

They have the funds. Just come and take it!! By Oren Majar

Translation from an article in *The Marker* (Financial Section of *Ha'Aretz* newspaper), February 20, 2014

During the past year, the Israel Free Loan Association (IFLA) provided interest-free loans to hundreds of small businesses in Israel which found bank doors closed to them.

"Business owners who expect to make a profit as soon as they open, without any economic backing behind them, will fail. We give them the backing they need."

Small businesses that turn to banks to get loans are required to present a business plan that inspires trust, to put up security, and to pay a high rate of interest – about 8% per year according to the Small Business Bureau in the Economics Ministry, not including commissions and other payments. In addition, they can only hope that the well-known adage won't come true – that a banker is the one who is happy to provide you with an umbrella on a sunny day, but will ask for it back as soon as the first drops of rain begin to fall.

The Israel Free Loan Association (IFLA) works differently. It was established in 1990 by Prof. Eliezer Jaffe and the Director is Joe Rosen. The Association, located in Jerusalem, has lent out NIS 754 million to individuals and small businesses.

According to Rosen, "the original goal was to help new immigrants seeking to enter the workforce, to establish small businesses and to support their families properly. Over time, we found that there were Israelis receiving unemployment payments who also had ambitions for opening a business. Today, our target pool are owners of small businesses such as beauty shops, grocery stores, small garages, farmers, etc., whose monthly turnover is no more than NIS 150,000 per month."

What loans do you offer?

"For development or opening a business we lend up to NIS 90,000 with monthly repayments of NIS 2,000. The monthly repayments are sometimes quite low at first, and when the business becomes established, they increase. For an existing business that wants to buy equipment or renovate we offer a similar loan, with repayments for up to 45 months. There is also a loan intended for operating capital which can reach NIS 60,000 and is intended to close the gap in the cash flow between expenditure and income.

What does a business need in order to obtain a loan?

"Because we have a limited staff, we have simplified the procedure. For a loan to establish a business, we need to receive a business plan drawn up by a professional consultant. Many of the business people are assisted by MATI, (Small Business Development Centers) and others, so it's fairly simple. For a loan to expand an existing business, we want to see approved accounts for at least a six-month period, in addition to an explanation of what the purpose of the loan is, how it will

help, and how the repayment will be financed. Likewise with operating capital."

Can you lend the money without meeting the owner of the business?

"Up to now we have given loans to about 4,500 businesses in a variety of areas, and we recognize the level of risk in the various types of businesses. Restaurants, for example, are a much greater risk than other businesses. We know as well, for every area, if the profitability rate can cover the expenditures and the investment, and if the growth rate that the owner foresees is realistic – and we don't accept someone with too rosy a forecast. On the average, we turn down 10-15% of those who submit requests. Some of these aren't suitable because they can stand on their own without preferential conditions; we prefer to give a loan to someone who cannot succeed without us. There are those who do not have a chance, and we don't want them to get entangled in further debts."

What security do you require for repayment of the loans?

"The demands are low from the start: we ask of each borrower to sign four guarantors with a salary of at least NIS 3,000 a month and that s/he be employed for at least a year in the same place. In some cases even *this* is difficult, because it is not easy to ask others to be guarantors for your loan. Although it isn't realistic to rely on such a guarantor, we feel that there is an advantage to this, in that the fear of the borrower that we will turn to the guarantor has a psychological affect. Where there *is* a problem, we try to be accommodating – for example, when it is a seasonal business, and it has been a bad season, we'll spread out the repayments. We try to avoid a situation where a breakdown occurs that will lead to a build-up of repayments to the lender."

Are there cases where the loans become donations?

"No, the money belongs to IFLA, and if we waive the loan – we've given up on the possibility of the future recycling of the funds. When necessary we use the actions permitted by the law: if there are four guarantors and three have disappeared, we turn to the fourth. There are also cases that reach the small claims court. The results speak for themselves: up to now, the rate of default for repayment of loans by small businesses is 0.3%, which is NIS 821,000 (out of NIS 329 million) that we had to give up on because of bankruptcy or cases where the borrower died, left the country, etc. Some

people had to close down the business but are still fulfilling their obligation to repay the loan."

It seems that you have found the method to provide credit at low cost, without losing loans.

"We are a 'lean' organization, with 12 employees. We own our premises, so that overhead expenses are only 4%. Payments from 93% of the borrowers are computerized and are completed within five minutes, and whoever gets a loan from us pays a symbolic handling fee that covers the paperwork and the fee for the standing order, something like NIS 150-450 in total."

\$3.5 Million in Contributions

Over the past year, IFLA has received \$3.5 million in contributions – half from the Gottesman Foundation, and half from the general public. IFLA has incoming funds of NIS 6-7 million every month – re-payments of loans to then be "recycled." "On the original sum of contributions to IFLA, we have realized a 500% return in 23 years," Rosen says proudly and encourages business owners to turn to IFLA to ask for assistance.

IFLA tries to meet acute needs, as well. According to Rosen, "After the *Pillar of Defense* Campaign [in 2012, when Israel responded to the daily barrage of rockets fired from the Gaza Strip into southern Israel], there were businesses in the south of the country that had to close for several weeks and were left without any income. We mobilized \$2 million and distributed NIS 45,000 per business within a month and a half / two-month period. IFLA also assists the ultra-Orthodox sector as well as those with disabilities who need additional income."

From your viewpoint, what causes small businesses in Israel to fail?

"The problem of working capital. Many times there is a gap between the supplier's credit terms and those extended to customers, and a business can fail merely because it has exhausted the entire line of credit available from the bank. We can say that we provide the support for businesses that come to us. We understand that the turnover will increase over time, as well as the number of customers – and the business owner can improve the conditions he receives from his suppliers.

"Another common mistake of the entrepreneurs is that they expect that they can make a profit immediately, right after

they open for business. It takes time."

Is there enough competition in the credit field for small businesses?

"There is definitely room to increase the offer of inexpensive credit for small businesses. When you listen to the radio commercials, it would appear that it is incredibly easy to obtain a loan. We've checked out some of the offers and discovered that they border on the 'grey market,' with interest and expenses that increase very rapidly and with unpleasant conditions when one doesn't meet the repayments.

"We see that some of the businesses that turn to us have faced a shortage in financing sources for their ongoing expenses. The banks have shut their doors to them, and that's after they've encouraged them to take out a loan or increase their overdraft credit line. We saw that, for example, when the Bank of Israel issued a regulation limiting the permitted overdraft amounts that caused serious problems. With our assistance some of the businesses were able to complete the repayment of the debts that accrued then.

"By the way, we went to the business department of a large bank with a simple request: to refer clients to us that they had turned down. They are considering the idea. From other banks we received the message that they cannot cooperate with an organization such as ours. You have to remember that the bottom line for the banks is profitability, and they have restrictions imposed by the Bank of Israel. We, on the other hand, take the risk, because there is an element of philanthropy in what we do."

According to the association's official regulations, it lends out only to members of the Jewish people or to those who served in the army. This is discriminatory, to say the least.

"This is a subject that is under constant discussion. The association was originally aimed at new immigrants and afterward expanded its scope, but we have not surveyed every donor about changing the regulations. In actual fact, up to now we have given loans to hundreds of Druze and Bedouin, but beyond that we have a problem in supervising and collecting funds within the Arab sector. We have been trying to solve this problem by establishing a separate Fund for the Arab population.



IFLA Founder Professor Eliezer Jaffe and Director Joe Rosen

For further information, please contact the Israel Free Loan Association. www.free loan.org.il