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Microcredit for enterprise in the UK as an 'alternative' economic space

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Abstract

One response to the major societal challenge of financial exclusion in the United Kingdom (UK) is microcredit lending for enterprise. Typically delivered via Community Development Finance Institutions (CDFIs) in the UK, these lending institutions can be conceptualised as 'alternative' economic spaces. Yet the nature of their alterity is unclear as categorisations of alternative-oppositional or alternative-substitute institutions are possible and could also be influenced by complexities in the UK relating to the welfare system and sustainability. Alterity is rarely static, being influenced by policies and regulation, and the nature of institutions' alterity could have consequences for wellbeing, as different values and ideals underpin different conceptions of alterity which affect how these institutions operate. In this paper, the complexities of microcredit for enterprise lending within the UK are explored through in-depth interviews with UK 'supply-side' stakeholders. Conceptions of alterity are then used as an analytic lens to examine these results. Results suggest that these lenders remain in opposition to the mainstream as the needs of low-income individuals are embedded within their operating model. Microcredit lending is conceptualised in terms of responsible lenders offering fair credit to financially-excluded individuals using relationship banking practices. Such a conceptualisation provides a touchstone against which to assess shifts in lenders' alterity and a platform from which to introduce legislative and regulatory changes to protect these 'alternative-oppositional' economic spaces. This paper begins to outline these responses that could help to ensure and grow a more community-engaged and varied local financial infrastructure within the UK.

Introduction

A major societal challenge in the United Kingdom (UK) is the exclusion of poorer individuals from mainstream financial institutions, such as banks. Excluded individuals struggle to access essential financial services that suit their needs and circumstances (Rowlingson and McKay, 2017, Sinclair, 2013, Leyshon, 2009). While research on financial exclusion tends to focus on personal finance (Fuller and Mellor, 2008, Collard and Kempson, 2005) and, after the 2007–08 financial crisis, small and medium (SME) enterprise lending (Appleyard, 2013) an oft-overlooked area is microcredit lending for enterprise. This form of lending has successfully reached some of the most vulnerable members of society in the Global South (Armendariz and Morduch, 2010) and emerged as one response to financial exclusion in the modern welfare states of Europe (Lenton and Mosley, 2012, Carboni et al., 2010). Typically delivered via Community Development Finance Institutions (CDFIs) in the UK, such lending institutions can be conceptualised as 'alternative' economic spaces (Leyshon et al., 2003). Yet the nature of their alterity is unclear. On the one hand, such lenders may be conceived as alternative-oppositional institutions (Fuller and Jonas, 2003). These economic spaces are considered as having the most distinctive social values and ideals, focusing on social relations and putting the interests and wellbeing of the locality ahead of profit maximization (Fuller and Jonas, 2003, Lee, 1999). This aligns with microcredit lenders use of a more socially orientated approach to lending to provide small loans to low-income people who lack collateral and credit history, and who are thus excluded from mainstream financial institutions. However, these lenders could also be conceptualised as institutions of last resort that provide a market-based response to financial exclusion and so act as a substitute to the mainstream – that is, as alternative-substitute institutions (Fuller and Jonas, 2003, Affleck and Mellor, 2006, Bryson and Taylor, 2010). The alterity of microcredit lenders may also be affected by 'mission drift' caused by the complexities of operating in a more developed economy with a welfare system and the difficulties of trying to achieve sustainability (McHugh et al., 2014, Nicholson and Dayson, 2010, Nissan and Thiel, 2008). For example, the provision of unemployment benefits, such as Jobseeker's Allowance (JSA), can unintentionally act as a disincentive to seek a microcredit loan for enterprise due to financial uncertainty around future welfare payments and business income. Sustainability can also be difficult to achieve as demand for microcredit might not be sufficient to meet the high fixed costs of small loan provision. The potential of these issues to influence lenders' operating models may have significant consequences for the nature of their alterity and, thus, the impact of microcredit on overall wellbeing. Exploring the nature of 'alternative' institutions is important as alterity is rarely static and can be influenced by policies and regulation (Jonas, 2013). Thus it is necessary to understand why a particular category of 'alternative' institution is required if decisions to protect or transform their nature are to be informed accordingly. The aims of this paper are to investigate the complexities of microcredit for enterprise lending within the UK and to consider how our results relate to conceptual categories of 'alternative' institutions.

In what follows, we begin by considering the issue of financial exclusion in the UK and the need for, and development of, microcredit lending for enterprise. The concept of 'alternative' economic spaces is then introduced and the alterity of microcredit lending for enterprise is initially considered, with a particular focus on welfare benefits and sustainability. The methods and findings of a qualitative interview study, with UK 'supply-side' stakeholders of microcredit for enterprise, are then reported. This study explores microcredit lending for enterprise in the UK through examination of financial exclusion, the conceptualisation of microcredit in the UK and the issues of welfare benefits and sustainability before using alterity as an analytic lens to examine these results.

Section snippets

Financial Exclusion in the UK

Financial exclusion is prevalent among deprived communities in the UK. Thought of as both a symptom and a cause of poverty, involving the lack of access to and use of financial services, it can arise because of complex and overlapping barriers and for a range of reasons including access, terms and conditions, marketing, price and self-exclusion (Leyshon, 2009, Gillespie and Dobbie, 2010). Central to financial exclusion is its geographic nature with more deprived communities experiencing…

Methods

In-depth, face-to-face semi-structured interviews were conducted with 'supply-side' stakeholders purposively selected on their roles as practitioners, funders of lending institutions and policy expertise. Ethical approval was obtained from the Glasgow School for Business and Society Ethics Committee, Glasgow Caledonian University (reference EC 07). Participants were sent a letter of invitation and information sheet via email, given the opportunity to ask questions or seek clarification before…

Sample

17 interviews were conducted between February 2013 and May 2014. Interviews lasted between 25 min and two hours; with an average duration of approximately one hour. Drawing on concepts of data saturation, recruitment closed when no new views generated new candidate themes or sub-themes and additional data served only to reinforce existing findings. Respondent information is shown in Table 1. We provide only limited descriptive information about respondents in order to preserve anonymity – the…

Discussion

This paper provides new empirical insights into the issues that are affecting the alterity of microcredit for enterprise lending in the UK. Such lenders appear to be acting in opposition to the mainstream as the needs of low-income individuals are embedded within their model of operating. However, the pressures of operating in the UK, caused by funding issues and complications reaching borrowers receiving unemployment benefits, have the potential to shift their alterity from oppositional…

Conclusion

This paper has generated new insights into an oft-overlooked 'alternative' economic space in the UK, the provision of microcredit lending for enterprise. Institutions offering this product, typically CDFIs, emerged in opposition to mainstream financial institutions and sought to service the financially excluded by offering loans in a different way. The conceptualisation provided here of these institutions as responsible lenders offering fair credit to financially-excluded individuals using…

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