

## **Merit in a small loan programme in S'pore**

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HOW do you live on an income of less than US\$2 (S\$2.80) a day? More than a quarter of the world's population struggle with this question every day. According to the World Bank, of the 1.6 billion people who fell into this category last year, 1.4 billion survived on less than US\$1.25 a day.

In 1983, when Bangladeshi economist Muhammad Yunus established Grameen, a bank that lends money to the poorest women in his country to start small businesses, he aimed to help the poor by supporting personal initiative. His move was based on the conviction that credit paves the way to social independence: lend poor people money on terms that suit them, teach them sound financial principles, and they will help themselves.

This theory has been proven to work and Dr Yunus is widely credited as a pioneer in microfinancing. Today, more than 250 institutions in about 100 countries run microfinancing programmes based on Grameen principles. Can they be applied in Singapore as well?

Microfinance - or microcredit, as it is also known - can be defined as financial services for the poor. More broadly, it refers to a movement that works for access to a range of financial services, including credit and savings, for as many people as possible.

In countries like Bangladesh, microfinance loans start from as low as US\$20 for first-time borrowers. The money tends to be targeted at a small group - a minimum of five people - consisting of people who are responsible for one another. When someone in the group defaults on his or her repayment, the whole group will face problems getting further loans. Hence, peer pressure keeps the default rate low. In fact, Grameen Bank loans have had a near-perfect repayment rate.

Compared with Bangladesh, Singapore is an urbanised, developed economy with higher business operating costs - all factors that could hinder someone looking to set up a small business. Singaporeans also do not have the close social networks that exist in rural Bangladesh and which are a key factor for Grameen's success there.

In addition, Singapore is more highly regulated. In Bangladesh, people can use the loans to sell snacks or vegetables almost immediately. In Singapore, an entrepreneur in the food industry has to get a licence to operate a business and another to run a food-processing establishment. Throw in the health requirements, licence fees and paperwork, and it is not hard to see why someone may be deterred from starting a food business.

Even if a would-be entrepreneur could overcome the administrative hurdles, the high start-up costs might pose a barrier for someone who already has trouble making ends meet.

Then there is the issue of sustainability. Is it worth lending to people if they cannot invest the loan in a sustainable endeavour? Given that small-loan borrowers tend not to be highly skilled, will there be demand for the goods and services they produce? Moreover, the rates of return from small enterprises may not be high enough to persuade someone to take on the business.

A number of initiatives in the past to help Singaporeans start micro enterprises - such as selling home-cooked food and snacks from motor vans in public carparks - failed. As a result, poor Singaporeans prefer to stick to low-paying jobs than to start a small business as a baker or dressmaker.

This is not to say that a small-loan institution should not be set up in Singapore. It is just that there are issues to be considered. The poor need more than loans: they need help to manage the resources given to them.

In other words, there is a need for a network of support groups. Business advisory groups could perhaps volunteer their time to guide small-loan receivers. There is already an encouraging number of Singaporeans becoming involved with social enterprise. They could chip in and help improve the entrepreneurial capability of small borrowers. Courses on IT skills and basic financial principles could also be run to teach people to manage the money they earn.

The Grameen model has been successfully transplanted to major cities such as Chicago and New York. If it can work there, there is no reason why it cannot work in Singapore too.

There is a need for small loans for poor Singaporeans. A single mother may be a talented cook or dressmaker and if she can get some capital, she can start a business in her home. At the moment, there is no institution she can turn to except pawnshops and loan sharks as commercial banks are not in the business of lending to the poor.

As Dr Yunus argues, the best way to help a poor person is to give not a handout but a loan. A hassle-free small-loan facility would be helpful in promoting inclusive growth.

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