

## Unconventional (micro)credit

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**The Micro Credit Business Scheme (MCBS), launched last year, is the first of its kind in Singapore to grant loans to people with little or no income to start a business – giving them a rare chance to strike out on their own.**

How much does it cost to realise a dream? At the MCBS, loans ranging from

\$5,000 to \$50,000 have enabled at least 32 people to pursue theirs. Among these, said the scheme's chairman, retired banker, Kuo How Nam, 66, are some "gems". "It's quite interesting to see the ingenuity of people," he reflected. While he noted that business ownership in Singapore is fairly risky and not the obvious path for many, the scheme helps those who wish to take the entrepreneurial route.

Take Lee Lai Kean, 53, who decided to start her own business, Glamour Danzfit, which sells ballroom and Latin dance outfits. Without experience or cash reserves, she and her partner, who both share a passion for dance, struggled in the initial year of starting out – taking out personal loans and operating out of her husband's fourth-floor dance studio. "We had no collateral to take a loan from a commercial bank, but wanted to expand and upgrade the business," she shared. "The \$50,000 microloan from MCBS came just in time to help with our move to a better, more visible location and offset renovation costs." With these improvements, the duo's sales revenue doubled during the first few months.

And there are other unique ideas that have successfully gotten a loan to get started – from a Muslim bridal business, to handcrafted leather goods, and a supplier of 'invisible' window grills.

### **Giving a chance and giving back**

Though the scheme is still considered to be in its early stages, Mr Kuo is cautiously optimistic about prospects despite "a lot of unknowns". Started with \$5-million in seed funding from the Tote Board, the MCBS is aimed at borrowers with annual incomes under \$30,000 and thus are ineligible for bank loans.

Lee Yoong Yoong, a research associate at the Institute of Policy Studies, whose research interests include economic development and micro-enterprises, noted that micro-financing schemes also have the benefit of serving an 'invisible' group who would not have gotten a business loan otherwise – housewives caring for young children, ex-offenders, and former bankrupts. It's a way to not only give a chance to those who otherwise would not qualify for a commercial bank loan, he noted, but also, to foster a more inclusive society. "Especially now that there is a push to narrow the income gap and inclusive growth, schemes like this can play a part in achieving that vision."

Having visited some of these businesses, Lee has seen first-hand how the small loans have transformed the lives of lower income Singaporeans who have an entrepreneurial spirit and a good business idea. “What is significant is that nurturing these micro entrepreneurs have the potential to showcase a spirit of resilience, creativity, and empowerment – good values for Singapore to have.”

### **Making the human connection**

Kuo, who volunteers as MCBS’ chairman of the loan management committee, took on the role after a 30-year career in banking as a “new and challenging” task. “I thought it would be interesting to do since it was not something that has been tried in Singapore. It’s a way of giving back. The way I look at it is: what do I have to lose? If I don’t try I’d never know whether it would work.” He also roped in former co-workers who are experienced retired loan officers. “When we first started, we had our ‘bankers’ hats on and slowly evolved to be more flexible and creative in assessing loans.”

For one, the approval process includes face-to-face interviews, site visits and assessing the business plan – a far more resource intensive process than that for conventional loans. “We can’t use a point system like in the consumer banks ... to assess your credit rating. We cannot be process driven, because every applicant is different. The diversity, complexity and our small scale means we still have to assess each application individually,” explained Kuo. And though every effort is made to evaluate if a plan is workable, cases “can be quite subjective”. “We recognise that we have to take more risk, but just because there is no fall back, it doesn’t mean we can’t approve a loan. Having said that, we don’t approve loans just because we are sorry for someone,” added Kuo, who is also President of Credit Counselling Singapore. “I am quite conscious about making sure the loans will help and not make someone poorer.”

Though two businesses have since folded, Kuo said frankly, “Even the failures are a good sign of progress. It’s a sign we took some risks. It is very gratifying to be helping people. We have helped people to pursue their dreams. But we pushed the envelope and we tried to make a difference.”

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