MICROFINANCE INITIATIVES IN THE CARIBBEAN

CHALLENGES & SOLUTIONS

4TH ROUNDTABLE ON MICROFINANCE IN THE CARIBBEAN

MAY 13–14TH 2005
PEGASUS
GUYANA
MICROFINANCE INITIATIVES IN THE CARIBBEAN

CHALLENGES & SOLUTIONS

4TH ROUNDTABLE ON MICROFINANCE IN THE CARIBBEAN
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There are three main purposes for this Roundtable which began four years ago in Port-of-Spain and then moved to Barbados, then to St Lucia and now to Guyana. Next year the 5th Roundtable will be held in Grenada.

1. First of all, it is important for practitioners who work in the field of microfinance to meet each other and to exchange views with the international agencies, regulators and public sector officials.

2. Second, we need to know about each other’s work. Microfinance in the Caribbean has taken different routes over the last few decades. Surveys commissioned by the IADB, CDB and others have suggested that effectiveness and sustainability have been elusive targets. None of us can know what is working until we get together and unless agencies like the CDB and IDB look at the Caribbean as a whole and draw conclusions.

3. Third, it is time for the process of evolution to ultimately come up with general principles by agreeing on a common set of best practices that we might later call a Caribbean model, or at least agree that we need different approaches to solve different issues in the Caribbean. This would mean that we need different types of Microfinance Institutions (MFI) in the Caribbean.

In the context of the above, most of us can agree, as mentioned in the closing session of the 4th Roundtable, that all MFIs must regularly undergo a rating evaluation process by the independent agencies that specialize in this area. There are sources of grant funding readily available from the EU, IDB and CGAP for this.

Most of us can also agree that MFIs should be regulated by a financial system authority. Increasingly, that is the tendency in Latin America and elsewhere. Some Caribbean MFIs are already regulated.

We all agree that there is much room for improvement in the management of MFIs in the Caribbean and we are all aware of the challenges that small, dispersed markets present for microfinance. This was reflected in the lively debate and insightful presentations that
characterised the 4th Roundtable on Microfinance in the Caribbean, held in May 2005 in Guyana.

There was a great deal of discussion on the role of the State in microfinance and participants were unflinching in their analysis of how politics impacted on the effectiveness and sustainability of microfinance institutions. That is not to say that the State must not be involved.

Similarly, we discussed why Caribbean microfinance was lagging behind Latin America but that did not mean that we could replicate the Latin American models that were built on large, concentrated volumes of borrowers. We can learn from them.

Participants debated the wisdom of subsidies, the services that micro-entrepreneurs really needed and the quantity of demand.

The presentations and comments made at the Roundtable have been condensed, edited and compiled into this document to highlight all the key issues raised during the two days of discussions. This document will serve as a useful resource for analysis and policy development.

We all hope that this and other discussions on microfinance in the Caribbean - in the Bahamas in June, in Port-of-Spain in July and in Bolivia in October - will ensure that 2005, designated as the United Nations Year of Micro-credit, will mark the beginning of a new era in microfinance in the Caribbean.

On behalf of the sponsors and participants, we thank the IADB, CDB, MIF and DFID for their technical support and active participation in the Roundtable and the presenters for sharing their expertise and experience.

In particular, we want to thank the IADB for helping us to bring this Roundtable, initially supposed to be held in Grenada, to Guyana. I also thank the IADB for the presence of Mr. Jerry Butler – Alternate Executive Director for the Caribbean and Mr. Alvaro Ramirez – Division Chief of the Small, Medium Size Enterprise Division, who is one of the most important leaders in microfinance in Latin America and the Caribbean.

GERARD PEMBERTON
President,
MICROFIN Caribbean Holdings Limited
INTRODUCTION

As a very first step, I would like to thank the organizers of the Caribbean Roundtable for inviting me to this exciting event. This is the first time I have been able to attend, so it is a real pleasure to be presented with the opportunity to talk about the microfinance experience and work of the Inter-American Development Bank and the Micro, Small and Medium Enterprise Division, in the region, and in particular in the Caribbean.

The Tools and Experience of the IDB in Microfinance

A couple of years ago, the Bank had the occasion to celebrate 25 years of experience in supporting micro-enterprise development and assisting the very small but very industrious enterprises in the region. These 25 years not only resulted in the programs that continue to dedicate resources and expertise to this sector, but also to the emergence of best practices for sound and prudent microfinance and micro-lending, which are outcomes that we are particularly proud of. The Bank has three main resources for supporting micro-enterprise development:

- Social Entrepreneurship Program - which under the name "Small Projects Program" initiated the 25-year period by giving seed money and technical assistance to micro-credit programs. The program today specifically targets the lower end of the microfinance market, and finances lower income productive enterprises and programs with a high social content.

- Multilateral Investment Fund offers resources through two different tools: the line of activity, which offers rapid processing of smaller amounts to meet the immediate needs of an microfinance institution; OR regular MIF operations which provide more significant amounts of money for strengthening individual MFIs, but also for improving the environment in which the MFIs and their clients operate (here we refer to better regulation and supervision of microfinance, faster and cheaper business formalization for smaller businesses, improved credit bureaus, reform of secured transaction laws, etc.)

- Global Micro-enterprise Credit Programs, which provide funds for on-lending to financial intermediaries in the beneficiary country, so that these intermediaries can on-lend to either micro-enterprises or to other firms. These programs have been very successful and account for almost 60% of the assistance to the sector.
The Bank and the Micro, Small and Medium Enterprise Division are very proud of its role in the promotion of best practices through publications, policy dialogues, and conferences. We have published numerous discussion papers and studies on relevant issues in microfinance, such as village banking or the role of apex financial institutions; or on new and innovative methodologies or new products, such as equipment finance, also known as micro-leasing. And we have just recently released a comprehensive manual on best practices in the regulation and supervision of microfinance institutions and credit unions.

And let us not forget one of our star products, which is our yearly micro-enterprise forum, an event that attracts more than 1,500 people. The Forum features presentation in four simultaneous tracks: microfinance, enterprise development services, business environment, and social entrepreneurship. This year the Forum will be held in Bolivia in October, and we invite you to participate, hoping to increase the general participation of Caribbean institutions.

**Best Practices**

All the players in the field of microfinance - whether donors, development agencies, or private NGOs - have come to realize that when we build on one another's strengths and form alliances to harmonize a collective approach, we will achieve a more consistent application of good practice standards. And so the IDB has been honoured to participate with other donors in the ongoing work to develop best practices for the microfinance industry. We have played a significant role over the years in the emergence of sound principles, which have been captured in the Pink Book of CGAP, and in other operational guidelines for successful microfinance. Some of the key principles can be summarized as follows:

- Microfinance can pay for itself, and providers must be efficient in their cost management, and rigorous in scheduling repayments for clients. Relying on subsidies will distort the market.

- Microfinance is about building permanent local financial institutions that become part of the mainstream financial system.

- Interest rate ceilings hurt micro-enterprises, because the supply of credit cannot operate freely when providers are not charging enough for their services to cover their cost.

- Public sector role is to enable financial services, not to provide them directly. Public/donor funds should complement private capital, not compete with it through subsidies.
Microfinance works best when it measures - and discloses - its performance according to certain indicators developed by the industry, such as financial performance, outreach, efficiency, and loan rates.

Through the development of these principles, we feel that we have actively contributed to the successful evolution of microfinance institutions from socially driven NGOs to financially sustainable regulated MFIs in Latin America. The cases of upgrading - or conversion into regulated financial institutions - have been numerous and successful, as have the cases of downscaling, in which regulated commercial banks in Latin America enter into the microfinance field. All of this has been possible because the MFIs have applied sound, prudent and rigorous principles to their lending activities.

Microfinance in the Caribbean

We all know that the microfinance industry is far from being homogeneous or uniform across all of the countries of the Latin American and Caribbean region, and in fact very different methodologies and instruments have been applied in a variety of ways.

A few years ago, a study of the microfinance industry in the Caribbean characterized the majority of microfinance institutions as having excessive government or donor intervention; as having rather small and poor quality portfolios with high levels of portfolio at risk, and as having unsustainable cost structures.

Furthermore, the micro-credit methodology known as "character lending", which has been implemented with huge success in many countries in Latin America, is virtually unknown in the Caribbean, and collateral is still asked as a security from clients that simply cannot provide collateral. Thus, a significant share of the market is not being served, and the microfinance institutions are missing out on potential good business.

There are exceptions to this picture, and some institutions perform very well within many of the indicators. It is important to highlight the good experiences, learn from them and replicate them. This can only be done by paying special attention to the principles of prudent microfinance.

IDB and Microfinance in the Caribbean

Historically, the IDB has had limited involvement in the Caribbean when it comes to microfinance, and if possible, we would like to change that.

Dating back to the mid-nineties, the Bank was very involved in credit union rehabilitation projects in Jamaica and Trinidad and Tobago, and we have continued our involvement with credit unions in the Bahamas, and possibly in Barbados.
Together with our local partners, we have addressed the main problematic issues of credit unions, namely the free rider problems created by cooperative form of governance, and a permissive attitude toward loan delinquency. In 2004 alone, the Multilateral Investment Fund approved 8 projects in the Caribbean for a total of US$9.7 million.

The Bank would like to play an expanded role in the development of the microfinance sector of the Caribbean. Glenn Westley, who is a Senior Financial Specialist with my division, with vast experience in working with financial sector issues, and with microfinance in particular, has conducted a study on selected MFIs in the Caribbean. The study will examine some of the main issues and problems these MFIs face, and will attempt to determine how they can become more successful.

I would like to express on behalf of the Bank our keen interest in working with Caribbean microfinance institutions to ensure the healthy growth and good performance of the microenterprise sector as a whole. We are able and ready to support the microfinance initiatives in the Caribbean, and will continue our efforts to introduce and implement the sound principles that have been successfully adopted by numerous Latin American institutions.

Thank you!

Thank you for inviting me. I will tell a story first. A story about a man who lives abroad and calls home every month – he calls home and his brother answers and says:

- Hey George how are you?
- Good Mike, glad you called – how are you?
- Fine, fine is everything good there. Anything new?
- The cat died.
- How can you be so heartless –and tell me like that, I loved that cat. To soften the blow you should’ve told me like this, the first month you tell me the cat’s on the roof, the second month you tell me he fell off the roof and broke the fall, the third month you tell me they are going to operate and the chances of him surviving are slim are the fourth month you tell me he died.
- Sorry Mike.
- So how’s Mom
- Well… she’s on the roof.

(Audience laughs).

I bring up this story because I want to share with you something this morning that’s difficult because it involves discussing weaknesses hopefully in the most constructive way possible. Not to find fault with any particular institutions because what we are trying
to do is learn from those institutions, those examples which are just examples of something which is widespread between many MFI’s in the region.

Microfinance is a pretty recent phenomenon in the region and it’s hard to do, it’s hard to learn all the things you need to get right and get it straight. This talk is about helping that process along.

Some of the findings from the von Stauffenberg (2000) study, which collected data on 15 Caribbean MFIs, were:

- median # of clients: 775
- median PAR (30 days): 39% - a loan delinquency rate so high as to virtually preclude sustainable microfinance
- median ROE: 3.1% - but would turn highly negative if subsidized funding were repriced at market rates, adequate provisions were made for loan losses, and operating cost subsidies were eliminated

Judging by more recent data in USAID’s (2004) *Caribbean Financial Sector Assessment*, our own data collection, and numerous conversations with MFI and donor staff, these characteristics of low outreach and sustainability levels and high loan delinquency are still prevalent among MFIs in the region.

**Why this generally weak performance?**

A common explanation from donor and MFI staff and from the Wenner and Chalmers (2001) study is that there are many conditions external to Caribbean MFIs that make it much more difficult to be successful in the Caribbean than in Latin America.

Wenner and Chalmers also cite one factor that is internal to MFIs, namely, that loan underwriting in Caribbean MFIs tends to place too much emphasis on collateral and not enough on the other elements of successful micro-lending, such as assessments of character (willingness to pay) and household cash flow (ability to pay). While recognizing this as an important factor, the paper devotes much more time and attention to discussing the external factors that inhibit successful microfinance in the Caribbean.

**A Different Explanation**

I’m going to argue that the reason that Caribbean microfinance has lagged is fundamentally explained by factors internal to the MFIs, rather than external to them.
This is a very empowering conclusion for Caribbean MFIs. It says that Caribbean microlenders can be successful by changing their own practices. They do not need to wait for someone else to fix conditions over which they have little or no control.

External Factors Inhibiting and Favoring Microfinance in the Caribbean (vis-à-vis Latin America)

- Fewer micro-enterprises:
  
  i) smaller population sizes
  ii) possibly lower unemployment and underemployment rates
  iii) higher education and income levels
  iv) better social safety nets

The last 3 factors can all inhibit micro-enterprise formation and lead to a smaller ratio of micro-enterprises/population, further reinforcing the tendency for Caribbean countries to have a small number of micro-enterprises.

Wenner and Chalmers (2001) provide data to back up some of these differences, though not all.

- A smaller percentage of existing micro-enterprises may demand loans from MFIs because in the Caribbean there are:

  v) lower poverty rates (the higher income Caribbean micro-entrepreneurs may have more savings or access to credit cards, banks, or other funding sources)

  vi) long history of macroeconomic stability (which leaves borrowers unaccustomed to the high nominal loan rates of interest charged by MFIs, which may reduce demand due to lack of acclimation to and perhaps resentment of such high rates)

  vii) possibly a greater alternative supply of funding available to all micro-entrepreneurs from government and donor programs, credit unions, other financial institutions, and own savings.

In addition to the direct provision of credit, government and donors may distort the market in other ways:

- Government and donor programs that tolerate lax loan repayment may harm the repayment discipline in the market

- Government and donor programs that provide subsidized loans to MFIs may give them a comfort level that undermines control over operating expenses and portfolio quality (von Stauffenberg)
Competition from Government and Donor Programs

While some Caribbean countries certainly have important government or donor supported programs that may unfairly compete with commercial MFIs, the state simply does not have sufficient resources to provide subsidized credit to anywhere near all of the micro and small enterprises in the country who potentially need a loan and could be creditworthy. Because of this, there are normally plenty of clients left over for commercial micro-lenders to serve, particularly if they can provide rapid loan approvals with a minimum of transactions costs imposed on the borrower (common failings of state-supported programs).

Many, if not most, leading MFIs in Latin America grew up alongside and had to compete with state-subsidized lending programs from development banks and other sources.

And while credit unions have a strong presence in Caribbean, they mostly provide consumer and housing loans.

Distortions Created by Government and Donor Programs

It is true that the lax collection policies of many state-sponsored lending programs can harm the culture of disciplined loan repayment among borrowers in general, including micro-enterprise borrowers.

However, if the commercial MFI is serving clients who simply are not attended to by the state-sponsored programs and whose primary alternative is to pay the far higher rates charged by moneylenders, then the MFI should be able to insist on strict repayment discipline and should also be able to charge loan rates that allow it to make a profit (at least if the MFI does not have costs that are too high).

Again, many leading MFIs in Latin America have coped successfully with exactly this situation.

Much the same argument can be made about the 2nd distortion: many leading MFIs in Latin America have also coped successfully with the temptations of the “easy life” provided by cheap finance, and have maintained control over portfolio quality and operating expenses.

Size of the Market

MFIs in the Caribbean certainly must contend with much smaller markets than their counterparts in Latin America.
However, the data in Table 3 make it clear that the situation is far from hopeless. With 409,000 micro-enterprises in Jamaica and 58,000 in Guyana, these markets are of substantial size. Micro-lenders and others in both countries report that there is great, unexploited potential, with room for the largest MFI in each market to easily double its clientele or more. Accion International (2002) notes that in the case of Guyana the unserved market is particularly large outside of Georgetown.

Even the 24,000 micro-enterprises in Belize offer enough size for a reasonable micro-lending market to develop.

**Conditions Favoring Caribbean Microfinance (vis-à-vis LA)**

Finally, to be fair in assessing the effect of external factors on MFIs in the Caribbean vs. Latin America, one should also consider those external factors that favor the Caribbean MFIs over their Latin American counterparts. These are hardly inconsequential:

Partly because of their generally higher income levels, Caribbean countries typically have better roads and telecommunications infrastructure. This tends to reduce MFI operating costs and lower transactions costs for clients in accessing MFI offices.

These benefits are further enhanced by the more compact size of the Caribbean countries.

The absence of usury ceilings eliminates a problem that is increasingly prevalent in Latin America.

Both informal and formal collateral seizures generally work better in the Caribbean. Informal collateral seizure (entering client homes and taking the collateral—in accordance with the loan contract, but despite the fact that clients do not have to let MFI personnel trespass into their homes) works in a high percentage of cases: 95-98% in some Caribbean countries versus 50% or less in some Latin American countries.

The secured transaction framework, which is based on English common law in the Anglophone Caribbean, favors the creditor in a number of ways.

While the seizure and sale of collateral through a judicial proceeding is generally more expeditious in the Caribbean than in Latin America (where the secured transactions framework is based on Napoleonic law), it is still much less expeditious than in the U.S. and Canada.
The Four Challenges of Microfinance

The smaller size of the potential microfinance market in the Caribbean countries certainly limits the size to which MFIs in these countries can grow. This is beyond question. What is open for discussion is whether the Caribbean MFIs can achieve the same levels of loan delinquency and profitability that so many MFIs in Latin America and elsewhere have achieved.

In discussing this issue, it is helpful to recall Bob Christen’s (1997) series of 4 challenges that MFIs face as they develop and mature:

- Achieving low loan delinquency rates
- Becoming profitable
- Accessing commercial funding sources (e.g. mobilizing deposits, obtaining commercial bank loans, and issuing bonds)
- Attracting private, for-profit equity investment

The Importance of Delinquency Control

The first problem facing any MFI is how to do well at its core business, that is, how to make loans and then recover a high percentage of what it has lent. This is critical. Loan delinquency has been termed the number one killer of MFIs, reflecting the fact that it is often a leading cause of MFI decapitalization and insolvency.

What are some of the ill effects of high delinquency rates?

Income. - MFIs that are not able to maintain reasonably low delinquency rates (certainly in the single digits and preferably under 5%) feel an immediate impact on their incomes as loans go uncollected.

Operating costs - Next, they may see operating costs ballooning since, when loans go bad, loan collection easily becomes the most expensive component of the loan granting/administration/collection cycle and thus adds significantly to total costs if done on any substantial share of the portfolio.

Client relations – Sometimes, even more debilitating in the longer run is the nature of the client relationship that can develop. When delinquency is high, MFI staff can spend a great deal of their time in very negative interactions with clients, instead of in roles that foster the idea that the MFI is an institution that supports and helps its clients. This can undermine a base of customer loyalty.
Contagion - At high delinquency rates, a contagion effect may develop in which a large % of borrowers stop repaying loans on time (or at all) because they observe other clients doing the same and getting away with it.

Funds for expansion - Finally, in addition to contributing to poor financial health in all of these ways, weak loan recovery undermines the growth and expansion of the MFI because it leads to a reduction in the availability of funds with which to extend new loans.

Meeting the Four Challenges

Meeting the first challenge—by reducing loan delinquency to low levels—increases MFI income, reduces the costs of loan provisioning and write-offs, and helps the MFI to become sustainable and profitable in a number of other ways.

Building on this base, MFIs wishing to meet the second challenge of becoming profitable generally must streamline loan underwriting and collection procedures, reduce other operating costs, and possibly increase loan rates.

Once an MFI has achieved a track record of profitability, it can attack the third and fourth challenges: obtaining commercial liabilities and equity.

Only the most mature MFIs are grappling with these last 2 challenges. The Caribbean MFIs are still basically occupied with challenges 1 and 2.

Good MFI Management Can Overcome Harsh Environments

Is it reasonable to expect Caribbean MFIs to be able to overcome challenges 1 and 2 - achieving low loan delinquency rates and becoming profitable, despite all the handicaps we’ve discussed? These are important handicaps. Caribbean MFIs face a much smaller potential market, and in many cases must deal with the distorting effects of government and donor micro-lending programs.

Let us first consider the issue of market size. Many small MFIs in Latin America have achieved delinquency rates of under 10% and positive profits (ROA), despite having only 1,000-3,500 clients.

Delinquency control is not particularly size dependent; rather, it is mostly a function of the MFI having the knowledge and discipline to employ appropriate loan underwriting and collection techniques. Therefore, it is not surprising to see small MFIs with low delinquency rates.
On the other hand, there are economies of scale in the provision of financial services, and so it is interesting to see examples of small MFIs that have controlled costs well enough and/or raised loan rates high enough to also achieve sustainability.

But can low delinquency rates and profitability be achieved by small Caribbean MFIs in the presence of government and donor microlending programs that:

a) tolerate lax loan repayment (which may harm the repayment discipline in the market) and

b) provide subsidized loans to MFIs (which may give the MFIs a comfort level that undermines control over portfolio quality and operating expenses)?

We’ve already argued that many, if not most, leading MFIs in Latin America grew up and coped successfully with exactly these problems, demonstrating that this is indeed possible. Also recall that the Caribbean MFIs have a number of important advantages.

As a final argument in favor of the proposition that MFIs can be successful under difficult conditions, we present evidence that well managed MFIs have achieved low loan delinquency rates and profitability even in the face of dire external circumstances. Or, to put it more succinctly, management can almost always trump environment.

This is our final argument for the proposition put forward at the beginning of the paper: that Caribbean microfinance has fundamentally lagged because of factors internal to the Caribbean MFIs, rather than external to them, and so Caribbean MFIs can be successful by changing their own practices.

Data on loan delinquency (30-day portfolio at risk) and profitability (ROA) for 11 MFIs in Colombia, Bolivia, and Peru over the period 1998-2000 illustrate what well-managed MFIs can do in difficult environments (See Table 5).

To appreciate the meaning of this data, one must recall that Latin America suffered a deep recession in 1998-99 after the solid growth years of 1996-97. The Asian financial crisis of 1997, the Russian payments moratorium of August 1998, and the Brazilian devaluation of January 1999 sparked an economic recession in 1998 and 1999 that was quite widespread across the countries of LA. Colombia, Bolivia, and Peru are 3 of the LA countries whose economies were hit hardest by these events. As a result, the banking systems of all 3 countries also suffered crises during 1998-99.

In Colombia, these shocks came atop a grinding civil war. Colombia suffered its deepest recession in 60 years in 1999, with GDP declining 3.8% and the unemployment rate jumping to an unprecedented level of 20%.
Despite these extremely difficult circumstances, the 5 affiliates of the Women’s World Bank (WWB) maintained outstanding records of delinquency control (with the 30-day portfolio at risk always under 4%) and profitability (with ROA generally well above the 1-2% range that is considered to be good performance in a banking institution).

The impressive performances of the Bolivian MFIs came not only amidst a difficult macroeconomic and financial sector environment, but also against the backdrop of some of the most intense competition faced by MFIs anywhere in the world and against a borrower revolt that exploded in 1999 and continued into 2000 and beyond.

The Peruvian MFIs faced not only the aforementioned economic and financial sector difficulties but also the ravages of the El Niño phenomenon, which peaked in December 1997-May 1998 and hit Peru and Ecuador especially hard.

**Good MFI Management Can Overcome Harsh Environments**

Even wider support for the idea that MFIs can overcome difficult operating environments comes from the Mix Market database of approximately 100 Latin American MFIs (www.MixMarket.org). These MFIs are a broad selection of some of the better managed MFIs in Latin America.

The data shows that the average portfolio at risk (30 days) and ROA of these MFIs held up very well during both the 1998-99 and 2001-02 economic crises, each of which hit most Latin American countries very hard.

**Overcoming the 1st Challenge**

So far, we’ve argued that Caribbean MFIs, on the whole, have simply not strengthened themselves out sufficiently to cope with the challenges presented by their micro-lending environment.

Next, we analyze the key changes Caribbean MFIs need to make in order to overcome the 1st challenge of microfinance: achieving low loan delinquency rates.

We have already discussed the many reasons why controlling loan delinquency is a key task facing any MFI. By controlling loan delinquency, Caribbean MFIs demonstrate mastery of their core business and put themselves well down the road towards sustainability and profitability.

Without such control, their stability will be continually in question and sustainability will be difficult to achieve. And so, we ask the following questions. How do Caribbean MFIs with a track record of low loan delinquency rates achieve such results? What do they do that is different from what is done by Caribbean MFIs with high delinquency rates?
In order to answer these questions, we selected 4 Caribbean MFIs—2 with a track record of low delinquency rates and 2 with a track record of high delinquency rates—and thoroughly analyzed the lending methodology used by each, as well as other factors thought to be pertinent to explaining the difference in loan delinquency performance.

**Four Caribbean MFIs**

Delinquency rates at end of 2004 (and in recent years - in parentheses):

- Jamaica National Small Business Loans (JNSBL): 3.3% (1-3%)
- Micro Enterprise Financing Limited (MEFL) of Jamaica: 5.5% (2-5%)
- Institute of Private Enterprise Development (IPED) of Guyana: 38% (40-50%)
- Portmore Community Development Fund (Portmore CDF) of Jamaica: 15.6% (15-25%)

Other reasons we chose these 4 MFIs, besides their consistent differences in delinquency rates: - All 4 are essentially specialized in lending; if any training or other non-financial services are offered. These services account for only a tiny share of overall operating costs. Most or all of the loans granted by these MFIs go to micro-enterprises rather than to small and medium-scale enterprises.

Finally, we put an emphasis, but did not have an exclusive focus, on private-sector MFIs over those that are tools of the government for disbursing credit. MEFL and IPED are NGOs whose funding is obtained from donors or commercial banks.

JNSBL is a micro-lending subsidiary of the Jamaica National Building Society (a type of small bank) and receives its funding from the parent company. Portmore CDF is a member-owned credit co-operative and obtains its funding entirely from a Jamaican government agency (the Micro Investment Development Agency, or MIDA). Portmore is easily the largest of the 13 CDFs funded by MIDA and, according to some observers, the best. (See Table 7)

**What Explains Success vs. Failure in Controlling Loan Delinquency?**

What factors explain why JNSBL and MEFL have loan delinquency rates consistently around 2-5% while Portmore CDF and IPED have far higher rates, of approximately 15-25% and 40-50%, respectively? We have already argued that factors internal to the MFI, rather than external to it, are likely to provide the main explanation. For these 4 MFIs, there are 3 particularly crucial differences that appear to explain much of the observed disparity in loan delinquency rates. All 3 of these differences are critical aspects of the credit methodology used by the MFIs:

- How the MFIs assess the character (willingness to pay) of loan applicants
- How effectively the MFIs follow up on loan delinquency after it has occurred
- Whether the MFIs have implemented an appropriate loan officer incentive pay system
Of course, we cannot say whether these 3 deficiencies, which were identified for Portmore CDF and IPED, would explain high delinquency rates in other Caribbean MFIs. Rather, the analysis carried out here should be taken as illustrating 2 general points:

1. Caribbean MFIs can achieve low delinquency rates by implementing best practice lending techniques.
2. Other MFIs, which fail to implement such practices in important areas, have much higher delinquency rates.

Loan Underwriting: Character Analysis (Willingness to Pay)

Best practice MFIs make a detailed investigation and assessment of the borrower’s character and his/her likely willingness to repay the loan. This evaluation is based on visits to the business site and home and on talks with business associates, neighbors, friends, and relatives.

In contrast, the procedure used by IPED is overly formalistic and is neither efficient nor sufficient to separate good credit risks from bad. Applicants are asked to bring to IPED a large number of (as many as 26) documents and other items (including 2 written letters of recommendation; photos of applicant, collateral, and business; affidavits of ownership and valuation; certificates of title or lease; ID card; etc.) as part of the loan granting process.

This imposes significant transaction costs and loan approval delays on the applicant; it typically takes first-time loan applicants 1-2 weeks to gather all of these materials together, especially the 2 reference letters. At the same time, the analysis of these documents falls well short of telling IPED whether the applicant really is the sort of responsible person who would repay the loan.

The 2 written reference letters were not deemed to be very useful by IPED itself; “less than useless” in the words of one senior IPED official — indicating the potential for being misled by overly positive reference letters.

IPED loan officers would do better to place more emphasis on conducting personal interviews with a small selection of the applicant’s business associates, neighbours, friends, and relatives — as done by JNSBL and MEFL.

The loan officer would then be able to assess the people making the recommendation, directly ask them questions and follow-up questions, hear their more spontaneous answers, and note their tone of voice and body language — all in an effort to try to distinguish overly-biased from genuine information and to get to the bottom of the question of the applicant’s reliability and character.

Face-to-face questioning also allows people to speak more candidly about the loan applicant and to say things that they may not be willing to put on paper.
Loan officers who are used to going to the applicant’s home and business in search of people to talk to and other clues about the applicant’s character and reliability will find such clues in many other ways, for example:

- how well these places are organized and maintained
- whether the applicant has books in the house
- whether there are children in the house and how they appear
- whether the applicant is well known in the neighbourhood or may be more transient
- whether the applicant is involved in church, parent-teacher associations, or other community organizations and thus is more rooted in the community

Compared to IPED, Portmore CDF does not have such a long list of documents and other items for loan applicants to assemble. However, like IPED, its loan analysis seems to be based more on making sure that the items it has asked for have been supplied and on verifying the adequacy of the applicant’s cash flow and collateral. The best practice character analysis just described does not appear to be employed by IPED or Portmore CDF.

In contrast, both JNSBL and MEFL appear to do an excellent job of screening loan applicants for their potential reliability in repayment, and this appears to be one of the major factors explaining their very low delinquency rates.

**Effective Response to Loan Delinquency**

The response of loan officers and other personnel to delinquency at JNSBL and MEFL are models of best practice, whereas IPED’s and Portmore CDF’s responses are relatively slow, formal, and inactive, and thus are far less effective.

For example, in MEFL, the loan officer calls the delinquent client on the first day of delinquency. This call is done in a friendly way, as a reminder, and has a strong exploratory content - why was the payment missed?

If the loan is still delinquent by day 3, the loan officer’s supervisor calls with a stronger message.

By day 7, the loan officer is meeting with the entire group (nearly all loans are group loans in MEFL) and telling them with utmost clarity that all group members are in serious danger of losing access to future loan services. A first written notice is delivered at the group meeting and a second notice on day 10.
By day 14, a demand notice is delivered, and if the loan is not settled on that day, references and family members are called in order to further pressure delinquent clients. MEFL also has the right (as specified in its loan contract) to print a picture of delinquent clients in the newspaper and to take legal action to recover the money it is due. So far, MEFL has not had to resort to these last 2 actions.

JNSBL loan officers also call clients on the first day and then deliver a first warning letter on day 3 if the client has not made adequate arrangements to pay.

These actions are followed by a series of visits and warning letters, leading up to a 3rd and final delinquency notice on day 15 for those who appear completely unyielding and unlikely to repay or as late as day 30 for other delinquent clients.

If the loan is still not satisfied, a bailiff is then dispatched to seize all of the client’s loan collateral within 2-3 days after this last notice is delivered.

If the sale of the collateral turns out to be insufficient to settle all outstanding debts, JNSBL will go to court to recover as little as US$170. Outside lawyers charge JNSBL US$85 per case plus 20% of whatever they recover - a low cost made possible by the fact that the lawyers handle a batch of these cases at once.

IPED and Portmore CDF are slower and less forceful in responding to delinquency. Portmore CDF loan officers bring by a deficiency notice about 1 week after a loan becomes delinquent. This misses the chance to give the client a friendly reminder phone call on the 1st day or 2 of delinquency, and at the same time to make contact earlier in order to signal the seriousness with which delinquency is viewed. IPED’s initial response to delinquency is even weaker: a letter is sent to clients within 1 week.

In contrast, by day 7, MEFL and JNSBL have had at least 3 contacts with clients and are getting very serious and tough by then.

After its initial response of a hand-delivered letter, Portmore CDF follows up by hand delivering 2nd and 3rd deficiency notices after 30 and 60 days of delinquency and then turns the matter over to a bailiff for collection if still unresolved.

This procedure lacks the force of MEFL’s and JNSBL’s repeated contacts within the first 2 weeks of delinquency and thus fails to give the clients signals that the MFI is going to be really tough on collection.

To its credit in this regard, IPED seizes one of the items that the client has pledged as collateral in the 2nd week after delinquency (typically a television or music set, which are both items that the client will miss very much), but then waits another month before taking additional strong actions.
Compared to JNSBL and MEFL, IPED and Portmore CDF also appear to be more accepting of excuses from clients about why they could not repay, and this also contributes to the much higher delinquency rates observed in the latter 2 MFIs.

**Loan Officer Incentive Pay**

In best practice MFIs, an important percentage of a loan officer’s overall remuneration comes from an incentive pay system.

In good incentive pay schemes, the amount of incentive pay earned by a loan officer is determined by his/her loan volume and portfolio delinquency rate.

These schemes normally put a particular premium on keeping delinquency rates low, as is appropriate given the threat to the MFI posed by high delinquency rates.

Thus, these incentive pay systems reward loan officers for doing a good job in loan underwriting (screening out bad credit risks) and loan collection — reinforcing these critical aspects of the lending technology.

Good incentive pay schemes also reward loan officers for greater lending volumes (which can be measured in a number of ways) because greater lending volumes are also important for achieving sustainability and profitability.

We observe major differences among the 4 Caribbean MFIs in this area, with JNSBL and MEFL utilizing best practice incentive pay schemes, Portmore CDF using a deficient scheme, and IPED employing no scheme at all.

The incentive pay schemes used by both JNSBL and MEFL put a premium on keeping delinquency rates low, as is appropriate. These schemes also reward larger loan portfolios and the disbursement of a greater number of new and repeat loans, which are important for sustainability and growth.

For example, to qualify for incentive pay in a given month, loan officers in both JNSBL and MEFL must achieve a portfolio at risk measure of 5% or less for their individual loan portfolios.

Minimum loan volume targets must also be achieved. For instance, JNSBL loan officers must disburse an average of at least 12 new or repeat loans per week and must achieve a minimum portfolio size to qualify for incentive pay.

For JNSBL loan officers who meet all of these eligibility criteria, the amount of incentive pay they receive for the month is given by several tables that depend on a number of characteristics of the loan officer’s portfolio for the month: delinquency rate, outstanding portfolio value, the number of new plus repeat loans disbursed, and the number of new loans disbursed.
In contrast to the schemes used by JNSBL and MEFL, Portmore CDF’s incentive pay scheme mostly rewards loan volume. Each loan officer’s incentive pay is a function of 2 indicators: the volume of loans (s) he has disbursed during the month and the volume of loans (s) he has collected during the month. Since loan delinquency affects collections, portfolio quality does have some impact on performance pay.

However, the effect is much weaker than in JNSBL and MEFL, where the loan officer must keep his/her delinquency rate at 5% or less or else all incentive pay is lost.

Pathways to Profitability and Beyond

How can the 4 MFIs compile a track record of profitability? This is something that none of them have yet accomplished. Such a track record is an end in and of itself and also opens the doors to overcoming the final 2 challenges of microfinance: accessing commercial funding and attracting private, for-profit equity investment.

Pathways to Profitability: IPED & Portmore CDF

To achieve a track record of profitability these 2 MFIs can:

- Implement best-practice lending methods to bring down loan delinquency rates to single digits and hopefully to below 5%. A reduction in delinquency rates reduces loan provisioning costs, increases loan income and portfolio yield, and has a number of other salubrious effects discussed earlier.

- Improve lending methods by reducing transaction costs for borrowers and the time it takes for new clients to receive a first loan. This would help increase client satisfaction and retention rates, which has a number of beneficial effects on MFI sustainability.

Loan officer and total staff productivity ratios in IPED and Portmore CDF are quite low compared to the Latin American peer group (Table 7), and would seem to offer interesting avenues for reducing costs.

Whether IPED and Portmore CDF should try to or could increase their profitability by increasing loan rates on their relatively larger and longer term loans is less clear and should be tackled in a market study that examines client satisfaction and the availability, cost, and desirability of alternative loan sources.

Pathways to Profitability: MEFL

Because the MEFL data in Table 7 correspond to only its 2nd year of loan operations, it is hardly surprising that MEFL’s sustainability and profitability indicators should be as low as they are.
MEFL’s primary pathway to profitability is fairly obvious, at least in the short run: continue to expand its client base and credit portfolio, while maintaining its excellent control over loan quality. MEFL’s ratio of operating costs to average gross loan portfolio of 341% is artificially high because of start-up costs and the fact that clients are new and haven’t had much time to progress to larger loan sizes. This ratio will come down as MEFL continues to expand operations, as it has been doing. For example, the number of clients has grown from 939 in September 2004 to over 1,500 by February 2005.

Pathways to Profitability: JNSBL

JNSBL is in year 5 of loan operations and thus has had time to overcome start-up problems and costs. JNSBL’s revenues cover 91% of its adjusted costs, so JNSBL is close to achieving sustainability but is still not there yet. By way of comparison, the average MFI in Latin America has a comparable financial self sufficiency (FSS) ratio of 102%, slightly above full cost recovery (with subsidies removed).

JNSBL charges 1% per week flat interest on its loans, a very high interest rate that, together with its low delinquency rate, results in a portfolio yield of 93%. This portfolio yield is 49 percentage points above the Latin American average of 44%. However, this advantage is more than counterbalanced by JNSBL’s high operating costs. The ratio of operating costs to average gross loan portfolio is 87% in JNSBL, 60 percentage points above the Latin American average of 27%.

Why are JNSBL’s costs so high? JNSBL loan officer and total staff productivity ratios are somewhat below the LA peer group (Table 7), and offer some scope for cost reduction, but clearly aren’t the major explanation.

Average annual wage levels are $15,000, or 5 times GDP/capita in JA. This is actually below the Microbanking Bulletin average for LA of 6.1.

The major reason that the ratio of operating costs to average gross loan portfolio is so high appears to lie not in factors such as productivity and wages that affect the numerator of this ratio, but, rather, in factors that affect the denominator.

The average outstanding loan balance per borrower is only US$299 in JNSBL, versus $816 in Latin America. As a % of GDP per capita, the difference is even more striking: 10% of GDP per capita in JNSBL vs. 57% for the Latin American peer group.

Thus, JNSBL is located in a middle-income country and is paying middle-income country salaries, while making exceedingly small loans. This appears to be the fundamental contradiction in its operating model and the main reason it has not achieved profitability.
At the same time, JNSBL utilizes an extremely conservative underwriting criterion: loan payments must be less than 25% of household savings in the low sales period. Increasing this % over time up to the level used in best practice MFIs of 70-80% would allow JNSBL to substantially increase its loan portfolio, decrease its operating cost ratio, and probably improve client satisfaction and retention rates at the same time. If done with reasonable care, JNSBL should be able to avoid over-lending and any significant increase in its loan delinquency rates — all while maintaining its focus on the low-income clientele it has traditionally served.

Other possible ways for JNSBL to reduce its operating cost ratio include:

- Continue to expand the number of borrowers in order to take advantage of the economies of scale that exist in the provision of financial services
- Explore whether it is worthwhile to continue utilizing all 28 JNBS offices or whether profitability could be increased if JNSBL focused more on a smaller number of branches
- Increase average loan size by reaching out to higher-income clients, who would typically demand larger loans
- Explore whether labour productivity could be increased, especially for loan officers.

Some of these suggestions, including the liberalization of JNSBL’s underwriting criteria, require that JNSBL acquire significant additional loanable funds, either from the parent company (JNBS) or from other sources.

Conclusions for MFIs

Caribbean MFIs need not simply be prisoners of small markets distorted by government subsidies. They too can implement best practice lending methodologies and achieve low loan delinquency rates.

Two Caribbean MFIs, JNSBL and MEFL have shown the way, with impressive track records of delinquency control. Once delinquency is controlled, MFIs can then go on to compile a track record of profitable operations and ultimately access commercial funding sources and attract private, for-profit equity investment.

As a result of this entire process of institution building, MFIs in the Caribbean will be able to serve ever more micro entrepreneurs with improved credit and other financial services.
Conclusions for Governments and Donors

Governments and donors can play an important role in implementing the strategies recommended here by:

- directly strengthening the MFIs through the provision of technical assistance
- helping to expand MFI lending portfolios through the provision of funding to these institutions.

With respect to the latter strategy:

- Governments and donors should avoid making loans to MFIs that can mobilize deposits or borrow commercially in amounts and tenors sufficient to meet their funding needs.
- The interest rates charged on portfolio funding should be increased over time as a means of transitioning the industry to commercial funding.

In light of the lending methodology and related problems discussed here, government and donor provision of technical assistance to Caribbean MFIs is especially critical. However, it is important to ensure that such technical assistance funding is well spent and achieves its objectives.

Therefore:

- MFIs that are genuinely interested in making the kinds of changes discussed here should be sought.
- The disbursement of the technical assistance funds should be tranched or otherwise conditioned on measurable performance improvements such as reduced MFI delinquency rates and increases in sustainability or profitability indicators.
- The consultants providing the technical assistance could also have a substantial part of their pay tied to improvements in these same indicators, an idea that worked very well recently in Peru with the strengthening of a set of MFIs there known as the CRACs (Cajas Rurales de Ahorro y Crédito).
- In the same way, the amount of the counterpart funds the MFIs are required to provide to help pay the cost of the technical assistance program can be made a function of these same indicators, so that all parties have incentives to pull in the same direction — another idea from the recent Peruvian operation.

Finally, through policy dialogue and possibly policy-based lending, donors can try to convince governments to create conditions conducive to sustainable microfinance.

Government-sponsored programs that damage the market with cheap loans to micro and small entrepreneurs and a tolerance for lax loan repayment should be put on a commercial footing or else significantly scaled back or eliminated.
Governments must recognize that they simply do not have the funds to provide subsidized loans to all micro and small entrepreneurs who potentially need credit and could be creditworthy.

The only way to adequately serve this market is through commercial microfinance, in which the reinvestment of profits and the use of other funds attracted by these profits permit the rapid growth of lending operations and the eventual provision of high-quality financial services to all creditworthy clients who demand them.

Many thanks!!
Table 3  Number of Microenterprises and Relationship to Population

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Microenterprises</th>
<th>Population (millions)</th>
<th>Number of Microenterprises / Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peru</td>
<td>6,866,193</td>
<td>24.37</td>
<td>28.2%</td>
</tr>
<tr>
<td>Paraguay</td>
<td>9,873,326</td>
<td>5.22</td>
<td>18.9%</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>3,392,188</td>
<td>8.10</td>
<td>17.2%</td>
</tr>
<tr>
<td>Bolivia</td>
<td>3,302,321</td>
<td>8.14</td>
<td>16.7%</td>
</tr>
<tr>
<td><strong>JAMAICA</strong></td>
<td><strong>408,627</strong></td>
<td><strong>2.56</strong></td>
<td><strong>16.0%</strong></td>
</tr>
<tr>
<td>Colombia</td>
<td>6,591,895</td>
<td>41.59</td>
<td>15.6%</td>
</tr>
<tr>
<td>Honduras</td>
<td>891,180</td>
<td>6.39</td>
<td>13.9%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>1,694,665</td>
<td>12.17</td>
<td>13.9%</td>
</tr>
<tr>
<td>Peru</td>
<td>41,873,945</td>
<td>15.6%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>1,421,714</td>
<td>10.80</td>
<td>13.2%</td>
</tr>
<tr>
<td>Brazil</td>
<td>18,989,753</td>
<td>165.37</td>
<td>11.5%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>667,136</td>
<td>6.03</td>
<td>11.1%</td>
</tr>
<tr>
<td>Mexico</td>
<td>10,273,945</td>
<td>96.65</td>
<td>10.6%</td>
</tr>
<tr>
<td>Uruguay</td>
<td>341,959</td>
<td>3.29</td>
<td>10.4%</td>
</tr>
<tr>
<td>Panama</td>
<td>289,004</td>
<td>2.81</td>
<td>10.3%</td>
</tr>
<tr>
<td><strong>BELIZE</strong></td>
<td><strong>23,621</strong></td>
<td><strong>0.76</strong></td>
<td><strong>10.3%</strong></td>
</tr>
<tr>
<td>Costa Rica</td>
<td>311,219</td>
<td>3.53</td>
<td>8.8%</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>417,570</td>
<td>4.80</td>
<td>8.7%</td>
</tr>
<tr>
<td>Chile</td>
<td>1,207,184</td>
<td>14.02</td>
<td>8.1%</td>
</tr>
<tr>
<td><strong>GUYANA</strong></td>
<td><strong>58,327</strong></td>
<td><strong>0.76</strong></td>
<td><strong>7.7%</strong></td>
</tr>
<tr>
<td>Argentina</td>
<td>1,011,170</td>
<td>36.12</td>
<td>5.3%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>59,264,176</strong></td>
<td><strong>477</strong></td>
<td><strong>12.4%</strong></td>
</tr>
</tbody>
</table>

**Sources:** Household surveys for 21 countries (number of microenterprises) and International Financial Statistics (population). Data for 18 the Latin American countries are from 1998-99 (except 1997 for Peru). For the three Caribbean countries, the data are from 1999 for Guyana and Belize and 2002 for Jamaica.
Table 4  Small MFIs in Latin America with Good Performance

<table>
<thead>
<tr>
<th>MFI</th>
<th>Country</th>
<th>Number of Active Borrowers</th>
<th>Average Loan Size (US$)</th>
<th>Portfolio at Risk (30 days)</th>
<th>Profitability: Return on Assets (ROA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FONDESURCO</td>
<td>Peru</td>
<td>974</td>
<td>$1021</td>
<td>10.7%</td>
<td>1.2%</td>
</tr>
<tr>
<td>ADEM</td>
<td>Nicaragua</td>
<td>1395</td>
<td>$252</td>
<td>4.5%</td>
<td>9.4%</td>
</tr>
<tr>
<td>EDIPYME Cesar Arequipa</td>
<td>Peru</td>
<td>2151</td>
<td>$916</td>
<td>8.0%</td>
<td>5.8%</td>
</tr>
<tr>
<td>EDIPYME Cesar Trujillo</td>
<td>Peru</td>
<td>2354</td>
<td>$719</td>
<td>7.6%</td>
<td>1.3%</td>
</tr>
<tr>
<td>AgroCapital</td>
<td>Bolivia</td>
<td>3270</td>
<td>$3675</td>
<td>1.4%</td>
<td>2.3%</td>
</tr>
<tr>
<td>ACTUAR Tolima</td>
<td>Colombia</td>
<td>3467</td>
<td>$386</td>
<td>7.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>CEAP - PE</td>
<td>Brazil</td>
<td>3636</td>
<td>$236</td>
<td>6.5%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

Notes: The 30-day portfolio at risk measures the outstanding principal balance of all loans with arrears over 30 days divided by the total gross loan portfolio. ROA is measured as the ratio of profits (after taxes and excluding any grants or donations) to average total assets.
Source: The MIX Market (www.MixMarket.org). We use the most recent year of data available from this website as of April 2005.

Table 5  Performance of Well-Managed MFIs in Difficult Environments (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>MFI</th>
<th>Portfolio at Risk (30 days)</th>
<th>Profitability: Return on Assets (ROA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombia</td>
<td>WWB Cali</td>
<td>0.4</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td>WWB Popayán</td>
<td>2.2</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td>WWB Bucaramanga</td>
<td>2.5</td>
<td>2.4</td>
</tr>
<tr>
<td></td>
<td>WWB Medellín</td>
<td>3.3</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td>WWB Bogotá</td>
<td>2.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Bolivia</td>
<td>BancoSol</td>
<td>1.8</td>
<td>9.2</td>
</tr>
<tr>
<td></td>
<td>Cajá los Andes</td>
<td>0.9</td>
<td>5.1</td>
</tr>
<tr>
<td></td>
<td>FIE</td>
<td>0.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Peru</td>
<td>Mibanco</td>
<td>2.5</td>
<td>1.9</td>
</tr>
<tr>
<td></td>
<td>CMAC Arequipa</td>
<td>1.6</td>
<td>4.8</td>
</tr>
<tr>
<td></td>
<td>CMAC Cusco</td>
<td>6.3</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Notes: Blank cells indicate missing data. The 30-day portfolio at risk measures the outstanding principal balance of all loans with arrears over 30 days divided by the total gross loan portfolio. It is measured at the end of the year.
ROA is measured as the ratio of profits (after taxes and excluding any grants or donations) to average total assets.
Sources: All data except those pertaining to Mibanco are from MicroRate (www.MicroRate.com). Mibanco data are from the MIX Market (www.MixMarket.org).
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>Jamaica</td>
<td>Jamaica</td>
<td>Guyana</td>
<td>Jamaica</td>
<td>Latin Am.</td>
</tr>
<tr>
<td>Type of lending: Individual (I) or Solidarity Group (G)</td>
<td>I</td>
<td>mostly G</td>
<td>I</td>
<td>I</td>
<td></td>
</tr>
<tr>
<td>Number of offices (main and branch)</td>
<td>28</td>
<td>1</td>
<td>12</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Gross loan portfolio (US$ thousands)</td>
<td>$2,693</td>
<td>$142</td>
<td>$5,574</td>
<td>$1,081</td>
<td>$8559</td>
</tr>
<tr>
<td>Number of borrowers</td>
<td>8,972</td>
<td>939</td>
<td>4,323</td>
<td>480</td>
<td>13,755</td>
</tr>
<tr>
<td>Growth rate of US$ gross loan portfolio (1 year)</td>
<td>49.3%</td>
<td>200.5%</td>
<td>-3.5%</td>
<td>42.9%</td>
<td></td>
</tr>
<tr>
<td>Growth rate of number of borrowers (1 year)</td>
<td>-7.0%</td>
<td>184.3%</td>
<td>11.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average outstanding loan balance per borrower (US$)</td>
<td>$299</td>
<td>$511</td>
<td>$1,308</td>
<td>$2,206</td>
<td>$816</td>
</tr>
<tr>
<td>Average loan term (months)</td>
<td>5.5</td>
<td>approx. 4</td>
<td>12</td>
<td>12.8</td>
<td></td>
</tr>
<tr>
<td>Portfolio at risk &gt; 30 days (% gross portfolio)</td>
<td>3.3%</td>
<td>5.5%</td>
<td>38.0%</td>
<td>12.6%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Loss provision coverage &gt; 30 days</td>
<td>178%</td>
<td>99%</td>
<td>60%</td>
<td>82%</td>
<td>120%</td>
</tr>
<tr>
<td>Operating costs / Average gross loan portfolio</td>
<td>57%</td>
<td>341%</td>
<td>14%</td>
<td>24%</td>
<td>27%</td>
</tr>
<tr>
<td>Operating costs / Average number of borrowers (US$)</td>
<td>$251</td>
<td>$511</td>
<td>$175</td>
<td>$471</td>
<td>$955</td>
</tr>
<tr>
<td>Borrowers / Loan officer</td>
<td>236</td>
<td>117</td>
<td>188</td>
<td>140</td>
<td>333</td>
</tr>
<tr>
<td>Borrowers / Total staff</td>
<td>11.4</td>
<td>55</td>
<td>62</td>
<td>41</td>
<td>128</td>
</tr>
<tr>
<td>Average remuneration of all staff (US$ per annum)</td>
<td>$15,314</td>
<td>$17,967</td>
<td>$3,081</td>
<td>$9,190</td>
<td></td>
</tr>
<tr>
<td>Cost of funding liabilities</td>
<td>0.2%</td>
<td>4.3%</td>
<td>2.9%</td>
<td>9.4%</td>
<td></td>
</tr>
<tr>
<td>Portfolio yield</td>
<td>93%</td>
<td>90%</td>
<td>22%</td>
<td>33%</td>
<td>44%</td>
</tr>
<tr>
<td>Debt/Equity</td>
<td>-4.0</td>
<td>2.5</td>
<td>1.1</td>
<td>2.09</td>
<td>2.7</td>
</tr>
<tr>
<td>ROA = return on average assets (before taxes)</td>
<td>1.1%</td>
<td>-16.0%</td>
<td>3.2%</td>
<td>7.9%</td>
<td></td>
</tr>
<tr>
<td>AROA = adjusted ROA</td>
<td>-2.8%</td>
<td>-22.8%</td>
<td>-5.8%</td>
<td>5.0%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>FSS = % of total adjusted costs covered by revenues</td>
<td>91%</td>
<td>32%</td>
<td>69%</td>
<td>122%</td>
<td>102%</td>
</tr>
</tbody>
</table>

Notes: The four MFIs have different fiscal years. The four columns of MFI data pertain to the one-year period ending at the date shown in each column heading (or for point-in-time data such as portfolio at risk, to the date itself). The only exception is JSNBL, where the data cover the 10 months ending in January 2005, but are presented as annual rates as needed in order to be comparable with the other MFIs. The final column is taken from the Microfinance Roundtable in Latin America and provides data for the Latin America peer group. Blank cells indicate missing data.

1 This is the ratio: Loan loss reserve / Outstanding balance of loans overdue > 30 days.
2 This is the ratio: Interest and fee expenses on funding liabilities / Average funding liabilities.
3 This is the ratio: Total interest, commissions, and other revenue from loan portfolio / Average gross loan portfolio.
4 This is the ratio: Net operating income before income taxes / Average total assets. The numerator excludes grants and donations. Only JSNBL has paid income taxes. These taxes are excluded from ROA in order to better compare JSNBL with the other three MFIs.
5 ARoa is the same as ROA but with the following adjustments made to net operating income: a) if the average cost of the MFI’s funding liabilities is less than the interest paid by the banking system on certificates of deposit (using the CD rates given in International Financial Statistics, line 601), then funding costs are increased to the CD rates; b) provisioning expenses are set equal to 100% of the outstanding balance of loans overdue > 30 days; c) if the net worth of the MFI is > 0, then inflation expense equal to net worth times the inflation rate is subtracted from net income; and d) the value of in-kind subsidies is subtracted from net income (a consideration only for JSNBL).
6 FSS is the Financial Self-Sufficiency ratio: Operating revenues / (Adjusted funding liability costs + Adjusted provisioning costs + Adjusted operating costs). This ratio employs the adjustments specified in footnote 4.
7 Sources: Final column is from The MIX (2005) and uses somewhat different adjustments for ARoa and FSS than the rest of the table. Inflation rates, bank deposit rates, and exchange rates used in the four MFI calculations are taken from the International Monetary Fund’s International Financial Statistics. All other data are from the MFIs.
DEBORAH WILLIAMS
Executive Director
Microfinance Enterprise Financing Limited
Jamaica

We have been doing microfinance for 3 years. At the last roundtable we attended, we had 300 people. We have now grown to 1,500 clients, we have a delinquency rate that is under 4%, and we have dispersed over US$1.2 million.

What we have done at Microfinance is very diverse. We have looked at Microfinance companies across the Caribbean and across the world and we have simply picked out the best practices. We do not have a set loan product. We are demand driven. We accommodate our clients based on their needs. We have introduced investment opportunities for our clients, and for this investment section we’ve partnered with Scotiabank.

We have found that training and development is important. There are so many people in the sector who see themselves as not being able to access the loan, because they see themselves as a one-woman business. We have packaged training along with the loan. In the Caribbean we can do it but we have to change our strategy.

MANJULA BRIJMOHAN
Managing Director
Small Business Development Fund
Guyana

Very often we find the failure of many entrepreneurs is that the determination and perseverance to continue in the same business and reach their goals are limited.

Many of our entrepreneurs and institutions are behind Latin America in terms of technology, marketing and linkages and association with MFIs. This puts us at a disadvantageous position to what is happening in other countries.
Why do MFIs in the Caribbean still lag behind? I do not know what is happening in Barbados and Barbados does not know what is happening here. Glenn Westley’s presentation clearly indicates that there is a need for linking and information. There is a shortage of institutions that can provide market information and technology.

This is not necessarily a problem of yours or mine, it is a collective problem for MFIs and Banks to double up and create an environment where MFIs should focus on minimum credit training and finance while other institutions would provide crucial support.

GERARD PEMBERTON
President,
MICROFIN Caribbean Holdings Limited

What Alvaro Ramirez said is that Glenn Westley’s paper is being developed for presentation for Bolivia in October. Based on what I have seen so far, it is going to be the definitive work on micro credit in the Caribbean, most of the donors and international institutions are going to work from that.

FRANK WHYLIE
General Manager
JN Small Business Loans
Jamaica

In relation to informal collateral seizure, it is not particularly difficult to do in Jamaica but the items that are seized are difficult to sell. There is little market for second hand items. The law in Jamaica prevents us from selling at the lowest possible price.
GLENN WESTLEY  
Senior Advisor, Microfinance  
Inter-American Development Bank

I found the share of micro-enterprise production in GDP for one Caribbean Country – Belize. I did not find it for micro but for small and micro enterprise. Small was rather large – US$250,000 per year and their share of GDP was 39%. In Latin America, it is 15-20% share for micro-enterprise and 40% for micro and small enterprise.

It is important when you look at employment as micro-enterprise accounts for 50% in Latin America. Poverty in micro enterprise accounts for 70% of the poor owners, so it is important socially.

You see its importance in the high interest rates that people are willing to pay for loans. When you are willing to pay up to 60%, it means that you have a project that is returning at least 60%. These projects are waiting in the wings frustrated by lack of finance. If we could provide this finance we could have growth that is significant in macroeconomic terms.

MAGUERITE BERGER  
Country coordinator for Suriname  
Inter-American Development Bank

The size of the economy or the GDP are key factors in determining the size of the micro-enterprise sector and there is a wide variation around those parameters depending on the legal and regulatory structure of the country. The over-regulated business sector tends to cause a large informal sector. So, you can have countries with a high GDP per capita but where it is difficult to formalize the business because it is costly and therefore there is a very large informal sector.
Before I get into the quantitative analysis – I will address some general problems.

Firstly, there is no statistical data or very little being collected on the business sector in terms of businesses formal or informal in the Caribbean.

Secondly, we do have a history of commercial micro credit. We have traditionally had grant programs where access is conditional on factors other than business needs and no impact assessment or other follow up data is done or considered necessary. So dong market research if you are doing commercial micro credit has that challenge to deal with.

Thirdly, it is difficult to get data collection or for research companies to conduct studies on the assignment, as the assignment is not large enough to attract their attention and the unavailability of the data is considered by them to be an insurmountable problem. So even getting someone to do the research, where it would be worth their while, is a challenge.

The importance of demand surveys or business models - whether micro, small or large business - are based on market conditions that exist or are likely to exist during the life of the business. No business that wants to survive can ignore the demand and supply conditions.

The business of micro credit has some underlying critical success factors –

1. The productivity of lending operations
2. The management of operating costs
3. The use of technology to have accurate, reliable and timely information
4. The existence of an adequate demand in terms of number of clients and average loan size to get to the break-even portfolio size and beyond. This is at the heart of doing proper market research before you enter.

What do you expect to get at the end of market research? We look at the number of potential clients, the size of the loans, the gender and age of the borrowers, the age of the business, the types of business existing, the location of borrowers, seasonality of loans requirements, duration and purpose of loans, performance of existing suppliers and any other existing requirements that we are able to gather from this research.

The demand survey, properly done and properly timed, will allow the entrance of the MFI into the market to be informed by what to expect.

OVERVIEW – SURINAME

Suriname’s economic performance continues to display positive growth trends. The development of the microenterprise sector has been identified as one of the key platforms for bottom up economic growth and development.

Current and pending development on the labor front point to increased focus and activity in the microenterprise sector, and there was an important point made by Glenn that unemployment drives additional micro activity. Suriname has a large state sector and that is expected to be rectified and people will be forced into survival mode.

In terms of methodology – personal interviews were conducted in several areas among the entrepreneurs. In order to optimize the data being collected, the research was done by a resident in Suriname. He is a Trinidadian who has been living in Suriname for many years. It was translated into basic Dutch, which made it more acceptable. Additionally training and simulation sessions were conducted with his field staff before they went into the field.

He looked at the existing operations. The use of funds – 87% contacted required funding for equipment. This is different from other parts of the Caribbean. It is certainly different from Trinidad where the figure is around 40%. Suriname certainly has a greater and much more productive micro credit sector.

In terms of equipment value, 50% had equipment valued around US$5,000 and 47% were over US$5,000. In terms of how their current businesses were presently funded, surprisingly own funds accounted for 70%, banks 13%, families 6%, and money lenders 6%. This is because there is very little micro credit lending in Suriname.

Those interested in starting a micro-enterprise were asked how they would finance their venture. 40% said– own funds, 50% said banks and financial institutions. This points towards a micro credit operator going into a bank and therefore being seriously considered for financing.
Interestingly, as part of the exercise, he asked the companies surveyed if they had sought loans in the last 12 months. 54 % said yes, 46% had failed, only 34% were successful and for 20% there was no decision.

Loan processing tends to be very low, an almost 60% opportunity. In terms of loan amounts for those who went for financing in the last 12 months in existing operations, 33% applied for $3,000 and 42% applied for $3,000-4,000 so 72% would have been for amounts of less than $5,000.

GUYANA

The same researcher came to Guyana, used local staff, and these were trained as before. Background information he provided to us was that Guyana’s continuing and consistent economic growth trends have created a growing level of confidence locally and internationally and there is an upbeat atmosphere in terms of economic development.

Personal interviews were conducted in the greater Georgetown area, Berbice, Demerara etc. Simple interviews took place with farmers and fishermen. The final sample was based on random sampling – individuals were selected from directories provided by a micro-enterprise institution.

Like Suriname, there was a high demand for equipment financing. Equipment value was similar to Suriname at 90%. In existing operations, it was over US$5,000. For potential business, 20% was under US$5,000, 80% were over US$5,000. A high percentage, 68% of persons, have used their own funds to finance, their business while 30% relied on family. Of those looking to get into business, 60% said they would use their own funds and 40% said they would approach IPED.

The percentage with loans under US$3,000 was 42%, US$3,000-US$5,000 (10%) and over US$5,000 (42%). So, 50% of the market took loans between US$3,000-5,000. Besides financing, people surveyed indicted that they would interested in management training and export development.

1) Calvin Nath; “MicroEnterprise Study In Suriname;” 5th October 2004
2) Calvin Nath; “MicroEnterprise Study In Guyana;” 25th October 2004
AMY LOFGREN  
Country Manager  
Caribbean Microfinance Limited  
St. Lucia

**Characteristics of Micro and Small Business in the OECS**

- High proportion in informal sector  
- Dominance of sole proprietorship  
- Large numbers operating from homes  
- Over 35% owned by women  
- Over 50% started using their own funds  
- Over 40% involved in distributive trade  
- Skilled in more than one trade  
- Relatively high rate of education through high school  
- Heavily dependent directly or indirectly on tourism trade

**Characteristics of Demand in Target Countries**

- **Antigua & Barbuda**  
  - 78% currently involved in business  
  - 67% were women-owned businesses  
  - Age range 35-45=37%  45-55=28%  
  - Average loan size desired  
    - $3000-5000  11%  
    - $5001-10,000  11%

- **Dominica**  
  - 43% currently involved in business  
  - 50% were women-owned businesses  
  - Age range 30-45=43%  Total under 45 = 73%  
  - Average loan size desired fairly even distribution
• **St. Kitts & Nevis**
  - 88% currently involved in business
  - 25% were women-owned businesses
  - Age range 35-45=27%  45-55=12%
  - Average loan size desired
    - $3000-10,000  24%
    - $10,000-30,000  20%
    - $50,000-75,000  20%

**Loan Purpose**

- Stock purchases
- Equipment / tool purchase
- Renovation of business space
- Expansion of business space
- Family or housing needs
- Debt

**Client Level Preferences**

- Lending institution preferences
  - Credit Unions
  - Large Banks
  - “the box” – rotating savings groups
  - Institution that offered most competitive rates

- Government Financial Agencies were low in order of preference

**Terms and Conditions**

- Preference for monthly repayment cycles
- Lump sum payments for agricultural borrowing
- Grace periods
- Repayments in range of $250 - $450

**Security**

- Less rigid security requirements
Micro- and Small Business Constraints to Credit Access

- Inadequate access to capital due to collateral requirements
- Lack of seed money
- High interest rates
- Lack of training in business management
- Inadequate monitoring by lending institutions
- Business plans being use to approve loans and not as management tools
- Absence of business development services institutions
- Absence of coordinated effort among public and private institutions
- Limited knowledge of target markets and market research
- Ability of enterprise to generate sufficient revenue for repayments

Financial Institutions
- Collateral security inadequate
- High debt service ratio
- Low profit margins
- Seasonality
- Credit officers lack knowledge beyond traditional sectors
- Marketing plans and strategies not in place

Creating an Environment for Increased Demand

- Large proportion of intended businesses
- Developing competitive market driven entrepreneurs
- Population growth
- Developing linkages
- Economic realities

Financial Institution Constraints to Micro and Small Business Lending

- Limited or no security available (quality)
- Management skills are limited or lacking altogether
- Poor record-keeping / documentation
- Concern in lending to full-time sole proprietors – lack of “back up” for repayment
- Preference for service sector
- Do not meet bank requirements for approval
- Applications not prepared or presented properly
Economic Realities Potentially Increasing Demand

- Antigua & Barbuda
  - Public Sector Retrenchment

- St. Kitts & Nevis
  - Impending Closure of Sugar Industry

- Dominica
  - IMF Economic Stabilization Programme
  - Emergence of Eco-Tourism Sector

Comparative to St. Lucia Market Research

- Clients
  - Subjectivity and Prejudice
  - Absence of the Element of Partnership
  - Lack of Support
  - Other

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FRIDAY 13\textsuperscript{TH} MAY 2005 – AFTERNOON SESSION

RESPONSES TO 2004 HURRICANES AND FLOODING DISASTERS – LESSONS FOR THE FUTURE

ROUND TABLE DISCUSSION

JERRY BUTLER
Alternate Executive Director to the Caribbean Inter-American Development Bank

- Grenada
- St. Vincent And Grenadines
- Jamaica
- Guyana
- Bahamas

\textbf{Damage Assessment}

\textbf{Grenada} - September 7\textsuperscript{th} 2004 - 90 \% damage to housing - Damage assessment estimated at US$880 million (240 \% of GDP)

\textbf{St Vincent} - Damage assessment estimated at US$40 million.

IADB immediately made an emergency technical co-operation grant of US$300,000 dollars on 22\textsuperscript{nd} Sept, two weeks after the disaster. These funds were channeled through the CDB. OECS countries are not direct members of IADB but CDB is a regional bank that received IADB technical and financial resources.

In January 2005, CDB requested a loan for Grenada from IADB for reconstruction efforts, housing and environmental management and to assist in rebuilding the rural and tourist economy.

IADB response was to provide technical support to the Grenada agency for reconstruction development and procedures recording and procurement management.
Guyana

Guyana suffered floods that damaged housing and coastal areas. On January 26th 2005, IADB providing US$200,000 for reconstruction.

Over the next month, we completed assessment of the hurricane damage and we also looked at transportation damage and sanitation damage with the resulting outbreak of disease

Preliminary proposals have been submitted and we are now in the process of determining how to redirect resources.

Jamaica

The damage assessment of the impact of Hurricane Ivan was US$580 million or 8% of GDP.

On September 16th, funds were redirected from existing loans. An Emergency Reconstruction Facility was approved in the amount of US$16 million. Road Reconstruction funding of US$3 million was provided

A pilot project has been put in place to support better country risk analysis

Bahamas

The Bahamas presented unusual challenges – 3 hurricanes in less than 3 weeks last year.

A US$50 million technical assistance grant was much to low. They were able to get US$200,000 up front and subsequently, the bank looked at an existing loan of US$6 million and made a decision to cancel it.

In April, the bankers approved a loan at the commercial rate in the amount of US$16.7 million to further assist in housing and tourism in the Bahamas.

Projected GDP

In the case of Jamaica - GDP growth rate was projected at 3.5 % and dropped 2.9 % in the wake of Hurricane Ivan.

In the case of Bahamas projected GDP dropped from 3.2 to 3 %.

In the case of Grenada and St. Vincent, GDP became negative.
MAUREEN COX
Country Manager
Caribbean Microfinance Limited
Grenada

We have tried to assist them financially – contacted most of them – refinanced most of the loans. They were grateful and this increased our clientele. Some have migrated and we have made provision for that.

FRANK WHYLIE
General Manager
JN Small Business Loans
Jamaica

South and west Jamaica were affected by Hurricane Ivan. Our clients were affected. A lot of banks are feeling the effects of the hurricane. Help was received from USAID which provided grants to those most affected.

Using a money transfer card reduced incidence of fraud, which is usually present in these conditions.

Secondly, my organisation was able to get a loan from our parent company – mostly to put people back on their feet. On the south coast, clients cannot get back on their feet as the Government has prevented reconstruction in that area.

The lesson that we learnt is that most micro clients cannot handle two loans – it was total chaos. We had to reschedule loans but not a lot. In November the demand for loans was at its highest. Our parent company gave grants to employees to rebuild homes and buy furniture etc.
Role of Traditional Credit Ratings

- Increase transparency
- Reduce information asymmetry
- Facilitate a secondary market for corporate credit – readily usable risk indicator
- Scientific estimation of credit risk & pricing –for use by banks and markets
- Effective self corrective tool for businesses and management
- Complement regulatory oversight by aiding prudential investments

‘Ratings’ in Microfinance

Ratings in Microfinance are a relatively recent phenomenon and so has only had low penetration so far.

Raters are organisations such as ACCION, MicroRate, CRISIL, PlanetFinance, M-CRIL etc.

Different agencies follow different scales, definitions and methodologies. “Rating” is clearly a misnomer - more a performance assessment than credit rating. “Grading” may be a more appropriate term.

The grading is mostly a combination of:

- Systems and Structure analysis
- Governance and management assessment
- Financial performance & condition
MFI Grading – The need for a separate framework

MFIs need a separate grading framework because:

- Few strong MFIs exist that can get an “investment grade” rating – despite good processes, vulnerabilities are considered high even in the best of MFIs.

- They have unique business processes and organizational characteristics, such as objectives, ownership, capital structure & costs, processes and pricing.

- In most countries, a majority of MFIs are registered as not-for-profit organizations and are not regulated

- Their investor profile is different - donors/grant agencies, bilateral/multilateral agencies, social funds, aid organizations, private equity

- Their lender profile is different- apex MFIs, sector specific funds

Role of MFI Grading

For MFIs
- Increased visibility that arises out of a public assessment
- Graded MFIs can attract more investors with the help of credible independent analysis
- Higher grading could translate to lower costs
- Identify specific focus areas for improvement
- Build awareness in the financial markets
- Best practices for entity analysis, risk assessment
- Facilitate transition to mainstream funding

For Investors, donors & other stakeholders
- Independent analysis for informed exposure decisions
- Benchmark governance practices and transparency amongst different MFIs
- Identify key characteristics that are impacting unit level performance and potential vulnerabilities
**Grading vs Ratings**

*MFI Grading*
- Not instrument specific, they are performance gradings
- Comments on ability to scale and sustain
- Comparable among MFIs only
- For capacity building; grant support, highlighting risks
- Aimed at institutional investors/donors
- Higher weightage to governance, systems and management

*Credit Ratings*
- Specific to debt servicing
- Comments about debt servicing in a timely manner
- Comparable across all kinds of entities
- For raising debt
- Aimed at all classes of debt investors
- Higher weightage to business risk specifics, financial structure, earnings and strength

**Sample MFI Grading Scheme (CRISIL)**

A microfinance (mFR) grade is CRISIL’s current opinion on the ability of the MFI to conduct its operations in a scalable and sustainable manner.

It is assigned on eight point scale - mFR1 (highest grade) to mFR 8 (lowest). The Grade measures the overall performance of the MFI on a broad range of parameters under CRISIL’s MICROS framework.

**Grading Methodology: MICROS Framework**

*Management*
- History and track record; alliances and network
- Appraisal and monitoring systems
- MIS, Documentation levels and use of IT in operations
- Human resource management
- Process, controls and audit
- Social impact

*Institutional Arrangement*
- Management, ownership and governing board
- Corporate governance structures & practices
- Goals and strategies
Capital Adequacy and Asset Quality
- Ability to raise capital
- Ageing analysis, quality of loan appraisal, internal audit process
- Portfolio at risk (> 30 days, > 60 days, > 90 days, > 180 days, > 1 year delinquency)
- Write-offs (reported and adjusted)

Resources
- Ability to raise resources
- Diversity in funding base
- Cost of funds
- Liquidity & asset liability management

Operational Effectiveness
- Outreach and quality of infrastructure
- Expense ratios
  - operating expense: operating expenses / average funds deployed
  - administrative efficiency: admin. expenses / average loan portfolio
  - operational self-sufficiency: total operating income / total expenses

Scalability and Sustainability
- Resource base sustainability
- Organisational sustainability
  - ability to develop into a mainstream MFI, if required
  - programme sustainability
  - ability to sustain operations on a larger scale

MFI grading/ Assessment Process
- Process starts with a formal request to CRISIL
- CRISIL assigns grading team - interacts with MFI management, conducts field visits, branch visits, appraisal scrutiny etc.
- CRISIL Rating Committee assigns grade
- Deliverable: Detailed assessment report with or without a Grade
- Time frame: Approx 6 weeks, depending on MFI readiness
- Initial Fee: US$6,000 to US$10,000 based on MFI size
- IDB-CGAP Rating fund offers fee assistance
Positives in MFI Sector – Emerging Trends

- Capacity building by Apex MFIs has resulted in MFIs instituting better systems to monitor their portfolio
- Transparency and capability to provide timely information has enabled better MFIs to diversify their fund base and scale their operations
- Relatively good MIS systems, internal processes and controls have helped some MFIs tap other sources of funds – securitisation and bond markets (BSFL, Share Microfin Ltd and Financiera Compartamos)
- Mandatory reporting required by apex MFIs/private investors & funds have had positive impact on self-discipline
- IDB-CGAP’s initiatives like MicroBanking Bulletin, MIX Market and Rating Fund have also had a positive impact

Areas for Strengthening in MFIs

- Organisational systems and processes
- Long term/strategic planning
- Boards compositions with “non-professional”/ “social” overhang tend to have a subsidy/donor funds dependencies
- Low appetite/readiness for meeting institutional strengthening demanded by commercial funds/lenders
- Commercial issues in NGO-MFIs (as compared to other developmental initiatives undertaken)
- Diverse skill sets on Boards are in a minority
- Relatively low involvement of committed private sector professionals

CRISIL’s MFI & Sector Experience

- 18 years experience in financial sector ratings in emerging markets
- Involvement with MFI sector: formal credit ratings, on the traditional platform: Late 1990’s.
- First formal rating agency to be empanelled with IDB-CGAP
- Only formal rating agency with a separate methodology/scheme for MFI grading.
- Completed over 50 assessments in three years
- Grading and risk assessments for various constituents: MFIs under IDB-CGAP Rating fund, Apex MFIs, Donors requiring assessment and advisory services.
I want to go beyond the ideological and into the practical. My focus will be on microfinance and small business finance. In the context of microfinance over the past 20 years, some things have not changed. We still have the search for balance between sustainability and social objectives, unmet MSE demand for financial services and financial and political risks.

A few things have changed. Firstly, there are fewer concessional resources from the government - both national and international. There is a greater variety of fund lenders and investors. Donors and investors are both more demanding. The micro small enterprise institutions themselves are more varied and they have a consciousness for maintaining their independence from political decision making.

Roles of the State in MSE Finance

I believe the main roles of the State should be:-

- Maintaining fiscal balance and controlling inflation:
- Regulation and supervision of financial institutions and transactions
- Facilitating access to information that allows lenders to better manage risk
- Other legal and regulatory support
- Direct or indirect financing; guarantees
- Provision of subsidies
Under regulation and supervision of the financial system, the principle should be to guard the safety and soundness of financial system while creating space for greater outreach/access to microentrepreneurs.

Two ways this could be achieved are via:-

- A Charter of specialized institutions
- Adjustment of regulations and supervision practices to make it more feasible for all financial institutions to lend to micro and small businesses

**Common Regulatory Barriers to Microfinance**

The major regulator barriers to microfinance are:-

- High minimum levels of capitalization required for FIs
- Loan classification system penalizes micro-credit and increases provisions
- Interest restrictions do not permit sustainable operations
- Cost of regulatory compliance high
- Transaction taxes increase interest rates

**Guiding Principles for Microfinance Regulation and Supervision**

I want to suggest the following principles and guidelines:-

- **Supervision**
  - Risk-based supervision, based on how well management identifies, measures, controls and monitors risk

- **Regulation**
  - Capitalization high enough for prudence but low enough to allow entry of specialized institutions
  - No interest rate restrictions
  - Variety of collateral recognized
  - Related lending limited
  - Flexible loan documentation
  - Simpler, stricter provisions for bad debt
  - Higher capital adequacy due to potential volatility
Legal, Regulatory and Policy Framework for Loan Contracts

- Balance of creditor’s and debtor’s rights
- Expeditious, clear bankruptcy process
- Permit variety of collateral
- Regulation of rating agencies (that rate FIs)
- Regulatory framework for other forms of financing
  - leasing
  - factoring

Improving Information on Prospective Borrowers

- Central credit registries/Credit bureaus
  - Allow FIs to better manage risk
  - Reduce borrower incentives to default
  - Private or public (private shown to have greater effect on expanding credit access)
  - May provide information on other payments, not just credit history
  - Need to ensure privacy, accuracy

Other Legal, Regulatory, Policy Reforms

- Contract enforcement mechanisms
- Improved efficiency and effectiveness of judicial system
- Property rights/titling
- Collateral registries
- Simplification of licencing and permits
- Simplification of taxation

Public Sector Financing: Experience in the 60’s and 70’s

The experience of public sector financing in the 1960’s and 1970’s was not good. Government credit to rural and small enterprises did feature low interest rates but it Low interest rates, but it was bureaucratic, slow and politicized; resulted in weakened institutions and hurt savings. It proved to be not sustainable and generally did not reach the smallest enterprises.
Recent Findings on State-Owned Banks

The evidence is inconclusive on whether state banks have contributed to or reduced development of the financial sector and overall economic growth, helped overcome market imperfections that leave socially profitable investments unfinanced, and increased financing to smaller firms.

State-owned banks charge lower interest rates, but pay lower rates on deposits. Credit from public banks is less cyclical than that of private banks. The risk exists that political factors will determine credit allocation and repayment discipline.

Second-Tier Public Sector Lending to MSEs: What Works

- Favorable regulatory environment -- especially for the first-tier (retail) institutions
- Solid, non-politicized executing agency
- Sustainable interest rates (from second to first tier institutions, and from first tier to MSE clients)
- Strict conditions for participating first-tier financial institutions
- Efficient mechanisms for disbursement and monitoring
- Technical assistance available for participating financial institutions

To Subsidize or Not To Subsidize?

Opponents of subsidization say:-
- subsidized credit programs create negative externalities that affect other lenders
- credit demand from micros not sensitive to interest rates
- assume relatively flat distribution of social weights
- investments made by poorer households yield low returns

Supporters of strategic subsidization say:-
- subsidies give greater social weight to consumption by the poor
- low/negative impacts of interest rates on returns
- credit demand is highly sensitive to interest rates
- returns to investments made by poor households are moderately high effect on other lenders limited or beneficial
Smart Subsidies? Or, How To Subsidize

Avoid past traps of cheap credit such as:

- Administrative inefficiency
- Mistargetting
- Low repayment rates
- Political pressures for loan forgiveness

Good practices to follow include:

- Charge realistic interest rates
- Use smart mechanisms such as institutional subsidy
- Make subsidy transparent, not through imposed interest rate ceilings that penalize small savers
- Keep loan decisions and collections independent from state

“Subsidize the institution, not the customer”

Development Agencies can assist with microfinance through:

- Strategic investments (seeking additionality, early stages, leveraging other investments)
- Institutional strengthening for financial institutions
- Support for R&D of innovative processes and products
- Support for improvements in the legal, regulatory, supervisory environment
- Dissemination of information, training

More Information

For more information on the research mentioned and the issues discussed, please see:

- IDB financing and analytical work:
  www.iadb.org/sds/msm
  www.iadb.org/res

- Other research and financing links:
  www.mixmarket.org
  www.microfinancegateway.org/links.htm
I am very glad to participate here today and I want to acknowledge the important work that DFL has done in support of the year of micro finance.

Micro credit/Micro finance became an issue in late 1970’s when I was part of a group working on rural developing markets in Bangladesh. Some Europeans were working on rotating credit associations.

Those were the first indications of the need to examine the particular challenges posed by a large number of potential transactors who somehow did not fit or appear on the radar of the formal financial institution and what they did were not successful because of collateral etc.

The discussions were conducted in the context of agriculture and were not extended into the traditional areas of manufacture. We have in fact moved a long way from that beginning. Today, the discussion on micro finance/micro credit is not limited to the issue of lending.

The UN declared 2005 as the year of micro credit to gather support and win attention for this particular issue. Kofi Anan was emphatic that poor people should be part of the solution to development and not part of the problem.

He is asking us, as a financial services industry, to approach the provision for financial services not as an irritant but as a part of the system which can create a solution to the problem of underdevelopment, poverty and low income.

Micro finance is not a charity. It is a way to treat low-income households the same way as everyone in the financial services industry. He wants to ensure that they get the same rights and respect as anyone seeking financial services.
So, we have to ask the question - are low income households the persons same as everyone else? We have to ask the question in terms of specifics. Are they the same in terms of size of transactions, the answer would be no. They occupy a particular spectrum. By virtue of being low income, the scale of their operations places them at the beginning end of the spectrum rather than the top end.

Security is the next question – the answer is no. In the late 70’s and 80’s, tensions arose because they did not meet the standard required for loan security in the financial system. Group lending tried to get around that problem not so much by pledging the assets of the group but the good will and enforcement mechanisms/authority of the group to extend the loan in the absence of physical assets to back the loan. So you see they are not the same and we must recognize this.

We can also ask the question in terms of frequency of withdrawals. Small depositors withdraw more than large commercial depositors and that imposes a different consideration of costs than from the large depositors.

We must recognize these things because they will help to shape how the financial services industry behaves if it is seeking to adequately address the requirements of micro transactors, both on balances and on the savings/financial services side. Differences in transactions mean differences in pricing.

Risk Assessment is another issue. If you have micro transactors who have no collateral and unstable in their location, this is another important consideration.

We are in the early stages of designing products for micro transactors. The emphasis, at first, was on the provision of credit services and later, on the extension of deposit services. Recent studies of these kinds of experiments in South East Asia and elsewhere are suggesting that the customers of institutions that provide micro finance are asking for a wider range of services. It is not simply credit.

There is also a demand for insurance, where the transactor is seeking a financial product that can be used to insure the transactor against fluctuations in income. The motivation lies in the micro transactor’s desire to minimize his own risk.

In banking, insurance is purchased as an obligation on the burrower and provides collateral or security. I am not speaking about insurance to satisfy the lending but the demand for insurance as one of the financial services. The argument is for micro finance institutions to move beyond the boundaries, either by themselves or working with others, to provide a wider range of financial services to micro transactors.
The issue has arisen whether micro finance institution customers are fickle. When an institution has developed a customer relationship, is that pool stable or do the individuals shop around so that building a relationship does not make sense since they leave. This seems to have arisen has a substantial issue in the South East Asia context. I do not know what has been the experience in the Caribbean. That is something we would have to do some empirical research on.

When we speak specifically about the micro finance institution in the Caribbean, we must ask a number of questions such as:- What Micro Finance Institution structures are we talking about? What structures do we want to have? Do you want to have situation where established institutions extend their activities to micro finance? Or do we create institutions that are specialists in the provision of micro finance? There are certain economies of knowledge that come from specialization.

What sectors are we talking about? Are we thinking about microfinance services across all sectors, or are we still in the mode where the discussion and the orientation are towards the agricultural or rural sector?

If we accept the fact that, in the Caribbean, much of the small business activity that takes place is non rural and non agricultural activities, and if we are trying to adequately cater to the small and micro enterprises - then we have to take a broader sectoral view and not just be limited to traditional origins of microfinance. It would be interesting to know what institutions in the Caribbean actually do.

What are the microfinancial institution’s objectives? Should the MFI operate with the poverty reduction mandate, which speaks to societal improvement, rather than to the business transaction? Or should its objective be small business, which is closer to its own interest as a business entity, because as the small business develops, its clients develop and there a positive impact on the MFI itself. Should it be concerned with macro objectives of employment creation? These are all issues that need clarification.

There are also sustainability issues. How to remain in business. As a business this is paramount consideration.

The UN Year of Micro credit is trying to focus on these issues. Many countries have developed programs of activities that address one or more of these issues. The countries are both rich (Canada and Germany and so on) and poor, so that the issues might have specific context as you go across the globe but have salience across the classes of the economies.

This seminar will deal with some of these issues. It marks a start by the Caribbean in terms of the UN Year of micro credit. I think that we have to give full credit to the Development Finance Limited, which has been pioneering our activities in this area, and has focused our attention on a regular/continuous basis year after year on developing our capacities and our understanding on this very sensitive area.
As President of the CDB, I must make mention of the activities of the Caribbean Development Bank. We have a great interest in supporting activities to develop MFIs. We have worked with DFL and others on training activities and are in discussions with the ILO regarding a training program on management of MFIs.

As an institution, one of our fundamental objectives is a reduction of poverty in our countries. We recognize that an important route to reducing poverty is to see a more vibrant micro and small enterprise sector. It is an important generator of incomes and jobs and, at the same time, addresses the issues of inequality of wealth and of social standing and therefore ultimately the stability of our society.

GERARD PEMBERTON
President,
MICROFIN Caribbean Holdings Limited

Thank you Dr. Bourne for the kind comments about DFL, but if I could just direct your attention to our banner - our sponsors, IPED, Scotiabank and the CDB, are driving a lot of this.
I would like to train this discussion in a slightly different way. For those of us who were not here yesterday, I indicated that there are two puzzles that I have often thought about. One was the puzzle of economics and one was the puzzle of politics. On the economics side, my concern for a long times has been why is it that those least able to pay are charged the highest for services when it come to banking or investing.

The economic puzzle is that you have persons who are least able to afford high interests credit, persons who society tells us to subsidize, let them enter the market at a rate they can afford. But everything in the textbook tells you charge them more; charge them at a high cost. This is something that is wrong, that I call perverse economic outcomes.

I want to suggest that the reason for these perverse outcomes is that there are missing markets and missing institutions. I believe we are missing the pre market institutions. These are the institutions that are required when one thinks of the market waiting. We have ignored the fact that markets exist only because there are a host of other institutions functioning - the legal system, the system of trust, the ethical systems, the information systems.

These things come as a cost to us; they have to be built if they do not exist. It is these missing markets, these missing institutions that we are really focusing on. And when we force the market to bear the entire cost of this, the costs are indeed high.

A long time ago, the normal way of dealing with missing or malfunctioning markets was to bring the government in. In the past 20 years we have been disabused of thinking about it in those terms. We are now forced to think in terms of institutional development and the institutional behavioral characteristics that need to be dealt with, rather than just about the market as something that functions because it functions.
In the Caribbean we were brought to work for others, and we have never to this day tried to put together the institutions that are needed for indigenous development. We have to build institutions and build the capabilities to ensure that we can engage fully in the economic and social lives of our communities. It is not just a matter of providing subsidies.

If the banking system is to fund entrepreneurial activity, one cannot take a broad brush. One needs to take a close look at what makes entrepreneurs, what supports entrepreneurs.

MAGUERITE BERGER
Country Co-ordinator for Suriname
Inter-American Development Bank

With regard to this economic puzzle, hopefully we are entering an era where the sort of ideological approach to the role of the state is being superseded by a more practical approach.

I deliberately tried in my presentation to deal with some of the issues that we try to run away from in the field of microfinance such as subsidies, and such as the actual role that some states are playing in the financial sector and look at some of the new work that the IDB has sponsored in this area.

I do think there is a role for the state in helping to reduce the cost of these services through initial support for institution building, which helps allow the financial institutions to charge lower rates in the beginning of their operations and still cover their costs.

In that sense it is sort of a social investment if you will and the fact that the subsidy comes from an international institution does not take away from it being a subsidy from the state because it is governments that own these international institutions and put up the capital for it. So in the last instance they are sort of super government institutions. And the way they are run you can very much see that in the governments of these institutions.
GLENN WESTLEY  
Senior Advisor, Microfinance  
Inter-American Development Bank  

I have some pretty strong feelings about this. I agreed with pretty much everything Meg said yesterday, all about creating the right conditions for political mediation. I would say I am more of a hawk when it comes to not having financial mediation by the state. I recognize that there is a problem here but I don’t think the solution is to replace the market failure by what’s turned out to be over and over again a government failure. If you are going to build institutions you want something to be built that will last a long time. If you go through the government, it may work for awhile. It’s like credit guarantee schemes. They take awhile before it becomes apparent that they really don’t work.

We can go back to the development bank route and have them do the lending to the poor people in the rural areas. But eventually a political situation will arise, as it nearly always does, in which that bank or institution will be used for political purposes. And when that day comes it will be all the stuff that we see and continue to see worldwide of rent seeking behavior and people with connections getting the loans instead of the small guys.

You will see high delinquency rates and decapitalization. This does not always happen, there are exceptions, but those are really the exceptions to the rule. So, if I was a betting man, I would much rather put my money into building a private financial system that is focused on providing high quality services, profits and all the things that profits drive. If we look for the cases/situations where we build enough of this, you will start to get the competition that you’ve seen in Bolivia. Then the rates will go down and the poor won’t be paying so much for their loans. 20% is not that much important to some of these clients. There may even be the day when they are paying the same rates because they’re blended in with all the larger customers.

I think we have to also realize that there are not really missing institutions. The poor do have access to credit from loan sharks or moneylenders. They have sous sous’s and the like that exist all over the world. The trouble with these things are that they are much more expensive than MFIs so building an MFI really brings down their costs. Instead of looking at the glass half empty, it’s really helping them tremendously. I think this is an enormous step forward and guess I will close with an analogy if I could.

Taking mediation out of the public sector and recognizing that financing and politics don’t mix is a lot like the emerging consensus about the need for independence in the central bank. Central banks are heavily under the influence of the political system and in the US, there has always been the debate between the Democrats and the Republicans. The central bank should be more expansive with monetary policy and drive down unemployment and there was the more conservative view that they should fight inflation.
I think that debate was over long ago and the fight inflation view has prevailed. But in order to fight inflation you have to be a real inflation hawk. Every time inflation starts to get a little bit out of line you have to stamp on it, and if that means running a recession, which it sometimes means, then you have to do it. If you mix that in with the political system, you’re going to end up with very unprofessionally run monetary policy, and an economy that performs well below its potential.

It is the same with financial mediation. If you mix politics with it, inevitably there will be some kind of crisis or some needy group that has strong legislators for it and they will push their programs that are going to help some needy group and undermine the professionalism of the institution. The results being that you don’t get good credit flowing on a continuing basis to all the people who need it.

MAGUERITE BERGER  
Country coordinator for Suriname  
Inter-American Development Bank

I wanted to add two nuances. First of all, while I agree with Glenn that it is preferable, in the sense that it reduces that political economic risk, to have the operation/ownership of financial institutions fully in private hands, it doesn’t reduce all the risks associated with financial intermediation. Private owners can also mismanage private institutions but it is more along the lines of private gain rather than political gain.

There is an overriding need for regulation and supervision of the institutions. In those instances where privately owned banks have worked it may be due to the regulation and supervision.

The other nuance is the ownership and operation of financial institutions by the state on a subsidized basis versus the state providing certain subsidies to the private sector in order to allow institutions in their early stages to be able to cover costs.

However, subsidies would not be permanent because what we need is a sustainable system and over the long run, it is simply impossible for governments to continue to finance subsidization of interest rates to one particular group. It also might not be equitable. It might not be the best use of government subsidies for society as a whole.

Therefore, what I think is preferable, is that rather than have governments own, operate and through that mechanism subsidize financial services, have what we calls smart subsidies. Smart subsidies help to overcome market failures and minimize the negative long-term consequences of subsidies in the financial system.
I think it’s useful in this discussion to take a historical perspective on how things have changed over that period in terms of this debate between state and private sector. If you go back to the 1960’s, you have a lot of arguments for industry protection which meant that you would put up import control barriers to protect your developing industries within the country. We have the same sort of argument here today. Do you need to protect small financial institutions in the early stages to allow them to develop?

There was a breakdown in the 1970’s where people’s faith in the government began to fall apart. There was a period of high unemployment and high inflation where the policy prescriptions that people had didn’t seem to work any more. There was anticipatory behavior building inflationary expectations that then fed through to wage demands, so people were anticipating government action and taking action themselves.

In the 1980’s, the State was seen as something of a predator, extracting economic ransoms and monopoly power, crowding the private sector, slow, and bureaucratic. This lead to the 1990’s where you saw this outpouring of privatization to try to bring efficiencies into it. In a sense privatization became an end in itself, where countries were berated for not privatizing quickly enough and not far enough. People forgot that it was about bringing efficiency into the system rather than looking at the instruments particularly. The instruments themselves became the focus rather than the output.

In some European countries we are seeing a movement of joining them all together - private sector efficiencies with State involvement.

It looks at output specifications. So you tell the private sector, in the sort of school context, that this is the kind of classroom that we need and cool down to these temperatures. The private sector will go ahead and provide the services and we will give you a concession for US$15-20 to do that. You will then have a regular stream of income and you can then get the bankers’ support.

Your performance is judged. If you don’t perform then you don’t get paid or if you don’t perform over a period then you get thrown out and someone else is given the concession instead. It can be quite complicated. The contractual issues can be quite difficult and it can be quite expensive but the overall aim is to meld together the state as a responsible provider of services and to bring in private sector in a fashion, which allows it to pursue its profit maximizing objectives. You do that in a way that works to the people’s advantage, not disadvantage, because the service levels they provide are that much higher.

So perhaps instead of arguing private sector versus government, we should be rather concentrating on what levels of service we’re providing in terms of the three Es.
Education – access to information should be like access to clean water. People should have relatively cheap information sources because people are smart and when they have information they are able to make reasoned and informed decisions. Education is a key factor.

Efficiency - any system that is not efficient, whether it is run by government or run by the private sector, should have serious questions asked about it.

Equality should be the third. Fair play should be a key objective and this is where governments have got quite an important role as regulator, ensuring that the court system hands out justice and that it is done on a way that is efficient as well.

I would focus on the service provision in an equitable and efficient and effective fashion rather than should it be private or government.

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DR. COMPTON BOURNE  
President  
Caribbean Development Bank

I want to agree with David Crush in his rural assessment. It is important not to be dogmatic in approaching the issues of the role of the State. I tend to go for pragmatic function approach rather than anything else, partly because one has to look at the history very carefully not only in the developing countries but in the developed countries.

For instance, while in developing countries the State was criticized for infant industry protection, the fact of life is that adult industries are protected in developed countries. The State acts to support industries in all parts of the world. While we are correct to point to the difficulties and failures of infant industry protection we must also be even handed in dealing with the issue of adult industries. In the last 18 months there have been several rulings precisely on the protection of adult industries in most of the developed countries of the world.

Secondly, we ought to distinguish between the reality of the central bank and the interface between central banks and governments and the claims about central banks independence. I have been close to central banks for a long time and I have studied the international literature. The German Central Bank used to be vaunted for its independence of government until the Prime Minister at the time wanted to unify Germany. And it didn’t matter what Governor Paul thought of the matter and there was a falling out.
Ultimately it is the governments that are elected that are accountable to people and not the governors of Central Banks. There is not the studied neutrality of central bank involvement in the economy either, just a careful judgment of what you need to do.

In trying to grapple with the question of interest rates and economic recession in the U.S., Mr Greenspan frequently called on the governors of the various federal reserve banks to put pressure on the private banks in their states to give the requisite financial accommodation, so that the economy would not go into recession.

When you come down to the brass tacks of economics policy, pragmatism is what should prevail. You want efficiency; if you err and err in every direction then you run the risk of that not happening.

I tend to think that the one of the important role of the State here is what Marguerite Berger said - to help strengthen institutions. When you build institutional capacity you can bring about some of the efficiency gains so that you can lower the cost at which micro finance institutions operate in the system and through regulatory requirements ensure that some of those gains are passed on to customers.

I think the state also has to play an important role in tackling the cost that is incurred by micro enterprises outside of the financial industry. The cost of conducting business transactions in the Caribbean is extraordinarily high. Delays, paper work etc., unpredictability with respect with the answers you would get. Addressing those things would reduce cost significantly to micro enterprises and put them in a strong position to interface with the financial institution.

I believe that the role of the State in micro enterprise should be one of a facilitator to provide the types of services that are provided by these institutions.

I do agree with Professor Bourne that we have to adopt some sort of pragmatism in dealing with these institutions. I believe that States like Guyana, which is under an IMF program, has to provide the necessary types of services that these enterprises depend upon.

SAISNARINE KOWLESSAR
Minister of Finance
Government of Guyana
I believe that we need to ensure that the conditions are right. We need to create the kind of conditions for these institutions to survive. In this regard, the State has to ensure that there is macro economic stability, that inflation, the interest rates and so on are favorable for business transactions.

I do agree with Professor Bourne that the State can play a role outside the normal type of business activity with respect to micro enterprises, perhaps provide certain types of concessions to institutions for them to develop and grow. We have been doing this in Guyana with respect to IPED.

BRIAN MOORE
Director
Co-operative Credit Union League

I was hoping to get some kind of response to Dr. Jackson’s question as to why does the least able to pay seem to have to pay the most. I think most of the speakers danced around the question.

DR. COMPTON BOURNE
President
CARIBBEAN DEVELOPMENT BANK

Those who are least able to pay paradoxically are those for whom the cost of assessing risk is greatest, and for whom there are no economies of scaling transactions because they are borne in small amounts. Expenditure on the transaction is not large compared to the amount of money that you are actually lending to them, so when convert into cost per unit you get a high cost per unit.

But if you were to cover your cost, then your interest is going to be high and that is the paradox of the situation. That explains the paradox that those least able to pay are asked to pay the highest rates.
One way of tackling the problem is to reduce some of the costs that the micro finance institutions incur by building their own capacity for risk management.

I was also suggesting that another complementary angle to it is to deal with those things that would narrow the margin between the costs that small enterprises face in doing business and their returns so that they are better able to pay.

GLENN WESTLEY
Senior Advisor, Microfinance
Inter-American Development Bank

I think the basic principle is that you ought to pay what it actually cost to deliver the service to you. That is how you run an efficient economy.

If you don’t like the distribution of income that comes with that, the best way to handle all of that is not by distorting all the prices by charging people less than what it costs but by making income transfers or social safety net programs. We should leave prices to signal what the services actually cost.

Micro finance is not the only case where poor people pay more. In my country, if you look at hat grocery stores charge poor clients as compared to rich neighborhoods, the operating costs are certainly higher in the poor neighborhoods and poor people are actually paying more for food which is much more basic than this.

DENZIL JAMES
Deputy Director
ECCB
St. Kitts

I just want to make sure that we are not dancing around the topic. Based on scale and risk and type of product, micro finance would be expensive. So therefore it becomes a matter of intermediation.
If it is going to be in the private sector, the risk element is going to drive the cost. There seems to be a clear case of intervention and who would do this intervention - the government. What is critical is how that intervention is monitored and regulated and the equality issue is key to that. How that intervention is equitably distributed across users who try to access the services. Microfinance is expensive. There is no way we can dance around it. It is a matter of facilitation and monitoring to ensure equity.

MAGUERITE BERGER  
Country coordinator for Suriname  
Inter-American Development Bank

I want to add three other points. When we look at the pricing of interest rates charged and whether they should be brought down through a direct subsidy or through a ceiling in some ways, the debate is the difference between a long-term and a short-term perspective.

You can subsidize the interest rate to a point and in pragmatic terms the government will continue to subsidize this over a long term. If they resort to a ceiling, that tends to increase rationing of credit to the better off borrowers and reduce access to the poor borrowers as well as reducing saving rates for everybody including the poor.

So if you want to give a social benefit to a particular group through the interest rate you can do that in the short term. But if you want that group to have access to financial services forever, to be able to obtain credit if they have a credit worthy proposal, then you have to back away from that. You have a perspective of institutional sustainability and you have to charge the prices that you need to keep the institutions sustainable.

The second point is that the underlying cost of micro finance/micro credit has declined significantly throughout the world due to technological advances. This refers to both soft technology, how you deal with the customer, collections and the type of pressures you bring to bear and so forth and also in the use of computer technology. We now have, for example, rural finance institutions using a palm pilot to transfer information immediately to the headquarters and centralised back office functions - things that have really brought down the cost from where it used to be say 10-20 years ago.

The operating cost in the most efficient institutions are now down in the teens, even for the ones that have under $500 loans, so that shows you that it can be done. You can bring down the cost. Both technological advances and competition help organizations find efficiencies they didn’t know that they could find and both of those things are going to bring down interest rates.
A third thing is the general level of interest rates in the countries. In some countries you have very high interests reflecting risk, reflecting concentration of banking and other items and that reflects the funding cost of organization and the interest rates.

S. VENKAT RAMAN  
CEO & Chief Rating Officer  
Caribbean Information & Credit Rating Services Limited  
Trinidad

When we argue in terms of lower capital or more efficient capital we tend to forget that shocks happen once in a while and when that happens that’s when you need a lot of capital.

There are MFIs that keep capital adequacy at 40%-50% or even higher and if you ask me, from a rating ‘s agency perspective, that is not one cent too much and that is the sort of capital that you need and maybe if you can find some of this available funding or concession funding to go towards that.

CHERIANNE CLARKE  
Programme Officer, Regional Unit  
DFID Caribbean  
Barbados

I just wanted to make two points linking the role of the state to some of the discussion we had yesterday on sustainability issues for MFIs and the wider issue of micro finance as an instrument of poverty reduction.

In the context of limited resources/reducing resources from government as well as international agencies, there is always a strong imperative when people are directing resources to any particular sector for them to demonstrate what the impact is on the ground in terms of poverty reduction.
When we’re looking at the role of the State, it is important to recognize the boundaries of micro finance as a means of poverty reduction. You have to look at the role of the state in micro finance in the larger context of a country’s overall poverty reduction policy and its overall economic development policy and understand that there are other options available for governments other than getting involved in microfinance directly.

There are investments that they can make in social services. There are a range of needs to be met and there is a range of poor who will never be met by MFIs that you will need to address. If you keep looking at the role of the state in micro finance in isolation - without looking at the larger context of who are the players in the particular economy, comparative strengths and weaknesses of each, what are the needs of the poor to be addressed - then you will not be able to reap the benefits of the synergies and complementarities with all the actors. I think you need to bring microfinance more into that mainstream of poverty reduction.

AMY LOFGREN
Country Manager
Caribbean Microfinance Limited
St. Lucia

It’s not that they are least able to pay; they are least able to access. What we see amongst micro finance clients is that they are very able to pay given the proper financial structures that they need to make their businesses grow, but they do not have the access that commercial borrowers have. If you look internationally, micro finance borrowers pay back at a higher rate than commercial borrowers.

I have seen situations were persons have gone to a moneylender to borrow money and the interest rate turned out to be 425% over a period of 9 months. His children ended up indentured to the moneylender.

So micro finance, rather than making everyone rich, really reduces the risk of people becoming poorer. It stabilizes their ability to accumulate assets and set a level for the next generation to have some kind of understanding of business where they can take that entrepreneurial activity and move forward.

Parents want their children to be better off than they were and that’s done through the accumulation of assets, better education, better food, better housing, better health care and all these things come from the stabilization of interest rates and the stabilization of access to credit for low income people.
MANJULA BRIJMOHAN  
Managing Director  
Small Business Development Fund  
Guyana

It gives me great pleasure to hear that poverty is people’s problem and that people must be part of solution as well as the beneficiary of the process. Normally in the past there has been a top down policy; create a policy then filter it down to those who use it. Now that we are dealing with a bottom up we might reach somewhere better.

On the question of interest and subsidies – micro entrepreneurs is not asking for high or low interest, they are asking for accessibility to finance. They make nothing if they don’t have anything. Initially, the rates may look high but over a period of time, if MFIs consciously institutionalize the practice of asset building in their practices, then micro entrepreneurs will achieve a level of asset base. They become a small entrepreneur and they have an asset to pledge and their interest rate goes down and therefore it starts to move upwards. MFIs like mine and IPED have a constant policy of moving them from one level to another where they can benefit from the same benefits and interests as the bigger, secured collateral loans.

Subsidies provided to MFIs and micro entrepreneurs are basically an investment in the social sector because those clients move on and join the regular financial system. It is an investment in a society to move the people from the bottom to higher and higher levels. It should not be such a big concern for us. Even developed countries provide that assistance to the small sector.

Finally, it is very important that the smaller countries like ours in the Caribbean we work co-operatively. Often you find there is a special program such as agriculture development, or women or youth development which government has negotiated but they don’t have the machinery to implement them effectively and cost attractively. Therefore it is important that we communicate these things at both ends – institutional and government. It is easier for the government to use an established institution that has the mechanisms to practice at the cost effective threshold.
Just a couple of quick points – because I think we’ve been having a very interesting discussion on the question of interest rates which is a very complex subject. The fact that someone is willing to borrow at a very high interest rate does not necessarily mean it’s a good thing. We must bear this in mind determining interest rate policy. We also should not ignore the income distribution effects and the perversity of it when you have highly subsidized interest rates.

I remember doing a study on Jamaican farm credit in the 80’s based on the actual loans made to about 1,000 farmers. It was not the poor farmers who got it so that the subsidy scheme through the interest rate can have very perverse effects, helping those who are better able to help themselves and that’s where the political rent seeking behavior, the politics, comes out.

The third point I wanted to make – you need to take a broader view of the range of financial products that the micro entrepreneur wants and in this particular case needs to address the consumption or non production needs. If you don’t, you have what people describe as a problem of credit diversion where they borrow to do one thing and shift the funds for some other purpose and the end result is a failure of the project itself. So it is better perhaps to be more liberal with respect to admissible purposes of lending rather than being more restrictive.

The final point is just to say is that I like the argument being made why finance is important because it reduces the people risk of becoming poorer.
GERARD PEMBERTON  
President,  
MICROFIN Caribbean Holdings Limited

I want to agree with Manjula on the question of regulation. If microfinance is as important as all of you think then all microfinance agencies should be evaluated by rating agencies. There is absolutely no excuse, or defense for that because the IDB and the EU and CGAP the international organization will bear at least 80% of the cost to be rated for the first year, and if your first rating is bad they will not publish it.

So Mr. Minister I would strongly urge you that if Microfinance Caribbean comes to Guyana, that you must pass a law that they must have an annual evaluation by an international rating agency.

I am also equally strong on the point that all MFIs must be regulated by central banks.

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DR. CLEMENT JACKSON  
Executive Director  
Caribbean Centre for Monetary Studies  
University of the West Indies  
Trinidad

This brings us to the end of a very interesting session. To summarize the points; we have identified access to finance as an important consideration and discussed risk and contingency considerations. We have been advised that we have to anchor our concerns for micro finance within a larger policy of poverty reduction strategy. We’ve said that whatever intervention that is contemplated needs to circumscribed in time and must reflect sustainability considerations. The argument has been made that micro finance is not too expensive. I personally disagree with that. The issue of economic distortions as a result of subsidies and the need for regulation have also been put on the table and for the micro finance institutions to be subject to normal rating considerations.
As a representative of Scotiabank and as well as one of the co-sponsor of the 4th Roundtable on Micro finance it is indeed my honor to thank all of you for being here on behalf of Microfin Caribbean Holdings that has organized this event.

Micro finance initiatives in the Caribbean are undoubtedly a very vital area right now, especially where our markets are changing. We’re moving away from traditional exports and preferential treatments. We are relying more and more on this area of micro finance as opportunities for growth as well as employment. There is opportunity for growth for investment and there are opportunities within each of our markets that we can focus on in terms of micro finance.

I believe one of the delegates said yesterday that the potential is massive but we need the mechanism to recognize that potential. The meetings yesterday and today have surely, in my view tried to provide a framework for a mechanism through the sharing of all the information that we have heard. We’ve heard of sound business practices and best business practices. There would have been some presentations in which we could have found some solution that we could adapt to our different environments, that we could use as we move forward in the area of micro finance.

So thanks to each one of you for making this meeting a reality and a success, I especially want to thank Mr. Gerard Pemberton and the Microfin team for their hard work for seeing the meeting to fruition. I don’t want to forget the co-sponsors, Caribbean Development Bank, Institute for Private Investment and the DFLSA for their investment and for supporting the meeting and we also had some excellent chairpersons.

On behalf of all the co-sponsors thank you for being here.
Unlike the earlier panel discussion, this will be more interactive, my initial comments would simply be to give my view on how I see entrepreneurship and wealth creation being related and I’ll use an example of how I saw an entrepreneur eventually become wealthy. Since the entire discussion yesterday and today is built around micro enterprise, micro credit, and microfinance, I also want to look at how we may be able to assist or encourage the development of entrepreneurship and how we can nurture people who have those qualities.

I’ll start by more or less indicating some of the qualities of the entrepreneurs I have come across and some of the qualities that they have. In most cases they seek, almost to a fault, to be independent in all areas – in thought, financial resources, in terms of deciding what they do and when they do it.

Something that we have mentioned once or twice is that maybe entrepreneurship is dampened by formal education. Sometimes, the formal education immediately points us to working in nice comfortable surrounding, and someone else is paying us at the end of the month. In my interaction with some of the entrepreneurs I came across in Microfin in Trinidad and some of the people that I know are wealthy today, they really never thought about working for someone else.

What I also wanted to put on the table was that entrepreneurship is something that also develops and is caused because the stable companies eventually get comfortable and become complacent. They neglect markets, they neglect segments of the markets, and literally create opportunities for persons with entrepreneurship qualities to be attracted and they will eventually come in. It is something in the business cycle.

You may have instances where persons are employees of organizations and realize that those organisations are missing out on opportunities, especially in the manufacturing sector. It maybe does not happen so much in the financial sector.
I think that if we have an environment that encourages entrepreneurship, it is also going to benefit competitiveness in that market. If we are not getting entrepreneurs coming into the market it means that our environment, our economy is complacent, there is no need for competitiveness, and one of the things that results from a lack of competitiveness is people controlling the market rather than the markets controlling the people.

It happened to be a very good friend of mine. He went through an entire cycle- he started working for a relative and was basically packing shelves getting minimum wage. I realized very early that he wanted a family and packing shelves would not allow him to afford a house and look after his family. He realized that every so often the van sales men would come to him every to do business and the guys with the vans seemed to be doing okay. So he decided to beg his relatives for a little bit of money to make a down payment on a van. He got the van and got some family financing and then with the bank and he literally had to mortgage his life to raise some money to fill the van with stuff. He eventually paid off for the van, he bought a property and now has a number of branches and has become very wealthy, he has his own boat etc.

In speaking with him, you got from him that he was ambitious, he was prepared to work hard, he was financially independent, and I have to believe him when he says that at age 16 that’s how he was. He doe not take risk. He investigates and he inquires. We may think it’s a risk but once he is sure that it will work, it will work.

In micro credit, having spent three years working with people who I suppose would be on the same level as he would have been at age 20, it suddenly occurred to me that there are many people that exhibit those kinds of qualities. It occurred to me that these were people who had no alternative, lacked education, had no idea of where there meal or their money was coming from.

Entrepreneurship is either because you have the quality of depending upon your self, the self confidence to do whatever it takes or having no other alternative that it drives you to wanting to do, and in fact doing.

In terms of wealth creation it has to do with not only the money but the fact that you are never really satisfied. You always want to be the best. Even after you have your first business going, you want to go beyond that.

Working with micro credit institutions, the difficulty would always be identifying those people in our portfolios that are simply in between jobs. In the end, we have no choice but to encourage entrepreneurship if we want to be competitive and if we are going to develop the financial sector and get into export activities we have to look after seedlings – getting some more business people involved – or the economy will die.

There is no right answer as to whether entrepreneurship and wealth creation go hand in hand but through our collective views around the table about our own markets, we would have something that we can learn from.
I would like to recall the question that was stated this morning – what makes entrepreneurs? This question was answered in a way through the EMPRETEC Program through research on what makes an entrepreneur successful.

It took research based on entrepreneurs around the world and it was determined that whatever drives an entrepreneur in Canada is the same thing that drives an entrepreneur in Guyana and in any other country in the world.

For those who are not familiar with EMPRETEC, it was coined from the Spanish phrase empresas technologies, which means technology-based enterprises, and this connotes what the business is about, about advancing, fostering and promoting growth amongst entrepreneurs. What was determined was that a number of competencies that Prakash alluded to were important.

The EMPRETEC program came about because of the research that was undertaken. If it is these competencies that make entrepreneurs successful and drives them, can we then nurture them in persons who would have had some experience in business, to help them to grow in a more exponential way?

The EMPRETEC program in Guyana is described as an integrated, capacity building program, which starts by looking at the entrepreneurs themselves, what are the competencies that these people have. This is examined through an entrepreneurship-training workshop, over a two-week period. The workshop is highly interactive and at the end the entrepreneur is able to determine for himself, because it is not like a lecture enterprise, how competent he is, how strong is he in one area against the other.

Competencies include risk taking networking, initiative, goal setting, and planning ability. We work with the strengths and weaknesses of the person then of the business and that is through other types of programs, for example, helping them with business plans, through counseling, marketing and other types of programs that would help to build the entire business.

The program basically works with the entrepreneur in one instance and in the case of Guyana we also provide follow-up or post-training services. That, in a nutshell, is what the EMPRETEC program is about.
The concept of having such a program is that if we have a large number of highly successful businesses in the economy that are dynamic and looking at growth and doing all they can do for their success, that could be translated into a highly dynamic private sector, working in the interest of the national good. The potential for increased earnings of the economy would be great. That is the essential premise of the whole thing.

It is my strong belief, especially as a result of the EMPRETEC program over the last two years, that there is a strong correlation between entrepreneurship and wealth creation.

We have a group of persons practising certain types of competencies that become a way of life and who, in the process of building their own business, focus on building a sustainable business and not just making a quick dollar. They start putting systems in place to ensure that that business can be competitive in the long run. If we have businesses and entrepreneurs thinking seriously about how they are operating and rationalizing and reengineering their entire operations and making their business more competitive, in that process some amount of wealth can be created.

Currently there are about 200 persons that have passed through the EMPRETEC program

ALVARO RAMIREZ
Division Chief, Micro Small & Medium Sized Enterprise,
Inter-American Development Bank

I just want to share something relating to the IADB. About three years ago, we did a study about entrepreneurship in Latin America and Asian countries. It comprised of eight countries in Latin America and eight in Asia. Entrepreneurship in Asia was more developed compared to L.A. A key idea was that when the entrepreneur had an idea, he got someone to finance it compared to L.A where they had no one to finance it or had go to families or friends.

In comparing L.A with Europe, the same thing happened. One of the main factors was that the entrepreneur had nowhere to go. So we started doing projects to tackle these two problems. We have eight programs in Latin America. The goal is to get people who have an idea and we spur them to really flourish to create business plans and then finance it.

It is important to really tie the idea to financing. In that way, I would just like to explain to you how in the Caribbean you have entrepreneurship and financing is something that we in the Bank can help with. If you have some good idea or some problem that is really important, that we put it together and provide financing.
I am something of a rarity here. In addition to my day job I am also an entrepreneur, being involved in the ownership of about three businesses, one of which an associate and I started about a year ago that employs about 34 persons.

I found it interesting in these discussions when we talk about entrepreneurship that we don’t have a lot of entrepreneurs in these forums. I think a couple of the important points that we have to look at.

The first is how do we really define this entrepreneur. This has been said several times. There is a big difference between someone who is in business and someone who is an entrepreneur, because we know that people get into business sometimes just want to have something to eat. If we look at our parents and those of us who have had professional training, there is only a small number of us who really want to get into business.

With all of our knowledge and preaching of entrepreneurship, very few of us actually get into business. This says something about the nature of entrepreneurship, that it’s not just knowledge or access to capital but a personality trait. It’s drive or an ambition that we have to find a way to identify.

I think when we acknowledge that that most of us do not want to be entrepreneurs, that will set us up better to deal with the small number of persons who actually want to take the entrepreneurial route.

I think a simple definition is if you find someone who doesn’t want a business but who wants to set up system where they don’t have to work. I call it long-term laziness. The true entrepreneurs realize that they have to set up the system and, like MacDonald’s. Once that is in place they don’t have to be involved day to day.

It doesn’t matter how big the business is - if you encounter somebody who is dead set that they have to be front and center then you are not talking to an entrepreneur. It does not matter how big the business is, that person is the business, so when that person dies or becomes old the business collapses. That person is not an entrepreneur. Sometimes we mistake wealth creation and the size of the actual company and say that that person is an entrepreneur.

After doing lectures in high schools, I am not a believer in teaching entrepreneurship. I think it’s a folly, it can’t happen. You can teach people to manage their businesses and to make the most of whatever opportunities they have but not teach entrepreneurs. Not all of us want to filthy rich. Some of us do.
Often times, in our professional and social conscience, we whistle at people who want to be rich because we want to improve the lot of the poor and we don’t know how to deal with those people who have the drive or ambition to truly get wealthy. What I have found to be successful, and we have dealt with it in our small business association, we don’t look for everyone to become entrepreneurs. We look for the one or two who have the ambition and drive.

My colleague and I hire about 50 people in all our businesses combined. I am not there at the end of the day when the business is open. Those are the persons who are going to drive our economies.

I think a big part of it from a practical standpoint is getting our Caribbean governments to appreciate that we have to reduce the transaction costs and the corruption costs. The transaction costs are increasing bureaucratic impediments to people getting into business, well meaning but they are there.

We have to ease the transition of people getting into business. We have to make sure that government spending is done in a transparent way and done in way that allows entrepreneurs to gain access to government contracts for procurement and the like. We know that story that people get contracts through politics and that happens everywhere. To counteract that we need to make the process transparent and governments have to explain why they give persons contracts. And by doing so we can then cultivate the entrepreneurs that we claim that we want to build. I think our focus needs to be on that.

JUDY-SEMPE JOSEPH
Executive Director
EMPRETEC
Guyana

I fully agree that not everyone is an entrepreneur. I think what our program does is really identify those who have the potential. I can tell you that some persons having gone through the program have decided that this is not for them and that they should not be in business and we’ve had people just get a job. The process in the workshop allows you to really examine yourself even though you are in business. You need to have the motivation and internal drive to be really involved and carry through with it in the long run.
There is a screening process before you enter the workshop; there were about 500-600 applicants.

I don’t think we’ll settle the issue of whether people are born entrepreneurs or made. There are people who become entrepreneurs because they are forced.

If you are making a distinction about the Caribbean and let’s say Canada, then I think it is a culture problem or culture and age problem. My own observations of teaching in the 70’s is that persons never dreamed of going into business but those in the 90’s do.

Another point is about the role of knowledge institutions in supporting entrepreneurial process. I think it is useful to have a formal training process. I think we in the Caribbean are too rigid in how we approach these matters.

I will make this point in relation to a couple of experiences that I had. The University of Wisconsin conducts training programs for small businesses. You can do a full certificate of five courses, or if you are a small businessperson you can do one of the courses that best suits your need with no obligation to complete the entire program. I interviewed several persons who did so. One had her own garden and developed her own business in a joint venture producing herbs. In another case, a fellow trained in medicine and left it after graduating and became involved in the business of importing and distributing coffee bean, and creating coffee houses. All these individuals were able to tap into the services and knowledge areas that the institution was able to provide for them. We have this dysfunctionality in the region where we like certificates and the institutions themselves like to give certificates.

The third point I would like to make about linking entrepreneurship and wealth is that if you study business history or the history of very successful businesses, one of the things that always strikes is a commitment to a re-investment of profits, certainly in the early stages of the business. If you consume your profits, especially at the start, your business will not grow and that is something that we have to cultivate in our entrepreneurs.
The final point has to do with a difficulty that small entrepreneurs have with the receptivity of established businesses to the entry of new businesses. It’s ironic that many of our established businesses complain about the same problem of accessibility to wholesale markets.

GEOFF DA SILVA
Chief Executive Officer
Guyana Office for Investment

This EMPRETEC program went through a very interesting exercise recently. Someone who works for Lever Brothers in Africa met some of the larger companies to see if some of the services could be siphoned off to some of the smaller companies. Some of our larger companies are like silos. They have everything under one roof and if you break it down some of those activities are not profitable and if they were able to create a relationship with another company they would be helping another company.

PRAKASH DHANRAJH
Vice President
Microfin Caribbean Holdings Limited

Most of us represent financial institutions. There is an important ingredient that financial institutions supporting entrepreneurship must also address. We have to ensure that entrepreneurs have access to non-financial services. In DFL, we speak of SME advisors - persons who have an engineering background but also a business background - who can package the ideas and take it to a bankable stage. The financial institution and the entrepreneur will now have a blueprint with the details so that both parties can understand what is under consideration, what is going to be done and, when implemented, if it has been successfully or not. That is an important part the financial institution needs to play in supporting businesses.
We have been dealing with young entrepreneurs for the past 10 years. What we have been set up to do is create a culture of entrepreneurship in Barbados and throughout the Caribbean. We are part of a worldwide network that deals with young people who want to start businesses, and not just start businesses but to build sustainable businesses.

A big part of our program is not just lending money, because we are big on letting young people know that money can be your enemy. We want young people to be creative and innovative and to spend every cent they have to get maximum benefits. A big part of our program is business mentoring.

These are volunteers who are really business people from the business community. We draw members from the chamber of commerce. Rotary International is a big supporter of young people in business.

We’ve helped to set up over 200 businesses in Barbados, and our age group is 18-35. What we have seen over the years is that 75% of the businesses we’ve started are still in business after 5-10 years and doing extremely well and these are young people who are really thinking of progressing. What we have been doing recently is preparing them for the competition that’s going to be coming in.

The Caribbean Single Market & Economy - how do they view it? I think that entrepreneurs see opportunity where everyone else is seeing a problem. Everyone is seeing a problem with the CSME. I am hoping that the young people who are going to take over in the future will see CSME as a big opportunity for them to generate wealth. I think the mentorship program is a great way to build social capital in our society.

One of the findings the Asian /Latin American study was that Asia has more social capital than Latin America and the Caribbean. We need to build social capital. I agree with Marlon that you cannot teach entrepreneurship, but you can teach the qualities and the knowledge that will lead you to be better entrepreneurs.
I would like to thank the CDB on behalf of the OECS because they have made it possible for the representatives from the OECS to attend. Apart from that the CDB has always supported these roundtables.

To the IDB, for its presence and for sharing with us their vast experience in the field and the studies done on microfinance and for taking a special interest in the Caribbean. I hope that as many of you as possible will go on to the IDB forum in Bolivia and make your voice heard.

To IPED, for your solid support. I assure you that when MICROFIN comes to Guyana it would be complementary and not competitive - that has already been worked out between Microfin and IPED. I am sure that the level of microfinance in Guyana will be raised.

To Scotiabank – thank you for your support.

Thank you all.