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SME's & Micro Credit-How Can Mauritius Replicate the Case of Grameen Bank

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Abstract:

During early 70s, Professor Muhammad Yunus tried to propose a mechanism which can eradicate or reduce poverty especially by dodging all the main hurdles in lending money to poorest and the neediest people in the societies. He tried to make this a reality by conducting experiment during 1976, in which he lent money to 42 village women in Bangladesh and the amount was \$27 each. After 30 years, Grameen Bank was successful in encouraging 3.2 million borrowers out of which 95% were women, over 1000 branches, facilities in more than 40,000 villages as well as the assets worth of more than \$3 billion.

1. Introduction

During early 70s, Professor Muhammad Yunus tried to propose a mechanism which can eradicate or reduce poverty especially by dodging all the main hurdles in lending money to poorest and the neediest people in the societies. He tried to make this a reality by conducting experiment during 1976, in which he lent money to 42 village women in Bangladesh and the amount was \$27 each. After 30 years, Grameen Bank was successful in encouraging 3.2 million borrowers out of which 95% were women, over 1000 branches, facilities in more than 40,000 villages as well as the assets worth of more than \$3 billion.

The main intention of this paper is to explore the roots of Grameen Bank, functioning, culture, structure as well as its efforts in enlarging and extending microfinance programme. The Micro credit facilities in Mauritius how far the country has reached in providing loans/ micro credits without guarantee. Authors in this paper evaluate the success of Grameen in successfully implementing the vision of Yunus keeping in view numerous tests to be conducted on it and contemplated short-term outcomes and what needs to be done for Mauritius to re organized its micro finance sector.

1.1. Aim of Study

The major aim of this study is to assess and evaluate the success and impact of success of the micro-credit programme especially of the Grameen Bank. Along with this, this study will also aim to consider how the programme helped in eradicating poverty among the women in Bangladesh and by how far especially Mauritius has been successful in its micro-credit services and facilities.

1.2. Objectives of the Study

Following are some of the objectives of this study:

- Evaluating the advantages of the micro-credit programme as a tool to eradicate poverty
- Determining how the micro-credit programme has been successful in promoting the socio-economic development within Bangladesh and the rate of success of Mauritius on same pattern.
- Describing how the micro-credit programme is performing within Mauritius.
- Analyzing the empowerment of women through the programme within Mauritius

1.3. Problem Statement

Importance of micro-credit cannot be denied in fighting against poverty. Numerous studies have shown the benefits of this system especially in improving the standard of living, education, income and health. But even after implementing these policies, the poverty is still prevailing (Mosley, 2002).

The question remains same if the women are really empowered? Empowerment here is taken in context of making women active in decision making process and giving them equal opportunities for trainings and employment. Actual statistics shows a different picture where ratio of role of women to men in economy is 43.7% to 75.5%. Another fact is that only 35.5% of the women in Mauritius are working (CSO, 2011).

2. Literature Review

Efforts of Grameen bank to make available the fiancé to poor in the country is the stuff of the folklore. Poverty was a big tragedy in Bangladesh and the effort from the bank to reduce poverty is commendable. Bangladesh has population of about 130 million and GDP per capita is \$300 while the rate of education for people above 15 years of age is 38%. Bangladesh is a killing about 1.5 million people (Macfarlane 2002).

The effort initiated by Yunus from Jobra where a young lady of 21 years naming Ms. Begum was given loan of 25 cents at interest rate of 10%. She used this money for making bamboo stools/products and sold them to the moneylenders at lower price than market value and used to receive profit of about 2cents (Yunus, 2003).

Yunus lend small money to about 42 poor people in village at much reasonable rates of interest. He offered loan of about \$27 by giving 52 cent to each borrower. To his surprise, every borrow rapid the loans along with interest and hence further encouraged the poor to take benefit from it. These efforts generated a new industry within the country with the name microcredit. Microcredit was a system of providing small loans as well as other business and financial services to poor with an intention to elevate poverty. Hence this system proved to be an effective tool against poverty along with creating improved health and wealth services in the country.

Yunus launched his own institution for the said purpose and named it Grameen Bank. Grameen is derived from Bengali word Gram meaning village. His main intention to generate this idea was as a result of failed of attempts by international funding organizations to eradicate poverty from country and corruption at the political level. His vision was of having a bank which could address the rural life along with supporting the commercial activities of the poor villagers. The bank extended its vision from the statement, “the bankability of the bankables”.

2.1. Credit Delivery Scheme

Women is the most ignored segment of any nation having less opportunities to earn their living so Yunus decided to provide loans to women as well for crediting their role in home making and giving them a power in the decision making process at their homes. So lending money to women means to produce considerable results in the growth of the country's economy (Yunus and Jolis, 1998).

The loan amount starts from \$35 and goes on to maximum of \$200 as per the needs and level of credit of the borrower. The credit of the borrower is normally measured by the previous borrowing history and the repayment evidence. The interest were set at low levels and is set to remain as close as possible to the current commercial rates. Though the lower interest rate can crush the profit margins of the bank but bank tried to focus on elevating poverty from the country instead of focusing on generating high returns. Other financial institutions though have raised interest rates for higher profit margins.

The Bank also provided funds to new divisions with central loans and those branches repaid the money over time along with interest. The bank has recently experimented a new method through which the new branches actually receive no money. These new branches start their business by going to villages, encouraging the individuals to bring the deposits and market their different activities among villagers. These branches then collect the deposits and start making the loans. By this whole process, the bank is then able to start as well as run its different branches without lending any external capital. Microfinance institutions if are allowed to get deposits, so they would not make the “mistake” being made by Yunus in shape of accepting the soft loans as well as foreign contributions when his experiment was transformed into the Grameen Bank (Yunus, 2004).

2.2. Reliability/ Credibility

Those borrowers who actually were not able to repay their loans in time were eliminated from the loan process still they repay their complete loan. So this strict policy left the people to get loans having few options due to having no access to the savings and credit in order to meet the fixed interest along with repayment of the principal amount for entering the process again. Rather than acting as deterrent against the default, this system then posed some type of moral threat and women who were in danger of getting defaulters took the risk in order to remain in the system.

The Critics then accused the Grameen Bank for its unwillingness to disclose the impact of such crisis on the financial situation. These critics were of the opinion that reluctance to show the losses is actually the feature of all other financial institutions. The microfinance system show continue thriving and to be used as a tool to measure the weaknesses and strengths of the system. Miss management of this nature posed damage to the reputation of the bank and media by large have criticized these actions.

2.3. The New Grameen Bank 2

The Bank then undergone are arrangement through which it refocused its attention on the main principle of the original philosophy of the bank which is that poor should be facilitated. With these new arrangements, the new Grameen Bank emerged and started working its activities from 2000-2003. In this new arrangement, the loan classification was made simplified along with offering flexibility on the loans repayments.

Initially the bank offered different types of loans including the general and family loans. In order to avoid unnecessary redundancy from the first arrangement of the bank, the new Grameen Bank 2 started with new borrowers to lend loans in one of the three available categories having defined interest rates according to the category as follows: entrepreneurship or development (20%), education (5%) or housing (8%). There is relax arrangement for women in Bank 2 where those women who cannot meet their schedules for repayment can restructure their obligations by arranging the flexible loans procedure for them. This flexible loan procedure also offered customized loane specially for those borrowers who due to any reason encounter the unexpected difficulties during their loan.

Though the Flexible Loan option appears to boost the increased default rates, the Grameen Bank also offers some significant disincentives for restructuring its Basic Loan to Flexible Loan. Hence the loan programme of Grameen Bank 2 is taken as highway, in

which women who remain in the loan system ultimately turned out to be accommodated for larger loans. But if a woman leaves this highway restructuring her Basic Loan to Flexible Loan so her credit history gets deleted.

2.4. *Micro Credit Facilities in Mauritius*

The rise of SMEs in Mauritius is having been phenomenal since the last 2 decades. However, SMEs within Mauritius are continuously facing challenges in refinancing or financing right from the beginning. It is quite difficult for people to get loans from the banks to start up the enterprises. The major reason to this is that the banks demand guarantee before granting loans to the business purposes. The higher the risk is there in any business so the higher is the collateral being asked for by the banks. SMEs are high subject to the elevated risk and easily get default. Limited funding resources of the SMEs can make the problem of providing enough guarantee gets worse. The higher collateral demanded by the commercial banks mainly cuts the official proper channel of the SMEs especially in achieving the loans. Difficulty in accessing the loans from the state financial institutions like commercial banks also constitutes great setback to the development of entrepreneur.

Small and medium enterprises (SMEs) in the country represent 40% to the country's GDP and it employs more than 280,000 people in more than 108,000 establishments.

The financial sector in Mauritius is quite robust along with structured banking sector and proper regulatory framework, so the access to lending financial services for different SMEs across the country is still not understood. Numerous Institutions are working towards the improvement of the SME sector in the country and are consistently trying to facilitate access to the finance. SME Authority, Notional Women council, National Women Development Council, Development Bank of Mauritius and My Bizz are some among them. While others are also working for registering the new businesses along with providing required training to personnel. Before granting commercial loan with the collateral, traditional banks ask for registration certificates. But all of these institutions have also failed in tackling the collateral issue. At times, these authorities only provide single service and borrower requires some clearance to get his/her business registered. Numerous attempts have already been made in creating a single stop shop so that the business can easily get registered and the entrepreneurs enjoy all the facilities under since roof besides access to finance.

2.5. *Micro-credit in Mauritius*

Microcredit has been established in 2001 July. It was mainly a project by the IFAD for promoting women in Mauritius through the microenterprises. Major purpose of said project by then was to grant financial services along with supporting the needy women and promoting their income-generating activities. The Micro-credit is also known as the major tool to eliminate the, the model being followed was that of Grameen Bank. The Micro-credit scheme within Mauritius has seen the progress and by it numerous women have been attracted and about 3500 women registered themselves as the entrepreneurs (Nwec, 2010). This scheme also give the financial facilities such as Microcredit loans. The Development Bank of Mauritius (DBM) as well as the cooperative bank grant loans at quite reduced interest rates. Trade fairs are arranged for women for exposing their products and best entrepreneur awards are also awarded.

The ministry of Gender Equality and child welfare in the country has set up their respective microcredit system for the poor women. Banks and NGOs also support these organizations in this programme hence further supporting needy women. National Women Entrepreneur Council mainly helps responsible for encouraging entrepreneurship among women where trainings to women are provided in specific incubators known as Phoenix. The empowerment of women is crucial for the economic growth, and this is the reason the empowerment programme has been set up during 2006 and the National Empowerment Foundation (NEF) in 2008 for ensuring good and realistic purpose of the empowerment programme (NEF, 2009).

A number of local banks are trying to act as micro finance institutions in order to cater for startups and micro enterprises the latest being the Development Bank of Mauritius.

DBM has launched a new 'Scheme' dedicated especially for aspiring entrepreneurs, the Micro-Credit Scheme and the requirements to be eligible are;

- Projects recommended by the Enterprise Mauritius, BOI, Tourism Authority, SMEDA/MyBiz, NEF, National Women Entrepreneur Council and all related institutions and the small businesses having Business Registration Card
- General Floating and fixed charge for the loans above Rs100,000
- General floating charge for the loans up to Rs. 100,000 if the guarantor or borrower is the owner of the fixed asset.
- Fixed Charge are allocated on the pledge of the rights to lease
- Any other type of collateral security being acceptable to the DBM

2.6. *Eligible Sectors*

Green and Renewable Energy, Agriculture, ICT, Professionals, Tourism, Fishing, Construction, Manufacturing, Health, Transportation, and Trade & Services.

Most of the commercial banks in Mauritius are offering more or less these products and are trying to pay lip service in the development of the SME sector. No one is near the Grameen bank where the main motive is access to finance without guarantee.

Interestingly Mauritius is member of the African Solidarity Fund (14 member Nations), Multilateral Financial Institution whereby the institution main product aim is providing up to 80% of the loan guarantee. The Product is called Loan Guarantee Scheme and it is

recognized by the Central Bank of Mauritius. However, due to poor communication and publicity by the host country, most entrepreneurs are unaware of the offers which can secure their loan for minimal fee opt for personal guarantee in many cases.

3. Conclusion & Recommendations

This study shows the contributions of microcredit in reducing poverty along with empowering women. In Mauritius, all the commercial banks and development institutions are not offering any loan facilitates/ Micro credit facilities without collateral. Within Bangladesh, this microcredit system has huge fame and the main reason to it is that it is being involved in reducing the poverty to large extent. It is Bangladesh from where the idea of microcredit started. In Bangladesh, the entrepreneurship among women is being encouraged. But women still are of the opinion that they still have issues such as loan reimbursement, lack of the profit and the debts. While the micro-credit facilities being offered in Mauritius for boosting the SME sector along with empower women is still contradictory, having women lack of access to the finance and the loans are still dictated with the tough collateral legislations. This questions the main impacts of the micro-credit in Mauritius, and yet to be observed.

A series of measures need to be taken to boost entrepreneurship at first. Conditions should be developed in which rapid-growth of the companies should be encouraged. The main aim should be promote the innovation, creating more jobs and improving long term growth plans of the country.

To promote the youth entrepreneurship initiatives, it is required to provide the true micro credit services along with fostering the entrepreneurship culture through introducing easy incentives for the youth to start their own business and reduce the complexity of the policies. Following are some of the recommended measures to be taken by the Mauritian government:

- Setting up of the SME Bank for providing the main capital for the entrepreneurs without requiring any personal guarantee;
- setting up of single-Stop-Shop for providing the support, information and financing along with delivering all the licenses and permits and the licenses required by SME
- a fast-track mechanism need to be in place for ensuring all necessary permits and approvals for carrying out the business
- Focus should be on mission of the Grameen bank to provide help to the poor families for overcoming poverty.
- Promoting the credit as basic human right.
- Target the poor to start their own business, particularly women.
- Not basing on any collateral. Basis should be on trust, not on the legal procedures, or contractual systems.
- Creating the self-employment opportunities through the income generating activities.
- Interest rate need to be kept at lower rates.
- Loans are to be scheduled on pay-back facilities within weekly or monthly instalments.

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