

Report to Dundee Fairness Commission – 29 September 2015

Report by Jimmy Black/Sandra Burke

Report on Micro-finance for micro businesses

Sandra Burke, formerly of the Chamber of Commerce, offered her services to the Fairness Commission as a volunteer. I asked her to contact the Grameen Bank, which originated in India and provides small loans to help micro businesses get going and grow. Sandra's report, below, explains the concept well, and I would just add that the Council Administration Group is keen to explore the possibilities of having the Grameen Bank in Dundee. I would be very interested to have your comments on this.

You can find more information about the Grameen Bank at <http://www.gcu.ac.uk/grameenandgcu/grameenscotland/grameenmicro-lendinglaunchesinscotland/>

### **Initial Trading Pilot of Grameen in the UK**

The Dundee Fairness Commission asked me to find out more about the above pilot initiative and the impact it has been having in Glasgow and North Ayrshire. In that connection, I met on 26 Aug with Kevin Cadman, Chief Executive of Grameen UK at the Dundee office of Craigowl Communities. Managing Director, Lynn Cunningham, also participated in the meeting. We established the following information, which is a brief summary of the very helpful and informative discussion that took place.

#### **Background**

- The Grameen model of microcredit was developed 35 years ago by Nobel Peace Prize winner, Professor Muhammad Yunus. It began when he loaned \$27 to 42 poor villagers in Bangladesh. All of these borrowers paid their loans back and many went on to develop successful small businesses in their communities. From this modest beginning, the Grameen Foundation now operates in 40 countries and has served over 20 million individuals, changing their lives and those of their families forever.
- The Scotland pilot was launched in April 2014 in partnership with Glasgow Caledonian University, who provide office space on campus for Grameen UK. Major funding and other practical support were provided by the Scottish

Government, Tesco Bank, the Gloag Foundation, the Moffat Family Trust, the Whole Planet Foundation and some individual donors.

- Grameen in the UK is a registered social enterprise and has a four year business plan to become self-financing and sustainable.
- Based on research to identify the areas with the greatest need to tackle poverty, it was agreed that the pilot area would take in Glasgow and North Ayrshire initially – with West Dumbartonshire and Dundee to be considered for the future depending on demand. Interest has been received from across the UK, in particular from Manchester and the north of England.

### **How it works**

- An individual selects 4 people they trust to form a group. Members cannot be related to each other. The group of 5 people attend a financial training programme together and each member commits to savings and a savings account. Each member then gets a small business loan of £1000 that allows them to convert their skills into an income generating business. The group meets weekly with the Grameen Loan Officer to receive support and to make their weekly payments. Meetings are held in the community at a location convenient for the group. If all goes well, each member of the group can progress to a larger loan of £2,500 in year 2 and £5000 in year 3. The businesses started MUST generate additional income.
- If a group member has no bank account, help is given to set one up either with Tesco Bank or RBS.
- Each group has a Chair and Vice-Chair. The Chair jointly approves release of the loans along with the Grameen Loans Officer. The group jointly discusses the potential for each business proposal in their community and whether it is likely to be viable and successful.
- There is no requirement for a credit history or collateral. The year 1 loan is repaid at £24.50 weekly. The interest rate in year 1 is 23.95%, year 2 is 20.95% and year 3 is 17.95%.

- Any default of repayments is known to the whole group although only the defaulter is liable.

### **Impact so far**

- A total of 205 loans have been issued, total lending £209,500 and no bad debts have so far been written off. Only one borrower has defaulted.
- None of the applicants in year 1 have previously been relying on welfare benefits for their main income. The scheme attracts mainly the in-work poor and women on a low income or with partners on a low income.
- Repayment arrears are circa 10%, which is better than the averages for sub-prime lending.
- There is a pipeline of 116 further potential applicants in the pilot area.
- The main type of business has been some form of internet trading (more than half) with the remainder consisting mainly of trades, hairdressing, nails and retail food outlets. 55% of loans so far have been given to women.
- Applicants mainly come from referrals through local authorities and local organisations already working to assist those affected by poverty and unemployment. This local collaboration is vital to the success of the Grameen Foundation micro-finance model working effectively.
- The findings of the pilot undertaken during 2014 found there to be a definite need for Grameen UK services in the areas identified. The service is a sounder and cheaper borrowing alternative to payday lenders, pawnbrokers and other high interest borrowing options.
- The social impact of the programme in the pilot area has been significant. In

a culture where “community” is becoming less evident, the group structure of Grameen micro-lending encourages community participation and helps build trust and participation between members.

### **Next steps - the potential for expansion into Dundee**

- Grameen’s CEO, Kevin Cadman, was very pleased to hear from this area via the Dundee Fairness Commission and, if interest and support is anticipated from local organisations that would make referrals, he would be willing to make Dundee the next area where their micro-finance service is offered.
- This is subject to him securing funding for the appointment of a local Lending Officer. A potential source of funding has been identified and should be clarified within the next 2/3 weeks. At that point, the Grameen team would get in touch with Dundee City Council to get a the list of all the local organisations that work with the client group and would start making informative presentations to each of them, ideally before the end of the year.
- There is a DVD available that features interviews with some of the early applicants. Kevin is arranging for copies to be sent over to me and Lynn.