CALMEADOW NOVA SCOTIA

Calmeadow Nova Scotia is a not-for-profit; non-government organization committed to providing access to credit for financially challenged entrepreneurs in Nova Scotia through loans and support services. In a long-standing partnership with Royal Bank of Canada Calmeadow Nova Scotia has, until recently, provided access to loan capital to those who cannot obtain credit through conventional means. Effective January 1, 2001, Calmeadow Nova Scotia has ceased lending activities and closed its offices.

The Calmeadow organization has operated under a dual mandate. Calmeadow's social mandate was to provide loan opportunities to self-employed individuals who might otherwise be unable to access loans from traditional sources of financing. In doing so, Calmeadow sought means to improve borrowers' quality of life and to support business and job creation in Nova Scotia. Calmeadow's commercial mandate was to provide these services in a cost-efficient manner and to cover a large percentage of operating costs with revenue earned from loan portfolios.

In addition to offering an Individual Loan program for entrepreneurs with relevant experience in their field, Calmeadow also has provided a unique, experimental lending model, the Peer Lending program. In this model, clients form groups of 4-7 members, which have reviewed, helped develop and recommended each other's loan applications.

Calmeadow Nova Scotia, which has closed its offices at 5670 Spring Garden Road in Halifax, advises that all existing, paid up clients are now dealing directly with Royal Bank of Canada.

THE CALMEADOW LOAN PROGRAM

In its various stages, Calmeadow Nova Scotia has positively affected the lives and businesses of many entrepreneurs. While the program has not been successful with all of its clients, the majority have used the program to their advantage. In order to assure access to credit for those with a lack of, or a poor credit history, Calmeadow has employed a variety of unconventional lending models over the years, perhaps the most distinct being peer lending and the escalating scaled-loan system.

The peer-lending model was first inspired by microlenders in Bangladesh and Latin America and adapted for the Nova Scotia market. With this method, peer groups, or "business credit groups" were formed to evaluate each other's business plans and then recommend and morally support the loans from Calmeadow. Members of these groups were encouraged to work closely together and to learn about each other and their businesses in order to provide advice and support within the group. This model also promoted fiscal responsibility within the group in that no additional loans could be approved while any group member was delinquent in their loan payments. As a result, Calmeadow was able to offer loans without collateral, instead using the group's own interests as a guarantee. While some clients expressed reticence about participating in these groups and were uncertain about dealing so familiarly with people they did not know, the model was well received overall.

Calmeadow loans were offered on an ascending scale: first loans of up to $1,500, second loans of up to $2,500 and third loans of up to $5,000 with an average loan term of 18 months. In later years, Calmeadow instituted an individual loan program of up to $15,000, designed to offer assistance to those entrepreneurs who have already had business experience of not less than one year. It was preferred that users of these individual loans be graduates of the peer-lending program.

THE CALMEADOW CLIENT

The Founding Executive Director, Gord Cunningham, has described the ideal Calmeadow client as “micro-entrepreneurs who have the capacity to use debt to grow their businesses but do not have access to business loans.”

Calmeadow clients comprised a wide spectrum of people, men and women from all different age groups and ethnicity’s involved in a variety of business types. Most clients were considered high-risk credit candidates and came to Calmeadow after being denied credit at other institutions, such as banks or other conventional lenders. Inability to access commercial credit was usually found to be due to a lack of business experience, lack of collateral or simply a poor credit history. Some Calmeadow clients chose self-employment as a means to get off social assistance, some simply as an alternative to standard employment, with many using Calmeadow as a means to rebuild their poor credit. In addition, Calmeadow clients often had expressed discomfort working under more formal circumstances, preferring the more casual attitude, which Calmeadow had, for the most, provided.

Approximately one-half of Calmeadow clients operate their business from their homes. This includes a high percentage of women who balanced their business with domestic responsibilities.

The following charts indicate the backgrounds and business ventures of Calmeadow borrowers:

BUSINESS TYPE	**PERCENTAGE**
General Sales	22%
Arts and Crafts	16%
Construction	11%
General Services	10%
Clothing Design and Manufacture	5%
Restaurant/Food Service	5%
Automotive	4%
Health and Hygiene	4%
Graphic Design	3%
Landscaping	3%
Professional/Career	2%
Education	2%
Computer Consulting	1%
Audio-Visual	1%
Furniture Design and Manufacture	1%
General Consulting	1%
Other	7%

GENDER	Male	57%
	Female	43%
ETHNICITY	Caucasian	76%
	African Canadian	21%
	Landed Immigrant	2%
	Native	1%
AGE	19-30	24%
	31-40	35%
	41-50	29%
	over 50	12%

CLIENT LOCATION	Halifax, Bedford, Sackville	36%
	Dartmouth, Eastern Passage, Preston	36%
	South Shore	17%
	Annapolis Valley	7%
	Pictou County	2%
	Hants County	2%

THE HISTORY OF CALMEADOW NOVA SCOTIA

Calmeadow was established in Toronto, Ontario by Linda Haynes and Martin Connell in 1983 initially to provide grants to women struggling for financial independence overseas. In 1984, Calmeadow turned to microlending to self-employed individuals unable to access credit. Calmeadow saw that, for these businesses, a small loan could have a great impact. This credit model, having met with great success overseas, encouraged Calmeadow in 1991 to establish its presence in Nova Scotia with the modified application of the same concept.

Facilitated by Gord Cunningham, Calmeadow began lending by way of a pilot loan fund in the town of Lockeport in Shelburne County, Nova Scotia. This earliest version of the program was known as PARD, or Peer Assistance for Rural Development. It was designed to promote opportunities for a growing local market of rural entrepreneurs. This program was unique in its structure, employing the Peer Lending program to disburse loans. Calmeadow served as a "social intermediary" for these loans, approving and facilitating loans with the Royal Bank, and charging a standard fee for their services.

During the first year, projected goals were missed after underestimating the amount of start-up time the project would need. Despite this, the initial PARD model went on to early success, and Calmeadow soon received requests for a similar program in other Nova Scotia communities.

In this first program, Calmeadow targeted clients almost exclusively from social assistance and anti-poverty agencies. Calmeadow even attempted to influence a change of social assistance regulations, which, as they were, left little room for self-employment. At the same time, the focus was on credit and not training, and vital business factors such as viability of the business and capability of the entrepreneur were often overlooked. One result of this was the attraction to the program of "dreamers"' whose businesses were unrealistic and who would, for reasons of business capacity or market strength, not succeed. In this way, many slightly more established business owners perceived Calmeadow as an anti-poverty group and kept their distance. This would soon change, and Calmeadow would shift away from financing start-up businesses, preferring to work with entrepreneurs with some proven history in their field.

In 1994, Calmeadow Nova Scotia was formally incorporated and established a new co-operative arrangement with the Royal Bank and strong support by the local business community. The operational methods were reexamined. The new focus became a move toward making PARD a self-sustainable entity while at the same time expanding the model into other Nova Scotia communities. New goals were set for Calmeadow Nova Scotia to establish 10 separate loan funds reaching 850 borrowers by July 1999. It was the hope of Calmeadow staff that these 10 loan funds would be fully self-sustainable by that time, and that there would no longer be a need for a central operational organization in Nova Scotia.

For these new programs, with Calmeadow's assistance, interested communities were asked to establish loan funds with the Royal Bank. Also, these new lending enterprises were required to establish their own Board of Directors to oversee operations. These boards, along with local volunteers were to raise money to cover the costs of operations, a part-time coordinator, advertising and promotions, as well as a 10% guarantee to the banks for the loans that it would disperse. These boards also became responsible for approving loans.

For its part, Calmeadow raised $1,000,000 ($200,000 per annum over five years) from 18 private sector donors, most notably the Royal Bank, but including Metro United Way and many leading Nova Scotia corporations, foundations and individuals. These funds were to cover the cost of Calmeadow operations, the cost of sustaining an office and two part-time staff, travel, promotions and the organization of workshops for community volunteers.

During this time, representatives and loan funds were established in seven areas: the Annapolis Valley, Pictou, Yarmouth, Industrial Cape Breton, Nova Scotia's South Shore area. The separate funds in Halifax and Dartmouth were later merged.

By spring of 1996, however, problems had arisen. The community loan funds had garnered less than 100 borrowers, falling far short of Calmeadow projections. This was a result of many factors. First, the local community funds took longer than expected to raise their capital. This led to difficulties in reaching the desired number of clients, as they lacked advertising dollars and the guarantees needed for loans. Also, which should come as no surprise, fund coordinators answered to their local board of directors, rather than to Calmeadow, thereby creating conflicting objectives. Because of their fund-raising difficulties, the local boards tended to foster a low expectation of growth in their loan funds, since money for required growth was not there.

In the face of these realities, Calmeadow was again forced to reevaluate its approach. The earlier vision of separate community loan funds was abandoned in favour of a central administrative core employing one staff person working out of one office. Local loan funds agreed to disband their local boards of directors and roll in their modest programs under the Calmeadow Nova Scotia banner. These groups would pay annual "participation fees" to the main office.

In September of 1996, Calmeadow Nova Scotia centralized its operations in Halifax with one staff member, but with its focus now turned to serving that city and its surrounding counties. This area, the province's major economic centre, also housed roughly half of the provincial population. The idea was to focus Calmeadow's effort in an area where the lending model could be properly tested and the possibility for a "critical mass" of easy to reach and serve clients developed.

At this time, Calmeadow also changed its role from its previous "social intermediary" status to that of a more financial nature. Where the organization had once only charged a fee for their services, they became more involved, now taking a percentage of interest rates on those loans. Calmeadow arranged to borrow up to $1,000,000 from the Royal Bank at a rate of 1% below prime, which it would then lend to its clients.

In 1998, when Bob Wright took over as Executive Director, there were less than 100 active clients. With his arrival, a focus shift toward program growth commenced. Until that time, a small advertising budget had limited Calmeadow's promotions to little more than word of mouth. The emphasis now turned to marketing the Calmeadow name to reach as many clients as possible. Contacts and networking were established with other entrepreneurial assistance groups such as the Business Development Corporation (BDC), the Canadian Youth Business Foundation (CYBF), and the Centre for Entrepreneurship Education and Development (CEED). This led to a sharp increase in the number of applicants and referrals from existing clients. However, a previous review of the program suggested that allowing groups to approve loans was leading to too many poor lending decisions. A policy change followed whereby peer groups would assess and recommend loans, but Calmeadow itself would approve them based on their own examinations, resulting in only about one in three being approved.

With a concentration on growth, the number of borrowers increased, as did the average size of loans disbursed. In addition to this growth, Calmeadow introduced a new Individual Loan program, offering loans of up to $15,000 to self-employed clients with proven experience in their fields. While the fund continued to grow, the challenge of financially sustaining the program from program revenues became more difficult. The "subsidy gap", i.e. the difference between monies earned and expenses incurred seemed stuck at around $120,000 per year. Local supporters, ~~perhaps~~ frustrated by the fund's inability to reach self sufficiency, and discouraged by the results of a recently released marketing study from Calmeadow on the limited extent of possible borrowers in the Toronto market, were reluctant to begin a new fund raising campaign.

In 2000, the failure of Calmeadow in Toronto to find an effective way to sustain its Toronto Metrofund from either program revenues or fund raising led to the decision to shut down Calmeadow's lending operations in that City and to sell its loan portfolio to the Metro Credit Union. Calmeadow Nova Scotia, having exhausted its treasury and with no evidence of interest in renewing private sector support, left Calmeadow with little option. Calmeadow Nova Scotia now turned to government agencies to provide funding. Provincially, however, there was no money for such an endeavor, and the Atlantic Canadian Opportunities Agency (ACOA), the government body responsible for allotment of federal funds to small business organizations, could not help as ACOA maintains a commitment to provide funding to the BDC, and is unable to provide capital for both.

THE IMPACT OF CALMEADOW

Even after the closure of Calmeadow Nova Scotia, its effects will be felt throughout Nova Scotia and Atlantic Canada for some time to come.

During its nine years of existence in Nova Scotia, Calmeadow has provided 713 loans to 511 borrowers for a total of $1,243,496, an average of $1,744 per borrower. Of this sum, the value of loans that have been written off is a mere $148,000, only 11.9% of the total disbursement amount. These numbers indicate that, while not all of the loans have proven effective, a great majority of participants have been able to apply these monies to their advantage and have repaid their loans.

Calmeadow Nova Scotia has had a small yet significant impact on the local economy, as well as a large impact on the lives of many individuals. Thirty percent of Calmeadow borrowers have used their loans to help themselves get off social assistance. Forty five percent of its users have managed to turn their loans into businesses, which now provide their sole source of income (with median household income below $16,000 per year) and fifty five percent of users report supporting dependents with the revenue from those businesses. In addition, twenty five percent of Calmeadow's client businesses have created an additional eighty-six jobs in the marketplace. In many instances, a Calmeadow loan has made the difference in whether a client lives above or below the poverty line. Many Calmeadow borrowers who had once been turned down by major lenders have used Calmeadow loans to rebuild their business and credit history. This has allowed those borrowers to earn later acceptance by those same lending institutions.

There have been, of course, exceptions. In some cases, as must be expected, clients have used their moneys unwisely or for purposes other than financing their businesses. In other cases, loans have done more harm than good, placing further debtload on already debt-heavy shoulders. By and large, however, even those whose businesses have not succeeded have done their best to repay their loans.

In its time, Calmeadow has inspired and offered educational information to other, similar ventures within Atlantic Canada, most notably perhaps is the Newfoundland Labrador Federation of Co-operatives, based around the early PARD model. In Halifax, the Metro United Way, at the cessation of Calmeadow operations, will open a pilot project with ideals similar to Calmeadow, and although initially uncomfortable with the program, ACOA has now begun an internal policy study on microlending. In the commercial banking sector, there has been a dramatic increase over the past decade, in the availability of credit and financial services for small and micro-business. While technology has obviously impacted on costs of small scale lending, thereby opening up the opportunity, there is no doubt the profile brought to the self employed entrepreneur by organizations like Calmeadow Nova Scotia have influenced their thinking and there willingness to lend to this market.

CONCLUSIONS FROM THE CALMEADOW MICROLENDING EXPERIMENT

There is much that can be learned from the experiment of Calmeadow Nova Scotia in this microfinance model. First, keep the organization centralized, keep communication clear, and keep costs low. Second, pay attention to advertising and marketing, understand whom your clients are and how to reach them. Third, pay attention to the needs and wishes of the client and never forget that community support is key. Finally, it must be recognized that stand-alone microlending is not going to be commercially viable within the framework of a fair interest rate policy. With no offsetting revenues from other financial products, the full burden of the costs of microlending falls solely on the credit activities of the organization. The resulting gap requires ongoing subsidy, which is difficult to secure in the absence of potential financial viability.

Microlenders deal with a clientele that is different from the clientele of major lending institutions, and therefore they must think and perform in a different manner.

One of the issues faced by Calmeadow Nova Scotia has been the small number of borrowers reached. This has been in part the result of a lack of promotion and confusion about its mission. Throughout Calmeadow Nova Scotia's existence, money has not always been available to properly promote or deliver its services. The organization has relied on referrals and word of mouth throughout the region's entrepreneurial network, and has been unable to reach the greater portion of its potential market. Due to this anecdotal side of Calmeadow's marketing, there is evidence that many potential candidates have not inquired about loans because they do not fully understand the Calmeadow model, believing that their credit history will prevent them from obtaining funding as it has done with other lending institutions. But even where our marketing efforts have been more successful, the volume has remained modest and even then the average borrower usually only is with us a couple of years. This high turnover or attrition of clients and relatively low numbers of clients have made it extremely difficult to lower operating costs. Finally, one must question the actual size of the market. By market we mean those individuals who have the will, the need and the personal ”capacity” to take on debt. While there is no concrete data available on the market’s extent, we believe it is much smaller than initially envisioned.

Calmeadow has been in a constant experimental process pursuing a model of cost-effective, self-sufficient microlending and adapting where and when it needed to meet the needs of its clients. This experiment has proven that peer lending and microlending can have a positive impact on the community.

The experience also confirms, as mentioned, that stand-alone Canadian micro credit lending programs are expensive to operate. The funds are unable to charge interest rates high enough to recover those expenses without damaging the very clients we set out to serve. In the absence of social investors willing to significantly and continuously subsidize these initiatives there is little reason to be optimistic that they will survive. On the other hand, initiatives in microlending within institutions such as VanCity Credit Union in Vancouver, and the Metro Credit Union in Toronto are demonstrating that microlending can work when it is fully integrated into a full service financial institution.

Calmeadow was never meant to be a permanent element, but was intended as a facilitator and an experiment to promote, test and inspire community-based private loan funds. Although there have been difficulties along the way, in the final analysis, Calmeadow's loan funds can and should be regarded as a successful experiment with a solid record of adding to the quality of life in the self-employed marketplace of Nova Scotia.

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