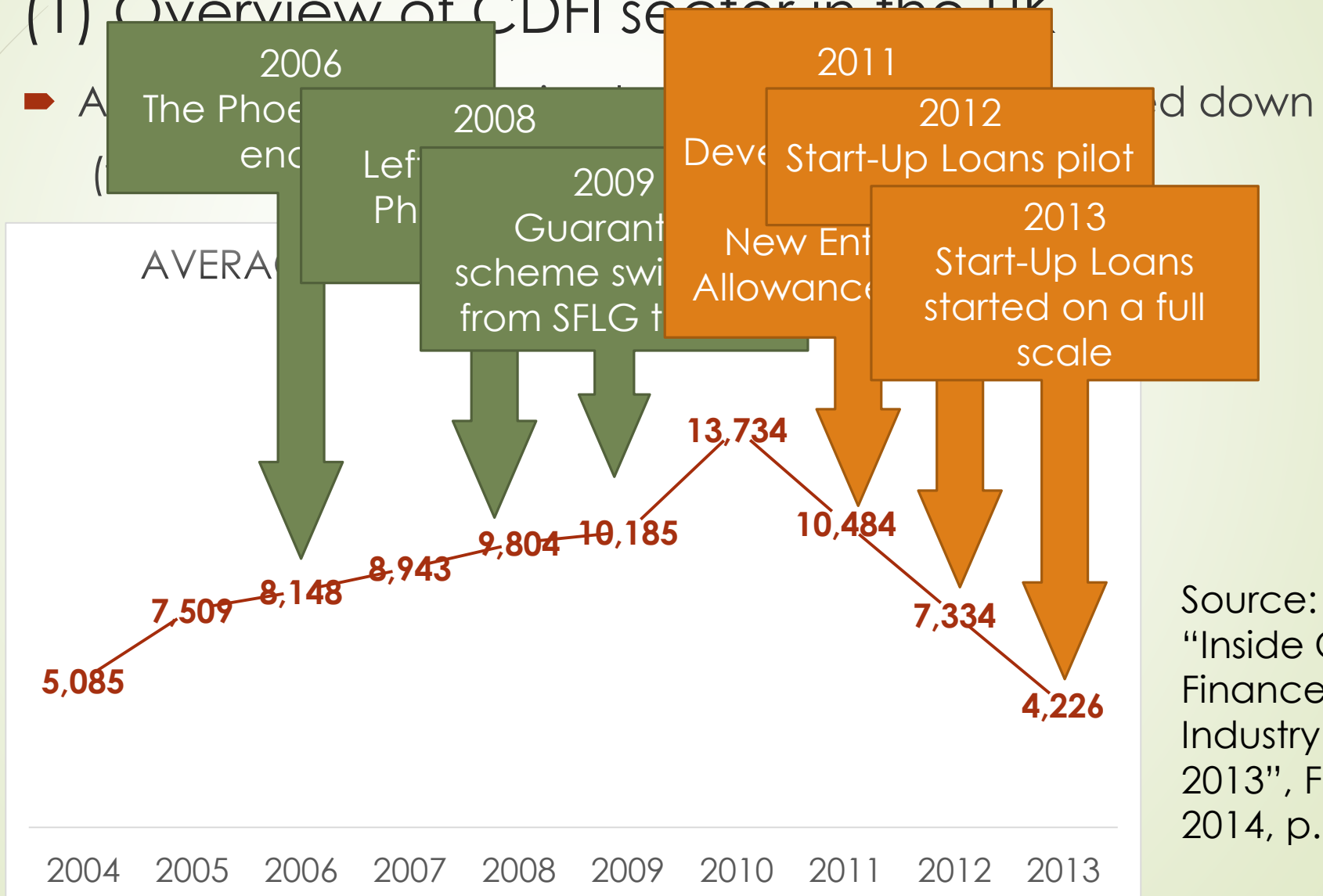
Percentage of earned income of CDFIs,  
2007-2013



Source: CDFA, "Inside Community Finance: The CDFI Industry in the UK 2012", March 2013, p.15.

# 4. Findings

## (1) Overview of CDFI sector in the UK



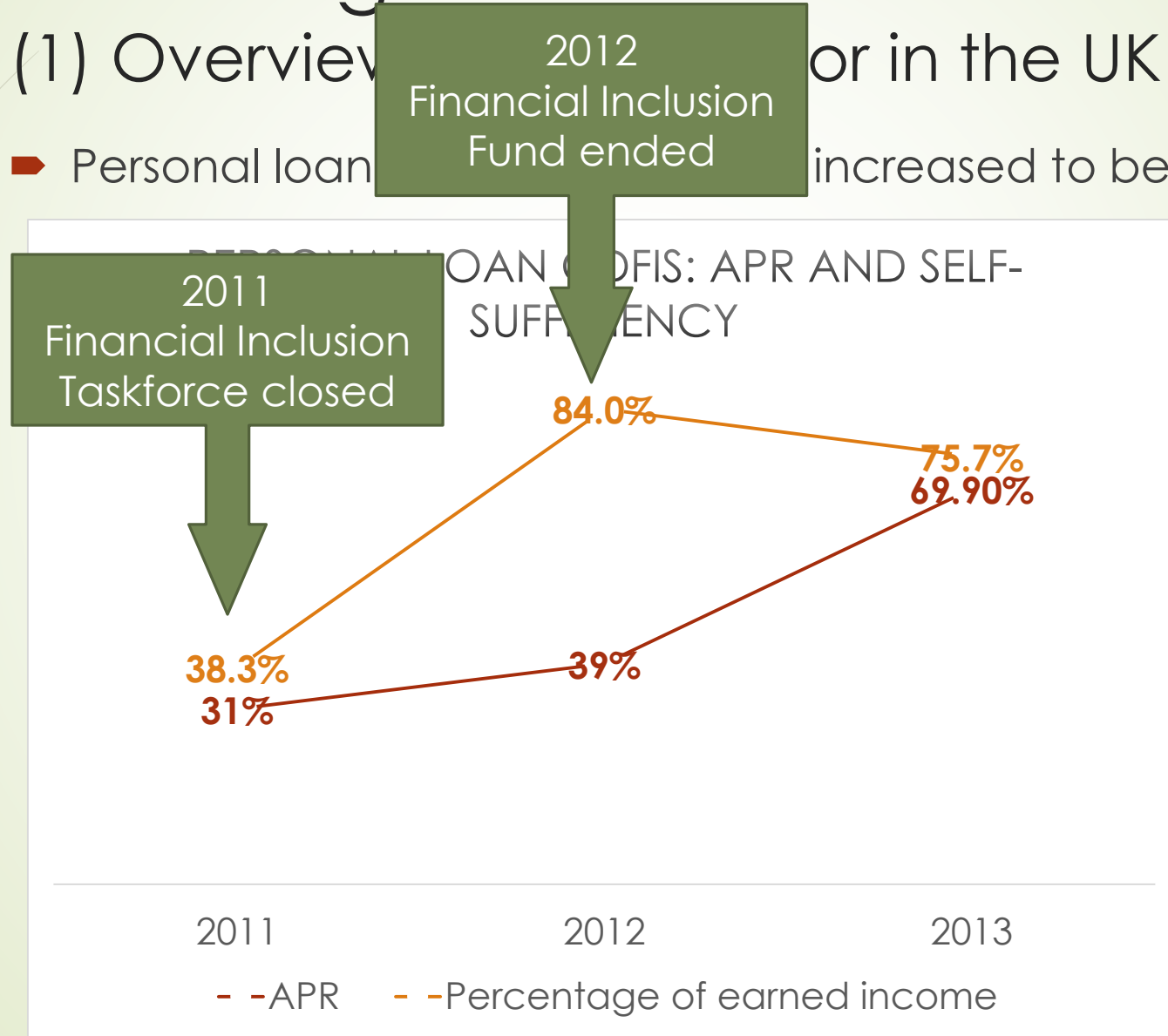
Source: CDFI, "Inside Community Finance: The CDFI Industry in the UK 2013", February 2014, p.19.



# 4. Findings

## (1) Overview of Personal Loans for in the UK

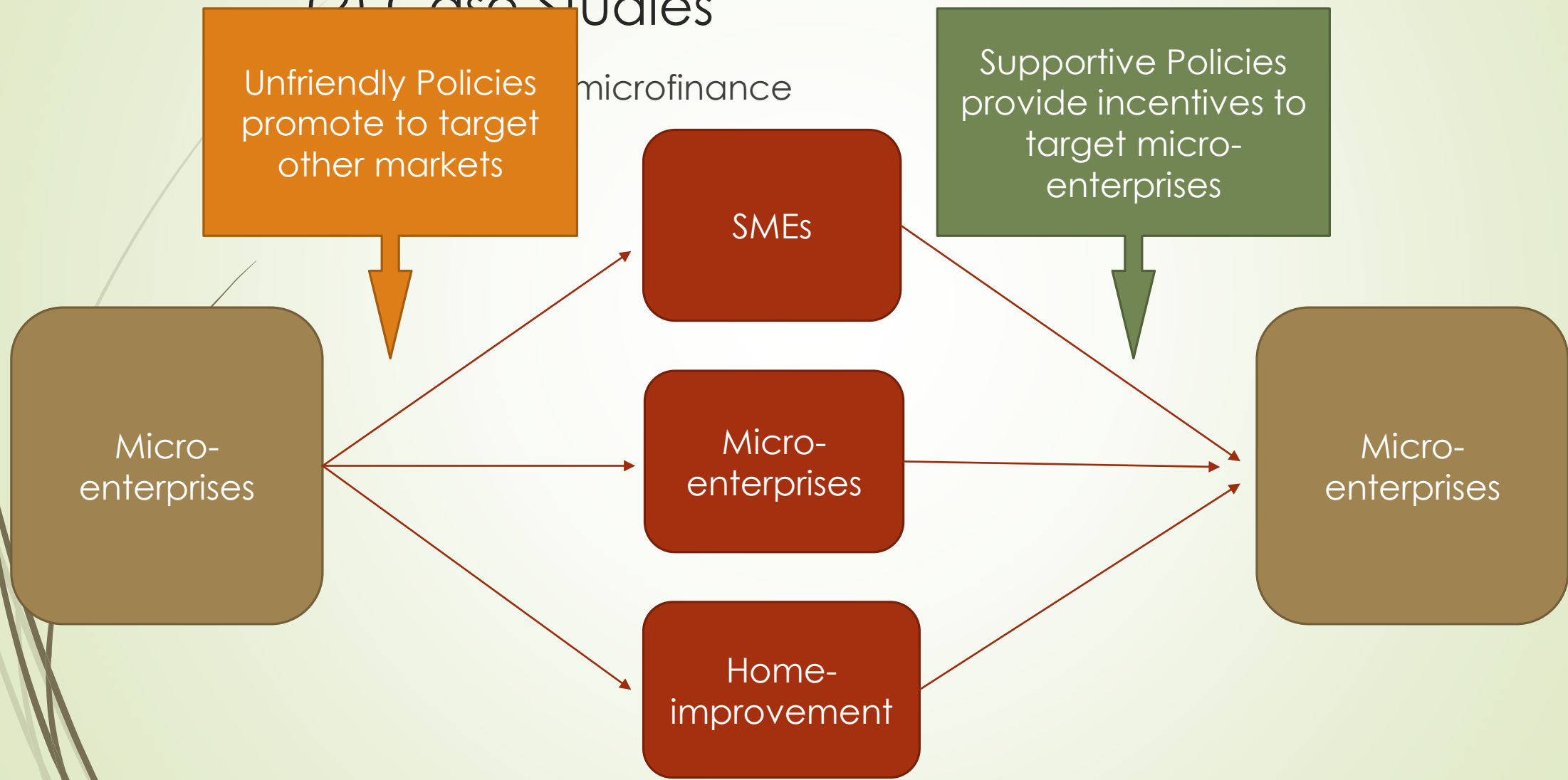
Personal loans increased to become self-sufficient



Source: CDFIA, "Inside Community Finance: The CDFI Industry in the UK 2013", February 2014, p.45.

# 4. Findings

## (2) Case Studies



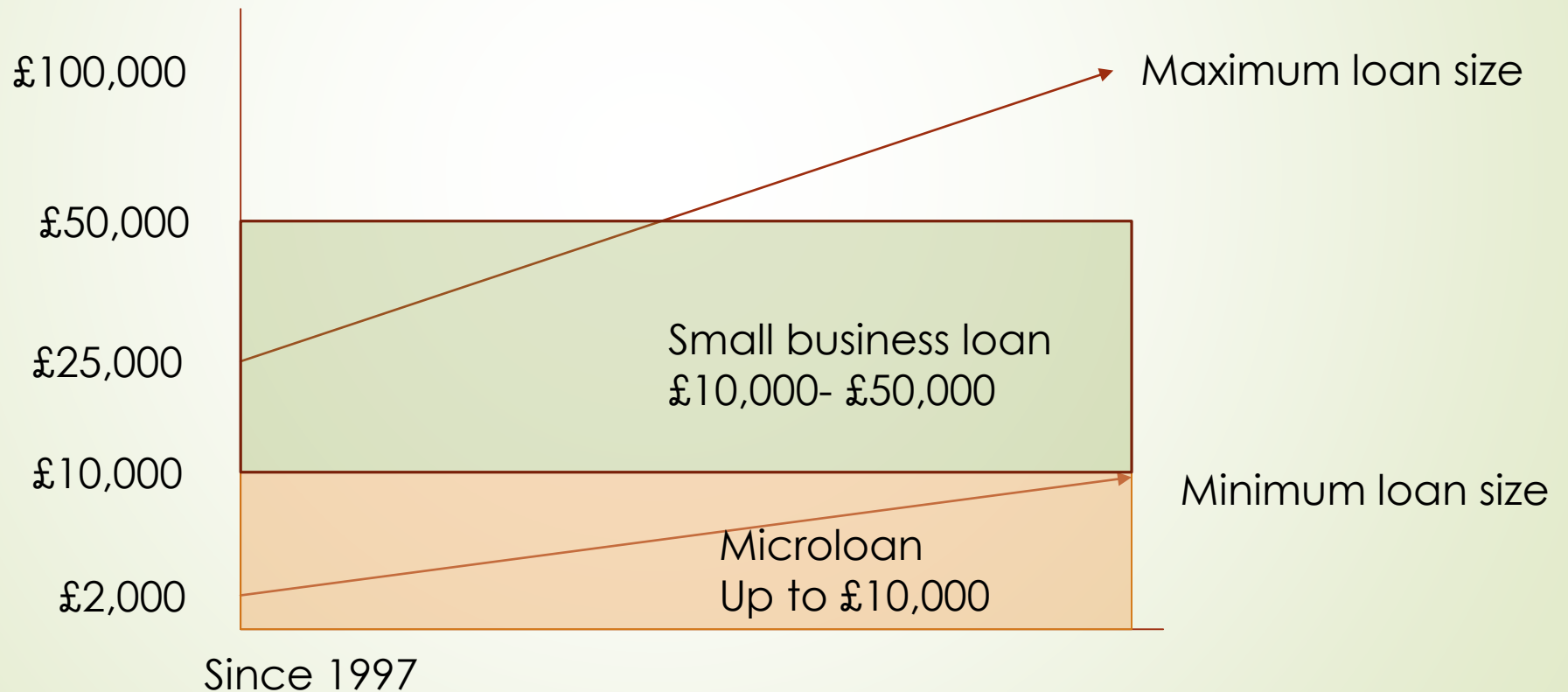
# 4. Findings

## (2) Case Studies

### ➤ Aston Reinvestment Trust (ART)



**Aston Reinvestment Trust**  
BUSINESS LOANS - WEST MIDLANDS



\* Omitted exact time when the loan sizes were changed to show the change simply

# 4. Findings

## (2) Case Studies

### ➤ London Rebuilding Society (LRS)

- ◆ Mutual Aid Fund (MAF) project
  - Launched in 2005 (pilot since 2002)
  - Group lending model
  - LRS lends a group up to £10,000
  - Funded by grant-aid foundations
  - Service was stopped

- ◆ Home Improvement Scheme
  - Launched in 2013 (pilot since 2005)
  - Improve homes of seniors using mortgage loan
- ◆ Empty Homes Fund
  - Empty home repair loan to lease to local authorities
- ◆ Other businesses
  - Energy management
  - Pre-paid account service

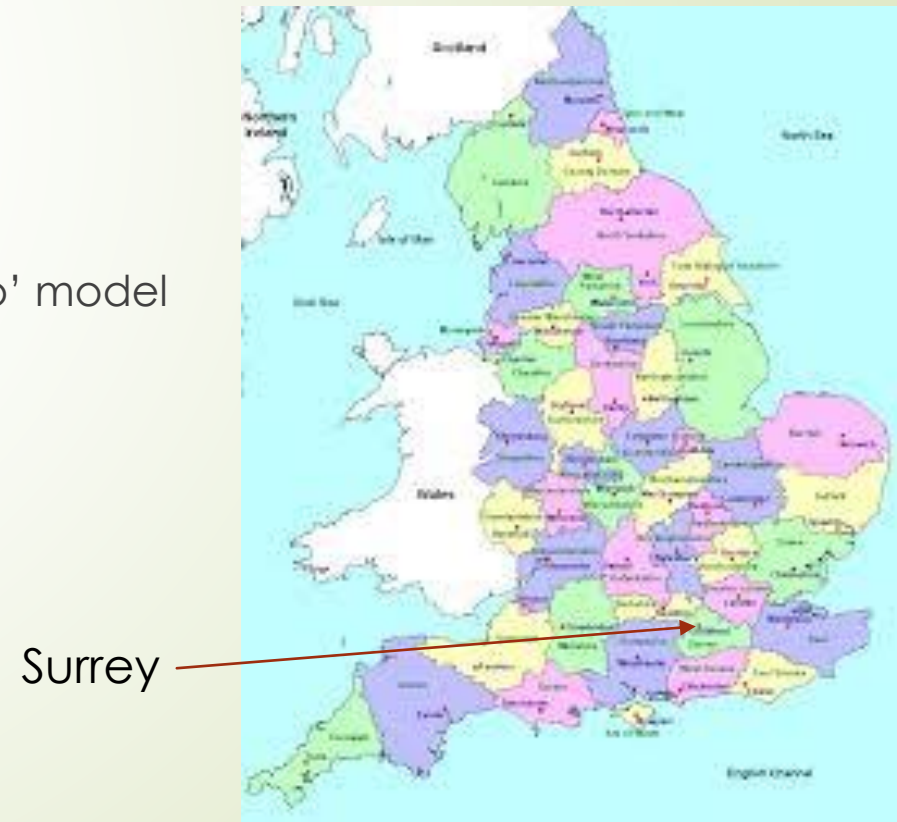
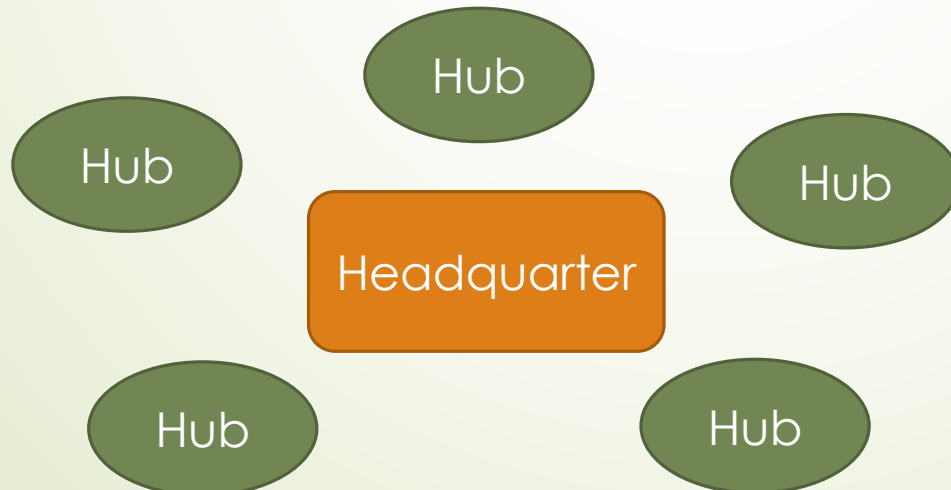


# 4. Findings

## (2) Case Studies

### ➤ Fredericks Foundation

- Founded in 2001
- Continues to provide microloans
- Loan size: £5,000 - £20,000
- Has rapidly enlarged its operating areas
- Working with community foundations by 'Hub' model





## 4. Findings

### (2) Case Studies

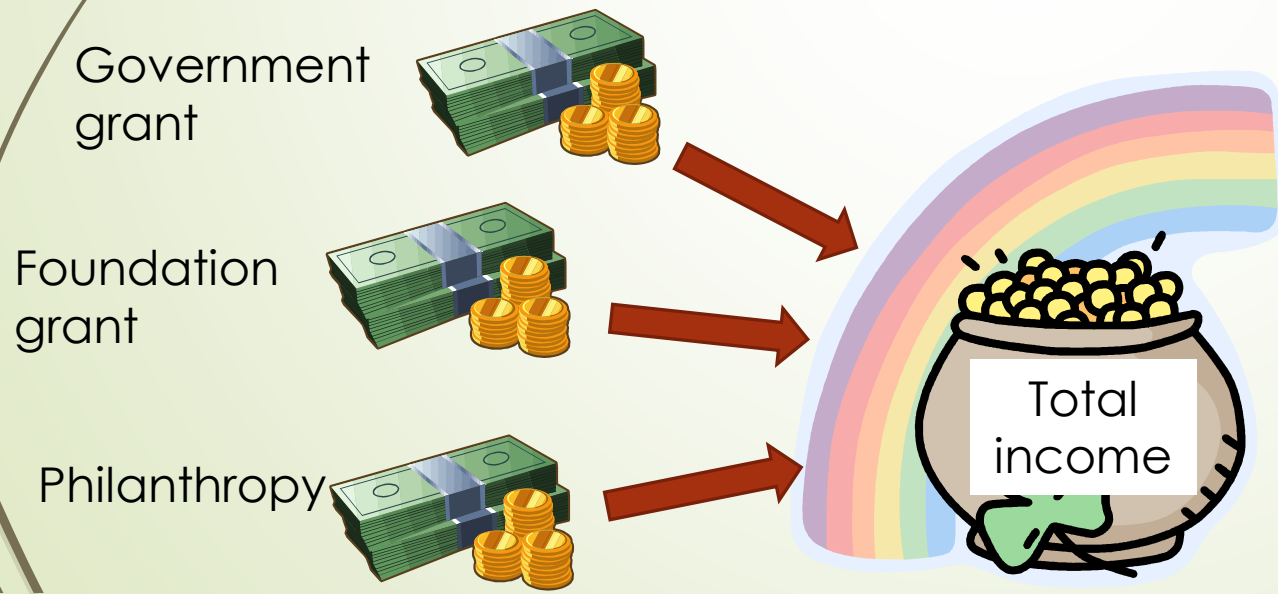
#### ► Street UK

- Founded in 2000
- Originally microloans to microenterprises
- Changed its business model and split into Street UK and Street NE in 2004
- Provides personal loans (=consumer loans)
- Self-sufficient, not relying on grant income
- Loan size: £200- £1,000
- APR: 95%



# 5. Discussion

- ▶ MF programs are likely to be affected by policy changes
  - ▶ In terms of loan size, interest rate and target market
- ▶ Planning of public grant should...
  - ▶ Be well-considered to avoid mission drift
  - ▶ Have a long span vision to disseminate and stabilize MF system



## IF grant income only...

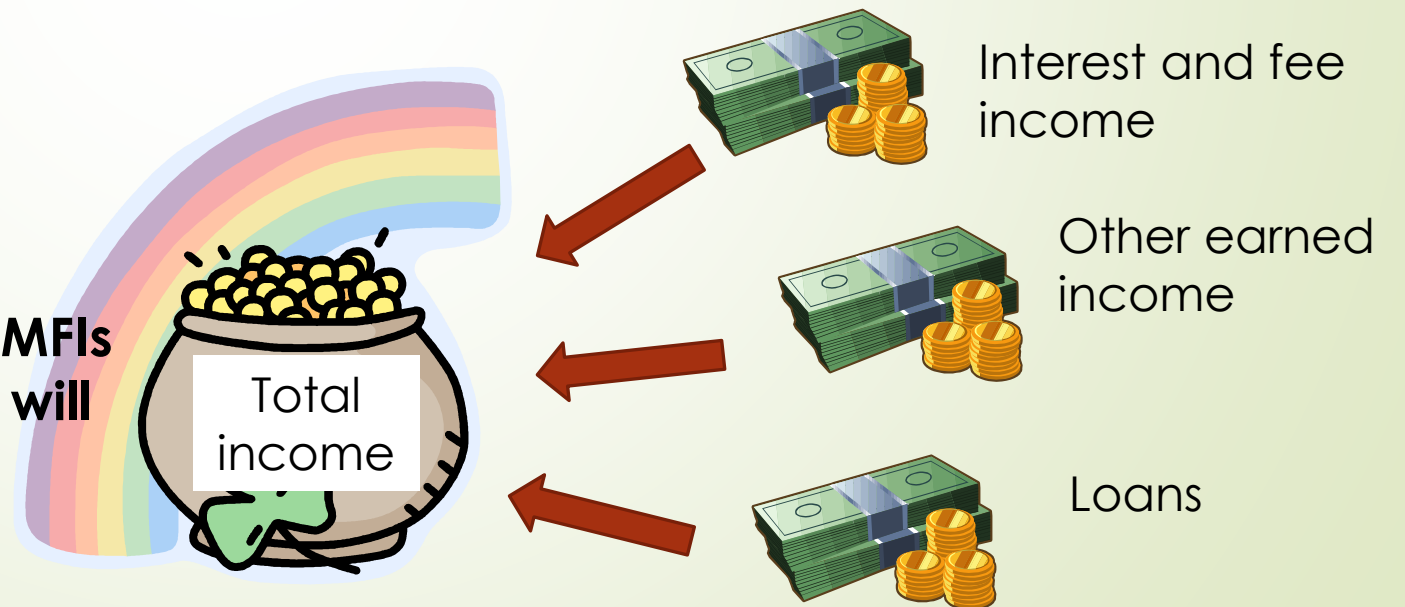
- May cause moral hazard of MFIs
- May ruin public resource

# 5. Discussion

- **Balance of risk-taking and cost coverage among all of the stakeholders**
  - The government
  - Grant-aid foundations
  - Financial institutions
  - Investors
  - Philanthropists
  - MFIs
  - Customers

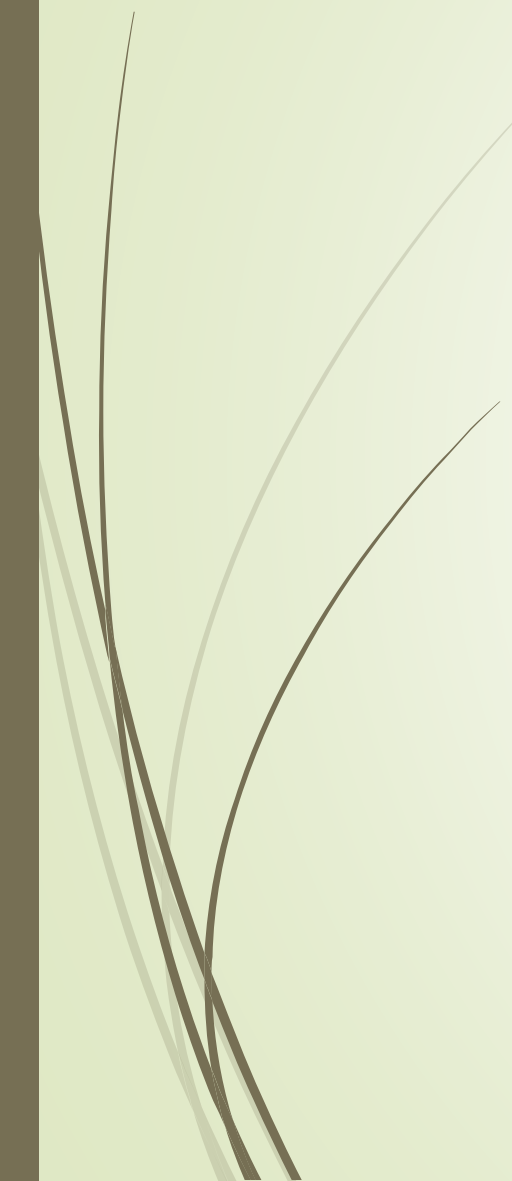
## IF earned income only...

- **May cause mission drift of MFIs**
- **Disadvantaged customers will be likely to be excluded**





## 6. Conclusion

- ▶ The reduction of government's support can cause the risk of mission drift
    - ▶ Under the reduction of CDFI support by UK government, CDFIs increased self-sufficiency. This study found that UK CDFIs experienced significant changes in terms of their target clients and business models.
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# Thank you so much for your attention.

Ask me any questions.

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