

Yukon Micro Loan Program: Year-Three Pilot Phase Review

Final Report

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1. Background

The creation of a Yukon Micro Loan Program was announced by the Government of Yukon in March 2000. The program was launched in June 2000 as a three year pilot project with financial support from the governments of the Yukon and Canada. The program has been administered by Däna Näye Ventures from its Whitehorse offices since inception. The contribution agreement which provides funding for the program is set to expire on March 31, 2003. The purpose of this review is to assist in determining if the program should be continued beyond the pilot phase.

2. Program History/Operation

The Yukon Micro Loan Program is designed to provide a source of start-up and operating capital for small entrepreneurial enterprises. The program is specifically targeted to individuals who cannot access capital through traditional sources as a result of having a poor or non-existent credit history. Loan approvals do not require collateral but instead require an individual to demonstrate commitment, ability and trust. The Micro Loan program provides entrepreneurs an opportunity to (re)establish a financial track record and to gain business experience so that they may later access capital from more traditional sources.

2.1 Peer Group (Circle) Lending Model

The Yukon Micro Loan Program is founded on a 'peer group lending' model. In contrast to a 'solidarity group lending' approach, where one loan is shared by a mutually responsible small group, peer group participants each receive a loan but are partially responsible to each other for repayment. In order for one person to access loan funds under the program they must be part of a peer lending circle. A unique feature of the peer group lending model is that group members must take on the part of the lender's role by approving one another's loans. All loan applications must also be approved by Däna Näye Ventures. Loans are contracts between individual circle members and Däna Näye Ventures.

Credit is extended to program participants in stages with loan sizes increasing with demonstrated ability to repay. The size of a first loan for any participant is limited to \$2,000. A second stage loan can be as large as \$4,000, a third stage loan \$6,000 and a fourth stage loan \$8,000. The rate of interest charged on a first stage loan is 12.0 percent and decreases to 11.5 percent for the second stage, to 11.0 percent for the third stage and to 10.0 percent for the fourth stage. Each new loan is subject to

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approval by all circle members. In order for a circle member to access a higher stage of loan all circle members who have taken out a loan must be in good standing.¹

Table 1: Yukon Micro Loan Program: Loan Stages, Interest Rates and Terms

	Maximum Loan Amount (\$)	Interest Rate (%)	Minimum Loan Term (months)	Maximum Loan Term (months)
Stage 1	2,000	12.0	3	12
Stage 2	4,000	11.5	6	24
Stage 3	6,000	11.0	12	36
Stage 4	8,000	10.0	12	36

By taking on the role of lender, circle members are able to expand and improve their business planning and analysis skills. Financial risk for each loan is shared in a limited fashion among all circle members. Circle members are not “on-the-hook” for each other’s loans but access to an additional loan requires that the member seeking the loan have paid back all their previous loan and that all circle members be in good standing. The actions of delinquent group members does not affect the credit history of other circle members as tracked by agencies such as Equifax.

In the circumstance where one circle member wants to access a higher stage loan but not all members of their circle are in good standing, the higher stage can be accessed in one of two ways. First, the circle can encourage a delinquent member to bring their loan back into good standing. Failing that, all members of the circle, other than those that are delinquent, can make a one time only partial repayment of that delinquent loan up to a maximum of \$500 per borrower. This feature of the peer lending approach underlines the importance of a circle forming where all members share a high degree of trust.

Peer circles must also hold regular meetings at which minutes are taken. The minutes must be submitted to the Micro Loan Coordinator in a timely fashion. Circles which do not meet and submit minutes on a regular basis can be suspended from further participation in the program.

2.2 Loan Mechanics

Yukon Micro Loan applicants must be 19 years of age or older and must be Canadian citizens or have legal resident status. The business for which the loan is intended to benefit must operate in the Yukon. Loans funds can be used for any business purpose such as the purchase of equipment, tools, computers, materials, supplies, advertising, etc.

¹ To be in good standing does not require that a circle member have fully repaid their loan, only that they are making payments in accordance with their repayment schedule. In other words, a circle member is in good standing if not behind, or delinquent, in loan repayments.

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Micro loans are considered high risk in that collateral and a sparkling credit history are not required in order for a participant to receive one. The high risk nature of the loan portfolio is reflected in the relatively high rate of interest charged. Stage one loans are made at 12.0 percent interest. The interest rate declines by 0.5 percent with successful repayment of the first stage loan and access to loan stages 2 and 3. The interest rate declines to 10.0 percent at the fourth loan stage (Table 1).

Loans are made subject to minimum and maximum loan repayment terms. For a stage one loan, the minimum term is three months and the maximum is term is twelve months (Table 1). The minimum term doubles once for a second stage loan to 6 months and again for a third stage to 36 months. The maximum term doubles between a first and second stage loan to 24 months and is increased to 36 months for a third stage loan. The maximum and minimum terms for 4th stage loans are the same as for 3rd stage loans.

One of the objectives of the program is for the loan capital fund to become financially self-sustaining. The use of fixed and relatively high rates of interest together with a minimum term requirement are intended to ensure that the objective of self-sustainability can be achieved. Loans for which it becomes apparent that they will not be repaid are referred to a qualified loan collection agent.² Small claims court actions are also initiated where appropriate in order to obtain judgment and pursue collection of default loans.

New program applicants are charged a non-refundable application fee of \$25. A loan administration fee of 3 percent of the stage 1 loan value is also charged. For subsequent loans, the administration fee is 3 percent of the additional loan value.

Circle members must also contribute a minimum of \$50 to a “circle emergency fund” at each loan stage they apply for. The fund is to be used solely for the purpose of preventing missed payments or loan default. A member’s share of any remaining funds is reimbursed to them upon withdrawal from a circle if in good standing.

2.3 Program Administration

The Yukon Micro Loan Program was designed by the Government of Yukon’s Department of Economic Development in consultation with Dāna Näye Ventures . The program is now overseen by the Department of Business, Tourism and Culture which took over responsibility for all Government of Yukon economic development programs on April 1, 2002. The program has been funded under an informal partnership arrangement between the Government of Yukon and the Government of Canada’s Department of Indian Affairs and Northern Development.

² From program inception to December 31, 2002 a total of four Micro Loans have been referred to a collection agency.

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A contribution agreement between Däna Näye Ventures and the Government of Yukon signed in March 2000 outlines the design and funding terms for the program over the three year period April 1, 2000 to March 31, 2003. Under the terms of the contribution agreement, the Government of Yukon has provided funding for both loan capital and program operations (Table 2).

The Micro Loan fund was capitalized over a three year period with \$50,000 provided in the first year, \$30,000 in the second year and \$20,000 in the third year. Total loan fund capitalization stands at \$100,000. Interest earned on loans from the fund is paid back into the capital fund.

The contribution agreement also specified that Däna Näye Ventures be provided with \$45,000 in each of the three years of the pilot program to be used for client training and administration.

The contribution agreement was amended once in April 2001. The amendment was made at the request of Däna Näye Ventures and consisted of operational improvements based on lessons learned during the first year of operation of the program. No funding amounts were altered as part of the amendment.

The Department of Indian Affairs and Northern Affairs has also provided funding for Micro Loan Program operations (training and administration) on a year-by-year basis (Table 2). Däna Näye Ventures was advised that capital has not been provided because issuing loans is not an authorized use of the funds under the budgetary appropriation through which DIAND itself receives program monies.

A formal funding arrangement between the federal and Yukon governments, while contemplated in the design stage of the program, has never been implemented. In the absence of a formal arrangement, Däna Näye Ventures has stepped forward and played a linking role between the two levels of government during the three-year pilot phase of the program.

Table 2: Yukon Micro Loan Pilot Program Funding

	Loan Fund Capital (\$)		Training and Administration (\$)	
	Government of Yukon	Government of Yukon	Government of Yukon	Government of Canada
2000-2001	50,000	45,000	45,000	20,000
2001-2002	30,000	45,000	45,000	15,000
2002-2003	20,000	45,000	45,000	25,000
Total	100,000	135,000	135,000	60,000

3. Requirement for Review

Clause 5.5 of the contribution agreement between the Government of Yukon and Dāna Nāye Ventures states:

5.5 Yukon and DNV agree to review the operation of the Agreement during fiscal year 2002/03 to assess if the objectives outlined in this agreement are being achieved.

This report has been prepared in fulfillment of the clause 5.5 requirement to review the program.

4. Scope of Review

While the contribution agreement lists seven objectives for the Micro Loan Program, the terms of reference under which this report has been prepared requires that only four of the objectives be considered at this stage of the review.³ In addition to the four objectives identified above, the terms of reference for this review require that four additional research questions be considered. The objectives and research questions examined in this report are listed below:

- Help provide the target groups⁴ with the tools, training, network and support necessary to establish a business and to establish a successful credit history;
- Reduce dependence on public assistance by helping people create their own businesses;
- Encourage individual empowerment by helping members to manage their own businesses;
- Encourage clients to organize into groups for purchasing, selling and other collective efforts.
- Is the program being delivered in accordance with the contribution agreement?
- Are loan approvals distributed fairly amongst the target groups?
- Are there any barriers to participation evident?
- What is the future potential for the program?

³ Contribution agreement objectives not included in the terms of reference include:

- Support the creation and strengthening of micro and small businesses as a strategy to raise incomes and enhance the economic self-sufficiency of participants;
- Sustain or create employment; and
- Strengthen local economic development.

⁴ The target groups for the program are people with low incomes and few assets who are otherwise unable to obtain suitable credit and training through the private market or through other government programs.

Please note that this review in no way constitutes a financial audit of Micro Loan Program operations.

5. Methodology

Four methodologies were employed in this review of the Micro Loan Program. The first was an examination of the files located at the Department of Tourism, Business and Culture. The files reviewed described program design activities, the operationalization of the program and, to a more limited extent, program operations.

The second methodology consisted of informal interviews with Däna Näye Ventures staff. A brief interview with the Micro Loan Program coordinator was conducted very early in the course of the review. A more extensive interview was conducted with the Manager of the Business Services Division who has been responsible for overall administration of the Micro Loan Program since its inception in 2000.

The contribution agreement between the Government of Yukon and Däna Näye Ventures also contains a requirement that Däna Näye Ventures report quarterly on program activities. As specified in Annex 'C' of the contribution agreement, the quarterly reports contain detailed descriptions of program activities. A complete set of quarterly reports were obtained and an analysis of those reports was the third methodology used in the review.

The fourth methodology employed was a structured telephone survey of program participants. The survey was carried out on subcontract to Vector Research by an individual with a significant amount of telephone interviewing experience with the Yukon Bureau of Statistics. A copy of the survey instrument may be found in Appendix '1' of this report.

Däna Näye Ventures provided a client contact list which contained names and phone numbers for all individuals who had participated in the Micro Loan Program from inception until the end of November 2002. A total of 69 individuals were identified on the list. The 69 individuals were participants in 21 peer lending circles.

Standard telephone survey protocol was observed. Confirmation that the survey responses would be kept confidential was provided. Messages were not left on recording devices. Calls were made only to individuals with secure land line telephone network access; calls were not made to cell, satellite or radio phone numbers. The survey was conducted over a ten day period running from January 17 to January 26, 2003.

Out of the 69 individuals who participated in a peer lending circle, a total of three were identified as Mentors and were not called as part of the survey. Of the

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remaining 66 possible survey subjects, attempts were made to contact all of them. Fourteen of those 66 no longer had valid contact numbers (many appear to have left the territory). For another 18, working contact numbers did not lead to successful contact; contact with each potential survey participant in this group was attempted as least three times and as many as five times.

Successful contact was made with 34 of the possible 66 survey subjects; the survey response rate was 52 percent. Out of the 34, six were members of a peer lending circle but had not yet accessed a micro loan. Surveys were terminated upon a respondent being identified as having not yet accessed a loan.

Successful contact was made with 28 individuals who had received a loan through the program. Of those 28, two joined a Micro Loan peer lending circle in 2000, six joined in 2001 and 20 joined in 2002. A total of 24 reported that they were living in Whitehorse when they first joined a peer lending circle. Most had accessed Micro Loan funding only once (stage 1 - 19 respondents). Eight respondents indicated that they had accessed funding twice (stage 2) and one respondent indicated they had received three micro loans (stage 3). At least one circle member was successfully contacted in 15 of the 21 circles.

**Table 3: Yukon Micro Loan Program
Telephone Survey Populations**

21	Peer Lending Circles
69	Circle Members
3	Mentors
66	Possible survey subjects
14	Contact number no longer valid
18	Unsuccessful contact
6	Successful contact/did not receive loan
28	Successful contact/received loan

6. Review Findings

This section of the report presents the findings of the review according to two broad groupings of indicators: program delivery and achievement of intended program outcomes.

6.1 Program Delivery

The terms of reference for this review requires that an assessment be made of whether the Micro Loan Program is being delivered in accordance with the contribution agreement. In order to make such an assessment, this section of the paper looks at the key program delivery functions specified in the agreement which include:

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- coordination of peer lending circles
- program outreach and communications
- business skills development (training)
- administration of the Micro Loan Fund
- community advisory board

Each of the key program delivery functions are described in turn below.

Coordination of Peer Lending Circles

Before a small business can benefit from a micro loan, several steps must be taken by program participants. The first step is to establish or join a peer lending circle. A stated goal of the pilot phase of the program was to “reach 60 clients by the end of three years”. With circle membership from program inception to December 31, 2002 reaching 66 (excluding mentors), this goal has been achieved in full and in advance of expiry of the three year time frame.

**Table 4:
Yukon Micro Loan Program
Key Summary Statistics**

	at March 31/01	at March 31/02	at December 31/02
Number of Circle Members	11	34	69
Number of Circles	3	10	21
Number of Loans Disbursed	8	30	54
Value of Loans Disbursed (\$)	14,000	50,709	129,900
Number of Loans Outstanding	8	26	37
Value of Loans Outstanding (\$)	13,800	46,718	73,100
Number of Loan Defaults	0	2	4
Value of Loan Defaults (\$)	0	4,000	7,700

Source: Dāna Nāye Ventures, *Yukon Micro Loan Quarterly Report* (various quarters).

As can be seen from Table 4, uptake for the Micro Loan Program has achieved significant momentum in the last three quarters. The number of circle members has doubled in the nine month period April 2002 to December 2002 compared to the 12 month period April 2001 to March 2002 when circle membership increased from 34 to 69. Correspondingly, the number of circles formed between the same reference periods also doubled, rising from 10 to 21. Four of the 21 peer lending circles (19 percent) are located in communities outside of Whitehorse.

As was described in subsection 2.3 of this report, the contribution agreement was amended in April 2001 to introduce several operational improvements. One of the changes made was to reduce the minimum number of circle members from four to

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three and another was to allow for one of the three to be a “non-borrowing mentor”. The requirement that immediate family members not belong to the same circle was also relaxed so that immediate family members could belong to the same circle as long as they were not part of a the same household. Analysis of the telephone interview contact list and comments from Däna Näye Ventures staff both indicate that the three changes facilitated the formation of additional circles after April 2001.

Program Outreach and Communications

Over the course of the pilot program Däna Näye Ventures has developed a comprehensive set of program materials. In order to facilitate the creation of peer lending circles DNV created a program brochure, a Micro Loan Program workbook and a Circle Application Package. A web version of the program brochure can be found on DNV’s website (www.dananaye.yk.net).

In order to assist with program operations, Däna Näye Ventures also developed two additional aids. The first is the *Experience Questionnaire* which is used to assess the business knowledge of potential circle members in order to ensure that each circle has sufficient business knowledge among its overall membership. The questionnaire is also used to identify training needs of program participants. The second is the *Step 7 Circle Package* which provides guidance to program participants once a circle has been formed and one or more members of the circle apply for a loan.

The Micro Loan Program delivery agent, Dana Naye Venture offers a variety of business-related programming including:

- Commercial Business Loan Program
- Aboriginal Business Canada (External Delivery Office)
- Youth Business Program
- Self-Employment Program (Human Resources Development Canada)
- various management, planning, finance and software workshops/courses

DNV staff reported that the Micro Loan Program is complementary to other programs offered by DNV. Referrals are made between programs; three of the Micro Loan circles which have formed are comprised of Self-Employment Program graduates. The Micro Loan Program also benefits from the cross-marketing opportunities in Whitehorse and the communities when DNV promotes its package of programs.

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Business Skills Development

Micro loans are not the only form of support received by program participants. They also receive non-financial support and assistance from DNV, especially from the Micro Loan Coordinator, in the way of informal guidance and support. The one-on-one assistance provided by the coordinator plays a key role in business development.

Telephone survey participants were asked how important the non-financial assistance provided by DNV was to them in starting or operating their business. Seventy-five percent indicated that the non-financial assistance was “very important” and an additional 14 percent reported that the non-financial assistance received from DNV was “fairly important”. Seven percent of respondents said that DNV’s non-financial assistance was “not very important” to them.

Program participants were exceptionally pleased with the level of service provided by the staff at DNV. When asked to indicate how satisfied they were with the overall level of service received from DNV staff, 93 percent of respondents stated they were “very satisfied”. The remaining 7 percent of respondents indicated they were “somewhat satisfied”.

The position of Micro Loan Coordinator was initially staffed on a part-time basis (approximately 30 hours per week). In response to the increase in the number of peer lending circles as the pilot program progressed, DNV began staffing the position on a full-time basis in the second quarter of the 2002/03 fiscal year. The increase in staff hours was made possible with the increase in funding provided by DIAND in the same fiscal year.

As an alternative to informal guidance and support another approach to the development of business skills is through more formal measures such as workshops and courses. While the contribution agreement does make reference to training, it does not clearly specify whether the training was to be formal or informal. A relatively small portion of the program budget was allocated to training for lending circle participants. Needs-specific training was provided for six individuals.

Telephone survey participants were asked if they took part in any training put on through the Micro Loan Program. Three survey respondents indicated they had. Of those three, two indicated that the training they received was “very useful” in starting or operating their business while one said that the training they received was “not very useful”.

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Administration of the Micro Loan Fund

The terms of the contribution agreement also specify that Dāna Nāye Ventures is to provide loan processing, loan administration and collections activities in support of the Micro Loan Program. Table 4 (page 8) presents some key summary statistics which describe the Micro Loan fund activities undertaken by DNV.

As of December 31, 2002, a total of 54 loans had been disbursed through the program with an associated value of \$129,000. The number of loans outstanding at that time was 37 with an associated value of \$73,000. The difference between the number of loans disbursed and the number of loans outstanding consists of the number of loans fully repaid (13) plus the number of loans on which program participants have defaulted and are considered uncollectible (four).

The total value of loans in default since program inception is \$7,700. The resulting default rate, calculated as the amount declared unrecoverable (\$7,700) divided by the total program loan amount (\$129,900) is 5.92 percent. One of the stated goals of the program (per the contribution agreement) is that the default rate be less than 5.0 percent at any one time. (Note that the quarterly reports consistently refer to a target default rate of 10.0 percent).

The delinquency rate for the loan fund, calculated as the outstanding balance of loans past due for the quarter as a ratio of that total loan amount outstanding, stood at 38 percent (not including loan defaults) at December 31, 2002. The high delinquency rate is reflected in the number of circles experiencing loan repayment difficulties in relation to the number of circles which are not. Also at December 31, 2002, seven circles (or, one third) were identified as having repayment difficulties while 14 were not. While the relatively high delinquency rate of 38 percent bears concern, it should be remembered that the program operates in a high risk, no-collateral corner of the capital market.

In addition to the default and delinquency rates, the contribution agreement also specifies that a “repayment rate” be calculated on a quarterly basis in order to assess program performance. The repayment rate is to be calculated as repayments received in the last period as a ratio of payments due and past due. Notwithstanding that another stated program goal (per the contribution agreement) is that the repayment rate reach better than 90 percent, it is not presented here as it does not appear to have been calculated in the quarterly reports.

An additional goal of the Micro Loan Program is that the loan fund achieve self-sufficiency by the end of year three of the pilot phase of the program. Self-sufficiency refers only the loan fund; it is not intended that the amount of interest earned on loans be enough to replace the annual payments made to DNV for program administration by the Yukon and federal governments.

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The contribution agreement suggests four “financial strength indicators” to be used to assess the self-sufficiency of the loan fund:

- Operating Self-sufficiency Rate [total income from the loan fund as a ratio of total expenses including loan loss costs]
- Operating Cost Rate [credit program expenses and training program expenses as a ratio of average amount outstanding]
- Portfolio Yield Rate [total income from loan fund as a ratio of average amount outstanding]
- Liquidity [cash as a ratio of projected disbursements]

None of these measures have been reported on an ongoing basis in the Yukon Micro Loan Quarterly Reports. However, four alternative measures have been presented in the quarterly reports:

- Operating Revenue Ratio [expected revenue for the period as a ratio of revenue actually received in the period]
- Profit Ratio [interest earned on loans as a ratio of program expenses]
- Operating Cost Rate per Client [average amount outstanding as a ratio of total expenses]
- Loan Loss Rate (Default Rate) [amount declared unrecoverable as a ratio of total program loan amount] n.b. same indicator described above

The goal of self-sufficiency in loan capital appears to mean that interest earned on loans will offset default losses within a fixed fund amount of \$100,000.

Unfortunately, out of the eight performance indicators suggested or in use, no single indicator, or combination of indicators, provides a clear picture of fund self-sufficiency. This is perhaps not surprising given that none of the indicators make reference to a set of key drivers for loan fund health: the numbers of stage 1, stage 2, stage 3 and stage 4 loans.⁵

Without a benchmark for program success in terms of loan uptake by peer lending circle participants, the indicators will tend to be circular and/or incomplete. For example, in the absence of a requirement for a specific number of loans to be made from the loan fund, one way to guarantee that the fund is self-sustaining is to make only one loan at a time. This way, use of the loan fund could be stretched out of many years without having to replenish the capital base. Such an approach however, would clearly not serve other program objectives including, for example, providing loans to reasonable numbers of members of each target group.

⁵ Curiously, the contribution agreement does not suggest that the number of loans at each stage be tracked and reported in the quarterly reports.

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In summary, loan fund self-sufficiency must be assessed relative to the number of loans disbursed at each possible loan stage. The pilot phase of the Micro Loan Program has clearly been a success in terms of the number of peer lending circle participants and borrowers. Without a relative measure of loan fund self-sufficiency, however, the program is poised to become a victim of its own success as more and more participants access loans at higher stages in larger amounts. A larger capital base will be required to service the demand the program itself has created. Similarly, should the number of circles continue to be increase beyond the target already achieved and the aggregate number of loans disbursed continue to grow, the loan fund will require additional capital.

Community Advisory Board

Section 3 of the contribution agreement between the Government of Yukon and Dāna Nāye Ventures relates to the establishment of a “Community Micro-Loan Program Advisory Board”. As specified, key responsibilities of the Board were to include providing advice in the development and operation of the program, promotion of the program in the business community and evaluation of program activities. The review and approval of specific loan applications was specifically excluded from the list of Board responsibilities.

According section 3 of the contribution agreement, the Board was to be established under the *Economic Development Act* as a ‘Category C’ board with as many seven members and with quorum set at four. Appointments to the Board were to be made by the Yukon Minister of Economic Development. The Government of Yukon was to be responsible for providing secretariat services and for the costs of operating the Board.

The above description of the Board is written in the past tense because the Board was never established. Clearly, responsibility for establishing the Board was with the Department of Economic Development (and later, the Department of Business, Tourism and Culture). Despite the promise of guidance and advice from a community-based board contained in the contribution agreement, Dana Ventures operationalized the Micro Loan Program on their own. To DNV’s further credit, the operationalization of the program was successfully accomplished within the financial parameters outlined in section 4 of the contribution agreement.

6.2 Achievement of Intended Program Outcomes

Target Groups

A stated objective of the Micro Loan Program is that it “help provide target groups with the tools, training, network and support necessary to establish a business and to establish a successful credit history”. The target groups for the program “are people with low incomes and few assets who are otherwise unable to obtain suitable credit and training through the private market or through other government programs.”⁶

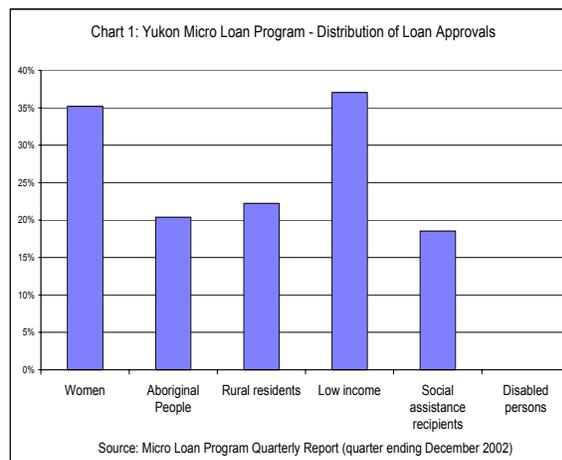


Chart 1 shows the cumulative distribution of loan approvals from program inception to December 31, 2002 according to the target group categories. While women comprise over half of the Yukon population, only 35 percent of loan recipients were women. Aboriginal people, who comprise approximately 20 percent of the Yukon population received 20 percent of loan approvals. Rural residents received 22 percent of loan approvals, low income individuals 37 percent and social assistance recipients 19 percent. No loan recipients were identified as disabled. Note that the percentages sum to more than 100 as an individual program participant can belong to more than one target group.

Usefulness and Incrementality of Funding

Survey respondents clearly felt that the micro loans they received were useful in starting or operating their business. Seventy-one percent of respondents reported that the loan(s) they received from the Micro Loan Program were “very useful” in starting or operating their business. An additional 25 percent reported that the loans were “fairly useful” in starting or operating their business.

While respondents indicated that the loans were useful, only one-third indicated that a micro loan was crucial to the start-up or continued operation of their business. In response to the question “would you have started or continued to operate your business without the loan you got from the Micro Loan Program”, 32 percent indicated no. Sixty-one percent of respondents reported that they would have started

⁶ Unfortunately, the term “low income” was not quantified in the contribution agreement nor was it specified in dollar terms in the Micro Loan Program quarterly reports.

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or continued to operate their business in the absence of a micro loan.⁷ Seven percent of respondents indicated they were not sure in response to the question.

Non-financial Support from Circle Peers

By design, the peer lending circle approach to micro-finance intends that program participants will find support among the other members of their lending circle. While overall respondents found peer support to be important it was not reported to be as important as the support and assistance received from DNV. Forty-three percent indicated that the help they got from other people in their circle was “very important” to them in starting or operating their business. Twenty-five percent indicated peer support was “fairly important”, while 18 percent said it was “not very important” and 11 percent said it was “not at all important”.

Another implicit objective of the peer circle lending approach is circle members be encouraged to organize into groups for purchasing, selling and other collective efforts. Such cooperative opportunities include the organizing group purchases of business inputs (e.g., fuel, materials) and/or the selling of products and services. Survey responses on this question were split with 36 percent finding their peer lending circle to be “not all at all useful” and 14 percent “not very useful” in organizing group purchases/selling. Among the other half, 29 percent found their circle to be “fairly useful” while 21 percent found their circle to be “very useful” in this regard.

Improvement in Credit History

An additional objective of the Micro Loan Program is that the program help individuals establish a successful credit history. Of the 28 respondents, six indicated that they had applied for credit since participating in the Micro Loan Program. Out of those six respondents, two found the Micro Loan Program to be “very useful” in improving their personal credit history. Two respondents reported that the Micro Loan Program was “fairly useful”, one reported that it was “not very useful” and one reported that it was “not at all useful”.

Barriers to Participation

One of the research questions identified in the terms of reference for this review was to identify barriers to participation in the program. Survey respondents were asked if there were any things which made it hard for them to take part in the Micro Loan Program. Note that because the question was asked only of those who participated in

⁷ In response to this survey finding, Däna Näye Ventures has noted that, in their experience, entrepreneurs tend to understate the importance of financial assistance received in starting or operating a business.

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the program it does not reflect the perceptions of those who were unable to overcome any barriers to participation and were as a result precluded from participating in the program.

A total of 75 percent of survey respondents did not identify any things which made it hard to participate in the program. The twenty-five percent who did indicate that there were things which made it hard to participate in the program were asked to describe what those things were. Their responses are reproduced verbatim [with edits to ensure confidentiality] below:

- There was a bus strike on at the time.
- I had started working so it was hard for me to complete my assignments.
- Having to find two people to make a circle.
- Not everybody was forthright in our circle and one person defaulted.
- Our circle started having problems with one another right away.
- Attending weekly meetings was hard because I don't have transportation and I live in [neighborhood some distance from downtown Whitehorse].
- Transportation costs from [a community] to Whitehorse. Will be a problem.

Empowerment

Another objective of the Micro Loan Program is to “encourage individual empowerment by helping members to manage their own businesses”. In order to gauge participants’ sense of empowerment they were asked for a response to the following question: “my participation in the Micro Loan Program has made me feel I have what it takes to start or operate a successful business”. Of the 27 survey participants who provided a response for this question, 46 percent said they “strongly agree” with the statement and a further 39 percent indicated that they “agree”. Eleven percent of respondents stated that they “disagree” with the statement.

7. Future Program Potential

In addition to the foregoing, the project terms of reference also require that the final report for the review include a) an assessment of the program by the contractor, and b) recommendations for program improvement. Both are discussed below.

7.1 Assessment of Program

The Yukon Micro Loan Program services an unfilled niche in the Yukon capital market by providing no-collateral loans to individuals who cannot access capital from traditional lending sources. While participation levels were low in the early months of the program, it has developed significant momentum in the last year of the pilot phase. The program has achieved its goal of reaching 60 participants in advance of the three-year pilot project time frame. To December 31, 2002, a total of 54 loans valued at \$129,000 had been disbursed. On the basis of the telephone survey

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responses, program participants were very satisfied with the level of service provided by Dāna Nāye Ventures. In short, the pilot Yukon Micro Loan Program is a demonstrated success.

7.1.1 Program Delivery

Dāna Nāye Ventures demonstrated adaptability in the delivery of the pilot program by learning from its early program delivery experiences. For example, by seeking an amendment to the contribution agreement, peer lending circle requirements were modified to better suit Yukon circumstances. A comprehensive set of program materials was developed by DNV in support of the program. Lastly, despite an unfulfilled promise of guidance and advice from a community-based advisory board, DNV operationalized the program on their own.

Out of the total of 54 loans disbursed (valued at \$129,000), four were in default (valued at \$7,700) as at December 31, 2002. The resulting default rate, 5.92 percent, demonstrates that DNV was diligent in the approval and administration of the loans. While the relatively high delinquency rate of 38 percent (as at December 31, 2002) should perhaps be of some concern, it should be remembered that the program operates in a high risk, no-collateral corner of the capital market.

With regard to the self-sufficiency of the Micro Loan fund, in the absence of a benchmark for uptake at each loan stage, it was not possible to make a conclusive determination. Notwithstanding the absence of specific financial benchmarks, the program did reach the intended number of participants and issue loans to all who were eligible while staying within the original capital allotment of \$100,000.

7.1.2 Achievement of Intended Program Objectives

With regard to whether the program achieved its intended objectives, the picture is less clear. That is not to say that the review found that intended objectives have not been achieved, but rather that the measurement of those objectives was sometimes difficult based on the information available.

For example, one objective specified in the contribution agreement was that the program “reduce dependence on public assistance by helping people create their own businesses”. However, the term “public assistance” was nowhere defined in the contribution agreement. While presumably this would include individuals receiving social assistance, the contribution agreement did not specify that data be gathered from clients such that the government making the assistance payments could be identified (i.e., Yukon *vs.* First Nation *vs.* Indian Affairs and Northern Development). Further, while the objective refers to the “creation” of businesses, participation in the program was not limited to those individuals who were starting up a new business; loans could be sought for the operation of an existing business.

It is also worth noting that it is difficult to quantify the impacts of a program like the Yukon Micro Loan Program in the short term. For example, while it is statistically likely that several of the businesses supported by the Micro Loan Program will falter, it also remains a possibility that skills learned in establishing a first business can be applied to businesses at a point in time beyond the three-year pilot timeframe. In other words, it can take a many years for the benefits of an initiative like the Micro Loan Program to begin to sprout.

With all of that said, it is safe to say that the Yukon Micro Loan Program has likely had positive impacts on program participants. With the exception of disabled persons, individuals in all other target groups received between 19 percent and 35 percent of loan approvals. Almost three-quarters of survey respondents reported that the micro loans they received were “very useful” in starting or operating their business. While relatively few survey respondents (six) indicated that they had applied for credit since participating in the program, the majority stated that the Micro Loan Program was “very useful” or “fairly useful” in improving their personal credit history. Eighty-five percent of survey respondents indicated agreement with a question designed to gauge whether participants experienced a feeling of empowerment as a result of participation in the program.

With regard to barriers to participation, seven of twenty-eight survey respondents indicated that there were things that made it hard to take part in the Micro Loan Program. The barriers identified related to transportation (three), the circumstances of certain peer lending circles (three) and time constraints (one). Note that the survey results do not include the perceptions of those who were unable to overcome barriers to participation which caused them to be unable to take part in the program.

The independent nature of Yukoners was evidenced in the responses to the survey questions which related to non-financial support from lending circle peers and the usefulness of the lending circles in organizing group purchasing and selling efforts. Survey responses for both questions were quite mixed. Only 43 percent of respondents found non-financial support from circle peers to be “very important” to them in starting or operating their businesses. Responses were equally split in terms of respondents’ perception of the usefulness of peer lending circles as a vehicle for organizing group purchasing/selling efforts.

7.2 Recommendations for Program Improvement

7.2.1 Recommendations from Program Participants

Telephone survey participants were asked, on the basis of their experience with the Micro Loan Program, if they thought the program should be ended, continued the same as it is, or continued with improvements. Fifty-seven percent indicated that the

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program should continue the same as it now. The remaining 43 percent thought the program should be continued with improvements. Notably, none of the respondents indicated that they thought the program should be ended.

Respondents who thought that the program should be continued with improvements were also asked what they thought could be changed to make the program better. Their responses are reproduced verbatim below:

- There should be a minimum of 6 months grace before making the first payment. Of my \$2000 loan, 10% went to administration costs and half the loan was inoperable because I had to keep it in the bank to make payments.
- Everything can be improved, but it would depend on what the improvements are.
- The lending amount of \$6,000 doesn't go very far. If we had a little more operating capital, we would have been a lot better off. We could have bought more essential stuff.
- Larger loans would be better to start a business with.
- They should go by individual track records rather than making people responsible for other people that they don't even know.
- I should not be penalized for others defaulting on their loans.
- They need to screen the clients better.
- The interest rate could be lighter.
- The monthly meetings with the lending circle are a waste of time. They could be done every 2 or 3 months.
- More attention should be given to the individual's business plan, as in \$2,000 might not be enough to launch some businesses.
- I strongly advise that all participants be subject to training.
- The interest rate could be lower.

Three themes are apparent in the improvements suggested by survey respondents. The first is that rate of loan interest is too high (12.0 percent for a first stage loan). The second theme is that the loan sizes may be too small for some businesses. The third is that some participants were ultimately not comfortable sharing financial risk with other circle members who they did not know as well as they might have liked.⁸

7.2.2 Reviewer Recommendations

Key Recommendations

On the basis of the preceding analysis and assessment, it is a key recommendation of the Yukon Micro Loan Program reviewer that operations funding for the Yukon Micro Loan Program be continued for at least another three years. It is further recommended that the Yukon Micro Loan Program continue to be delivered by Dāna Näye Ventures, the organization which has nurtured and advanced the program to its current level of success.

⁸ Similar themes can be found in the responses to the open-ended comment question presented in Appendix 2 of this report.

Operational Recommendations

With regard to program operations, the Yukon Micro Loan Program reviewer also recommends:

- 1) That the Government of Canada's role in the funding of the Yukon Micro Loan Program be clarified. While the Department of Indian Affairs and Northern Development has provided almost one third of the total funding for program operations, it appears to have done so on an ad hoc year-to-year basis and in the absence of a formal agreement with the program's major sponsor, the Government of Yukon.
- 2) That the Government of Yukon consider increasing operations funding for the Micro Loan Program so that the Micro Loan Coordinator position can continue to be staffed on a full-time basis at a reasonable wage. The program has expanded to a point where full-time staffing is required to effectively serve all program clients. The Coordinator position is key to the success of the program and requires a unique set of skills.
- 3) That the Government of Yukon and Däna Näye Ventures cooperatively determine whether program intake should be capped and if so, at what level. Once determined, further analysis should be carried out which incorporates information about participants' rate of advancement through the loan stages learned during the pilot phase of the program. With the advancement rate information in hand, potential additional loan capital requirements should be assessed. The program should be prevented from becoming a victim of its own success by ensuring that it is not starved for capital in the absence of agreement on an acceptable level of loans outstanding at any given point in time.
- 4) That the effects of a) charging lower interest rates at the various loan stages and b) increasing maximum loan amounts at the various loan stages be examined in accordance with the findings of operational recommendation 3). Comments from several survey participants indicated that rates of loan interest should be lower and the maximum loan amounts higher.
- 5) That the program performance and loan fund reporting systems be revised and improved. The quarterly report format specified in the original contribution agreement is overly detailed and does not provide a clear and comprehensive snapshot of how the program is doing at any given time. The drivers for loan fund health should be identified and integrated into the reporting system so that the sustainability of the fund can easily be assessed on an ongoing basis.

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- 6) That a community advisory board not be created in an extended Micro Loan Program. Many of the advisory boards intended functions related to program start-up and are no longer required as the pilot phase of the program is about to end. Further, Dāna Nāye Ventures has demonstrated it can successfully operate the program without an advisory board.

MLP Participant Name: _____

Peer Lending Circle: _____

Phone number(s): _____

Respondent Code: _____

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
Morning							
Afternoon							
Evening							

(for each attempt at contact, insert date e.g., J23)

A. Introduction

Hello, my name is _____. I'm calling from Vector Research, a Yukon-based research company. We're doing a study of the Yukon Micro Loan Program for the Government of Yukon. The three-year pilot phase of the program is ending soon. This study will help the government decide whether or not it should continue funding the program.

We are calling everyone who took part in the Micro Loan Program to ask their opinion, including you. Your input is very important for the results of the survey to be accurate. Your answers will be kept confidential. The survey has 15 questions and will take about 10 minutes.

Can I go ahead with the questions?
If not, is there a time when I could call you back? participation refused

B. Baseline Information

B.1 What year did you join a Micro Loan peer lending circle?

2000 2001 2002

B.2 What Yukon community were you living in when you first joined a circle?

_____ [community name]

B.3 How many times have you received a loan through the Micro Loan Program?
[choose one]

none [If none, terminate interview. (Thank you for your time)]

once twice three times

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Telephone Survey - Open Ended Respondent Comments

The final question in the telephone survey asked: “Are there any other comments that you would like to make about the Micro Loan Program?”. The responses below are reproduced verbatim from the telephone surveys [except for edits made to ensure confidentiality].

- I know that it has been helpful to a lot of people and I know that some people have defaulted but I don't think that it should force the program to stop. They could make slightly more tougher entry rules that would help cut down on the possibility of default.
- I know that I'm the only one in my group that is paying back the loan so when it comes down to the end they're going to have a large argument on their hands if they think I'm going to help pay back their loans.
- I was one of the first people involved in the groups so I was disheartened with the cheques being issued to a third party at the time. This didn't reflect well on me as a business person. Overall though, I think this is a good and necessary program.
- The \$6,000 we borrowed doesn't even put a dent in the bucket. If we had \$15,000 we could have advertised as well as setting ourselves up with more equipment.
- It was a windfall so I think it should be better publicized. I found out about it when I was in the business planning course. I wouldn't want it to continue if it wasn't advantageous to the program, so if they need to make improvements, so be it.
- The interest rate was a little high but other than that it was fine.
- It's very difficult to start a business with that amount of money but I'm for the program 100%.
- I know a lot of people it has helped out and I personally think it is a great program.
- I think it's great. I didn't really take the loan to start my business. I took the loan to build my credit rating.
- If someone decides to default we're left holding the bag and penalties. I think it's good that its available but I would like to borrow larger amounts for capital purchases.
- I started the program early on and everything happened too fast. In the end I think it didn't work because our group didn't agree on anything and we all fell out of touch. They should do more research on people before lending them money.
- It makes for people to get their gear in line.
- The staff was excellent. The courses were expensive and I didn't have time to take them.
- I want to thank Dana Ventures for giving me the opportunity to [operate my business].
- It was good friendly service.
- It felt a bit hasty in getting started and I would like a bit more communication with the lender. Everybody was so eager to get started that I don't even know when my first payment is due.
- I couldn't have started my business right away without the program. It was a way to acquire the small assets needed to start up.
- The initial and final loans should be double the amount.
- I don't think enough people knew about it because I talked to friends and they hadn't heard about it. It's a very easy and viable program to work with.
- I just want to be debt-free.
- It's a fantastic program but it should be revamped and tailor made to the individual's plans/needs. Two thousand dollars is lots for hobbies and crafts but if you're standing alone in an operational business it's a ridiculous amount to start with. A \$5,000.00 loan would have put me on top and allowed me to advertise as much as I needed to.
- It was a saver for us. We probably would have got by without it but it would have been more difficult.
- Overall, I'm pretty satisfied but the interest rate could be lower. I could have used more money because it wasn't enough to buy all my tools.
- I have nothing but praise for the program.
- I hope they don't discontinue it. It's nice for people to be able to get started.
- It is a really good thing and people need to access this sort of thing to jumpstart the economy.