

IPS Roundtable on

“Feasibility of Micro-Loan Facilities in Singapore: Small Loan, Big Help?”

13 July 2010

The Institute of Policy Studies (IPS) convened a roundtable, “Feasibility of Micro-Loan Facilities in Singapore: Small Loan, Big Help?” on 13 July 2010. The Roundtable was attended by 24 participants. Presentations were made by five speakers, all of whom possessed relevant experiences in the field of microfinance. The five presenters shared their experiences with, and insights into the challenges and feasibility of a small-loan facility/institution in Singapore.



In his welcoming remarks, Professor Tommy Koh, IPS Special Adviser, shared the reason for his personal interest in the area of microfinance. He said that one negative consequence of the rapid economic development in Singapore is growing income inequality. Professor Koh stated that one deprivation faced by poorer Singaporeans was the lack of access to credit. Due to consolidation in the banking industry, all small banks in Singapore had been



acquired or have gone out of business. At present, Singapore’s three main banks do not give small loans to borrowers without collaterals. As such, many poor and needy Singaporeans have no choice but to turn to the pawnshops and/or loan sharks. There was thus, a need to look at ways to make credit available to the less well-off segment of the population for purposes of starting small businesses. Professor Koh recalled that IPS had previously invited Professor Muhammad Yunus to deliver a public lecture on the miracle of the Grameen Bank. However, since then, Professor

Koh has come to the conclusion that the Grameen model is not workable in Singapore. Singapore needs to find its own model or models.

The Roundtable kicked-off with an overview presentation by IPS Research Fellow, Mr Lee Yoong Yoong, who updated participants on the state of Singapore's micro financing environment. He remarked that while the city-state has made impressive progress in all aspects of development in the past four decades, which has resulted in a dramatic improvement in the living standards Singaporeans enjoy, there were still many low-income people struggling to make ends meet. It is thus, essential for emphasis to be placed on finding ways to extend assistance to poorer citizens, increasing their access to credit. Mr Lee also examined key



criteria which needed to be met, in order for a small loan facility to work in Singapore. In concluding his presentation, Mr Lee opined that a small loan scheme based on the Grameen model, if launched in Singapore at present, would not be likely to succeed.

Following Mr Lee's overview, participants heard three presentations. The presentations focused on the most possible and feasible models of a small loan facility in Singapore, taking into considerations its specific circumstances.

“AWARE Microcredit Pilot Scheme”

This was presented by Ms Patsian Low of National Volunteer & Philanthropy Centre (NVPC), and Ms Braema Marthi of Association of Women for Action & Research (AWARE). Essentially, the target group would be women under the purview and engagement of



AWARE, and who are in need of help. The scheme's envisioned end-state is to enable these women, giving them the opportunity to earn an income and become independent and self-sustainable citizens. This scheme's operating model primarily utilises microcredit as a way of disbursing loans to borrowers. A pilot project involving 10 selected female borrowers

would be implemented once the \$150,000 microfinance component is set up. A “Clean Slate Fund” has also been proposed under this scheme. This fund aims to support the targeted group of women by helping them pay off their debts so as to level the playing field, and allow these borrowers the chance to start afresh.

“Urban Microfinance – Would It Work?”

Mr Alfie Othman, Director, Ikhlas Holdings Pte Ltd briefed participants on the characteristics of the Urban Microfinance scheme. Essentially, this scheme looked at empowering the un-bankable and marginalised, encouraging their economic independence. The scheme would be fronted by PERTAPIS (Islamic Theological Association of Singapore), an approved charitable organisation registered under the Charities Act. The pilot fund would also be set at S\$500,000 to provide individual loans, equity and debt financing. There would be an administrative charge of 14% which would be calculated as part of the repayment agreement. The key challenge now, among others, is the legal entity of this set-up. Since loans and money-lending activities were involved, there might be a need for PERTAPIS to apply for a moneylender license.



“Social Economy Bank – Singapore Social Fund”

Mr Alfie also spoke about the Social Economy Bank model, which he believes might be workable in the Singapore context. Inspired by a Scottish example, this model required local banks to pledge a fund, for instance, S\$10 million dollars, which would then be matched by the government. Local banks would then select talents and professionals from various financial backgrounds to sit on the Management Board, which would also have representatives from the Social Sector. Such a model would primarily support the social sector. Again, the bulk of challenges faced was found to be on issues such as the status of the legal entity, as well as getting the right people to join its ranks.

Ms Jan Sodprasert, Vice-President of Micro-Business Banking of Fullerton Financial Holdings (FFH), a Small and Medium Enterprise solely-owned by Temasek Holdings, also

spoke about the successful implementation of microloans. Focusing on FFH's "Community Banking Approach", Ms Sodprasert shared with participants information on various regional investments FFH was engaged in. The investments mentioned included those from Indonesia, China, Pakistan, India and Malaysia. She also pointed out that due to Singapore's unique makeup, a successful model used in Indonesia could not be applied directly to a Singaporean context.



The interesting question and answer session which followed the presentations saw an exchange of experience, viewpoints, and best industrial practices between both presenters and participants alike. The general sentiment was that a model allowing the provision of small loans to the needy is definitely relevant to a modern and urbanised society like Singapore. Credit is critical if Singaporeans are to be financially independent.

Notes taken by Lee Yoong Yoong, IPS Research Fellow.

