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SUCCESS STORY Experts Map Demand for Small Loans

Demand-side study shows need for more loan options



Survey team leader Ross Ferguson, left, discusses second-tier loans with carpenters near Baucau, East Timor's second largest city.

Second-tier loans could boost the capacity of small businesses to employ more people, produce more goods, and perform more efficiently.

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In the first research effort of its kind in East Timor, a USAID-sponsored study found a high demand for additional credit opportunities among small businesses around the country. The study analyzed demand for second-tier loans of between \$1,000 and \$10,000 and the constraints businesses face in accessing that additional credit. The analysis of data from the USAID-sponsored survey indicated there was a possible \$10 million demand for second-tier credit from the industrial and service sectors nationwide.

USAID collaborated with a group of business students from Italy's Bocconi University to conduct the study. They surveyed East Timor's six regional capitals to capture small business attitudes and identify their capacity to absorb second-tier credit. The researchers concluded that there is a small, but important and unmet, demand for small business loans.

The study complemented existing supply-side analyses of financial services in East Timor, but it also generated data about small businesses that are often neglected in supply-side studies. The study found that second-tier loans, which usually assume higher risks and therefore charge higher interest rates, would boost the capacity of small businesses to employ more people, produce more goods, and generally perform more efficiently. Research team leader Ross Ferguson said he hoped that the study will form the basis for more extensive efforts in the sector. "The numbers we provided were important, but it is vital that the business and non-profit world continue to engage the reservoir of goodwill and all the resources available," he explained.

This study was part of USAID's overall effort to support small business and small loan programs to help rebuild East Timor's struggling economy.

Photo: Bocconi University/Federica Pallotta