

LSE Microfinance Society Microfinance Fund Prospectus

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1. Introduction

1.1. Mission Statement

The Microfinance Society of the London School of Economics and Political Science aims to conduct research on microentrepreneurs in London and establish a fund to provide such microentrepreneurs with capital and consultation services to grow their businesses.

1.2. Introduction on Microfinance

Microfinance is the provision of financial services, especially small loans, often to disadvantaged individuals and firms to enable them to grow their small businesses. Pioneered by Muhammad Yunus who created the world's first microfinance bank Grameen Bank, the microfinance movement envisions a world where every poor person has access to financial services regardless of their ability to provide collateral. This motivates the vision that people are thus able to pull themselves out of poverty through sheer hard work and determination.

We believe that microfinance is a powerful alternative to traditional development aid and are passionate about raising awareness about its advantages and untapped potential in the United Kingdom, as well as contributing to its success ourselves. It is essential to integrate small businesses into the local economy in light of their significant aggregate contribution to the UK's economic vitality.

1.3. Microfinance Landscape & Economic Outlook in UK

The UK is a world leader in trade and finance, and is Europe's second largest economy after Germany. Despite the UK's stellar 8th in the World Bank 2020's Ease of Doing Business ranking ([World Bank, 2020](#)) and 18th in Starting a Business ranking ([World Bank, 2019](#)), it also has one of the world's highest levels of income inequality compared to other developed countries ([The Equality Trust, 2019](#)).

The vote to leave the EU triggered a decline in consumer confidence, with expectations of economic uncertainty becoming a reality now. The UK's economic growth has declined from 1.9% in 2016 to 1.4% in 2018 ([Office for National Statistics, 2019](#)) and is projected to fall further to 1.2% in 2020 ([PwC, 2019](#)), the year that the UK fulfils its promise to leave the EU. Increasing inflation, driven partly by currency depreciation due to the Brexit vote, in tandem with stagnant wage growth, have contributed to squeezed household incomes, record low savings and record high personal debt levels. It is expected that the glum economic outlook will persist through 2020, placing small businesses in an especially tight spot.

According to statistics by the [National Federation of Self Employed & Small Businesses Limited](#), in the beginning of 2019, there were 5.82 million small businesses (with 0 to 49 employees) in the UK, which grosses 99.3% of total businesses. Small and medium enterprises (SMEs) accounted for 99.9% of the business population. SMEs accounted for three-fifths of total employment figures and around half of turnover in the UK private sector. London (1.1million) and the South East (940,000) had the most private sector businesses, accounting for 35% of the UK business population.

There is currently no comprehensive, composite national blueprint to support entrepreneurship in the UK. There are, however, a number of existing government initiatives that aim to improve and educate small businesses on finance, productivity and skills which

are locally-driven and centrally-supported. A key initiative is the British Business Bank (BBB) which is targeted as a 'one-stop-shop' for SMEs comprising government financial schemes and advice services ([McLean, 2017](#)). BBB has cooperated with multiple microfinance institutions (MFIs) to tap the underserved market segment, through its Start Up Loans Company (SULCO): 40% of businesses funded have been women-owned, 35% of microentrepreneurs were unemployed before applying, and 42% were young people under 30 ([SULCO, 2019](#)).

SULCO delivers loans to businesses that have been training for 18 months or less, and government-funded programmes with start-up loans are largely delivered through 15 MFIs. Meanwhile, the Regional Growth Fund (RGF) has a £3.2bn fund to address economic imbalances and overreliance on public sector employment, and 30 million dollars in the RGF fund has been allocated to the MFI sector, which proved highly successful. As of 2016, MFIs have lent in full £60million to over 2,000 businesses, creating and saving over 8,000 jobs.

According to Trust for London, 27% of the locals are living in poverty, compared to 21% in the rest of England. Wealth inequality is a huge issue in London; 50% of London's wealth is owned by the top 10%, while the bottom 50% own only 5% of London's wealth. If given the opportunity, these individuals could achieve financial independence via entrepreneurship. However, it is challenging for them to obtain loans, as banks often find it too risky and unprofitable to provide such loans. By providing capital and guidance to such individuals, we can empower them to use their potential to its fullest extent.

We seek to improve the footing of microbusinesses in the local economy by providing them with forms of support nets that they may often fall through as they do not qualify for government support under criterion such as credit ratings, employee or revenue figures. We would like to further this cause by contributing more research on the microentrepreneurial environment in London as well as helping microentrepreneurs with visionary ideas kickstart their businesses.

2. Microentrepreneurs

2.1. Sourcing for Microentrepreneurs

We intend to partner with organisations that provide support to aspiring entrepreneurs in London who have been financially marginalised. Possible options include The Entrepreneurs Network, The Start-Up Loans Company, Centre for Entrepreneurs, etc. We will reach out to them, stating our intentions to provide financial and advisory support for financially marginalised entrepreneurs located in London. We hope to reach out to deserving individuals who have been disadvantaged due to their backgrounds, to help them achieve financial independence via entrepreneurship.

Some possible fundraising platforms that we can look into for potential microentrepreneurs top partner include:

- GoFundMe
- The Entrepreneurs Network
- The Start Up Loans Company (Under the BBB)
- Centre for Entrepreneurs
- Youth Can Do It
- StartUp Britain

In particular, we would like to consider working with women-specific entrepreneurship networks:

- Female Entrepreneurs Network
- Blooming Founders
- Women in Rural Enterprise
- She Can. She Did.
- British Association of Women Entrepreneurs

3. Funding

3.1. Potential Sources of Funding

A look into the funding sources of various microlenders in the UK suggest that both public and private funding options are widely available, though this comes from a source dating back to 1998. Assuming that not much has changed within the microlending scene in the past twenty years, funding should still be available.

Most microlenders in the UK are charities, and therefore obtain their funds from grants, national funds or grants provided by government initiatives. Examples include the European Regional Development Fund, or even the Employment Department. However, for smaller microlenders, most of their support come from local city or county councils. In addition, there seems to be strong support from banks or businesses for microlenders in the UK. This usually comes in the form of donations or support for additional services provided for these microlenders.

As a new college-led fund initiative, we need to gather enough resources in order to start our own microlending process. Though support is prevalent for more established and registered microlenders, there is little resources available for a university fund to work with. As such, we have considered a few funding options:

In-Campus Fundraising Activities

Through a variety of campus sales and activities such as bake sales, product sales or social events, a small portion of our funding will come from these activities.

Donations

There are several ways to appeal for donations. One option is to provide an online portal for the general public to donate. Crowdfunding can also be another option. In addition, we can also make use of private sources by approaching larger businesses, other microlenders or banks.

Grants

Though there are many grants available, few suit our needs due to our lack of status as a registered charity. These are a few eligible options we can consider:

- City Bridge Trust: Social Investment Fund
- CAF Torle Foundation Fund
- Community Service Grants

Partnerships with Financial Institutions

There are many financial institutions that provide alternative methods of lending for entrepreneurs and small start-ups in the UK. This includes SULCO, as previously mentioned, which is a UK subsidiary of the British Business Bank. They are able to provide funding through two finance partners.