# Microfinance Initiatives in the Caribbean – Facing Challenges and Creating Solutions
## 3rd Annual Roundtable, CARA Suites, St Lucia
### May 4th and 5th

**1st Day**

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
<th>Presenters</th>
</tr>
</thead>
<tbody>
<tr>
<td>8:30</td>
<td>Welcome</td>
<td>Gerry Pemberton, Microfin</td>
</tr>
<tr>
<td>8:35</td>
<td>Chairman</td>
<td>Trevor Blake, ECCB</td>
</tr>
<tr>
<td></td>
<td>Opening Address</td>
<td>David Crush, EIB</td>
</tr>
<tr>
<td>8:50</td>
<td>Role of the State in microfinance - a global view</td>
<td>Cesar Lopez, ACCION</td>
</tr>
<tr>
<td>9:10</td>
<td>Role of the State in microfinance - a regional view</td>
<td>Claudia James - CDB</td>
</tr>
<tr>
<td>9:30</td>
<td>Involvement of commercial banks in microfinance</td>
<td>Emmanuel Haynes - BOSL</td>
</tr>
<tr>
<td>9:50</td>
<td>Discussion on role of the state in microfinance</td>
<td></td>
</tr>
<tr>
<td>10:30</td>
<td>BREAK</td>
<td></td>
</tr>
<tr>
<td>10:50</td>
<td>Chairman</td>
<td>Claudia James, CDB</td>
</tr>
<tr>
<td></td>
<td>Technical assistance - scope, delivery and impact</td>
<td>Christian Harel, EDF</td>
</tr>
<tr>
<td>11:10</td>
<td>Credit information exchange</td>
<td>Cesar Lopez, ACCION</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Grady Clarke, Caribbean Credit</td>
</tr>
<tr>
<td>11:30</td>
<td>Discussion on improving credit culture in the Caribbean</td>
<td></td>
</tr>
<tr>
<td>12:30</td>
<td>LUNCH</td>
<td></td>
</tr>
<tr>
<td>13:30</td>
<td>Chairman</td>
<td>Charmaine Gardner</td>
</tr>
<tr>
<td></td>
<td>Youth in business - success factors, initiatives, programmes</td>
<td>Roy Thomasson, YBIZ</td>
</tr>
<tr>
<td>14:00</td>
<td>Women in business - Issues, Solutions, Initiatives &amp; Programmes</td>
<td>Cherianne Clarke, DFID</td>
</tr>
<tr>
<td>14:20</td>
<td>Discussion on Youth and Women in business in the Caribbean</td>
<td></td>
</tr>
<tr>
<td>15:00</td>
<td>BREAK</td>
<td></td>
</tr>
<tr>
<td>15:30</td>
<td>Chairman</td>
<td>Prakash Dhanrajh, DFL</td>
</tr>
<tr>
<td></td>
<td>Microfinance and agri-business - findings of an IICA study in the OECS</td>
<td>Sylvester Clauzel, Heritage Tourism, Thaddeus Constantin</td>
</tr>
<tr>
<td>15:55</td>
<td>Financing “start-ups” - the experience of FundAid over 30 years</td>
<td>Julian Henry, Microfin</td>
</tr>
<tr>
<td>16:15</td>
<td>Summary of proceedings</td>
<td>Prakash Dhanrajh</td>
</tr>
<tr>
<td>16:30</td>
<td>END OF DAY ONE</td>
<td></td>
</tr>
</tbody>
</table>

**2nd Day**

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
<th>Presenters</th>
</tr>
</thead>
<tbody>
<tr>
<td>8:45</td>
<td>Opening remarks</td>
<td>Amy Lofgren, Microfin</td>
</tr>
<tr>
<td>8:50</td>
<td>MICROFIN's initiatives in the Eastern Caribbean</td>
<td>Ishtiaq Mohiuddin, Microfin</td>
</tr>
<tr>
<td>9:00</td>
<td>Individual MFI presentations</td>
<td>Debra Williams, Stephen Gomes, Errol Chapman, Frank Whylie</td>
</tr>
<tr>
<td>10:00</td>
<td>Summary of experiences</td>
<td></td>
</tr>
<tr>
<td>10:15</td>
<td>BREAK</td>
<td></td>
</tr>
<tr>
<td>10:30</td>
<td>Is there a basis for co-operation among Caribbean MFI?</td>
<td>Group Discussion</td>
</tr>
<tr>
<td>11:00</td>
<td>Closing remarks around the roundtable</td>
<td>Gerry Pemberton, Microfin</td>
</tr>
<tr>
<td>12:00</td>
<td>LUNCH</td>
<td></td>
</tr>
<tr>
<td>13:00</td>
<td>Close of Roundtable</td>
<td></td>
</tr>
</tbody>
</table>
Chairman’s Address – Gerard M. Pemberton, President of Microfin Caribbean Holdings Limited

Good morning to everyone and welcome. It is a great pleasure to see so many people interested in microfinance and I hope first of all that everyone will remember that this is a roundtable so each person is required to contribute his share of knowledge and experience and if you don’t, we will regard that as being very selfish. So as chairman, and if I don’t hear from you within the first two hours, I shall be calling upon you and that is why we have the nametags, you know with the very high fonts, so it will be very easy for me to read. And you can’t escape you know. And to the people in the back I want to give a very special welcome, you know those of us around the table, we direct and we manage and we see the people who do are the people at the back of the room today so I just would like you to give them a round of applause. As we say at home, those are the people who take the hot sun. You know. Yes. Now my first job this morning is a very pleasant one and it is to introduce David Crush who is the head of the division of Africa, the Caribbean and Pacific Division of the European Investment Bank.

There are two comments I want to make on that, one would have to be extraordinarily lucky to pull both the Caribbean and the Pacific, but those of us who know the field of development finance would know why he was so lucky, you know he has spent a large part of his time working in Africa so he needs a little bit of a reward so over to the Caribbean and the Pacific. Unfortunately he has now come to realize that we in the Caribbean have very serious problems that have been keeping him busy for the last two weeks. David has a Masters degree in rural credit and he worked, first of all, at Barclays Bank. Then he went on to work with the European Investment Bank and he’s been there for eleven years serving faithfully and we’re very happy to have David in the Caribbean and more so to have him here today.
The question, what do people really need and want, is a key one. How can we deliver it to them in the best and the most efficient manner? I think it’s very important that we always keep in mind what it is we are trying to do with microfinance and that’s to provide disadvantaged people with fair and reliable options. One of the things that became apparent to me in doing the preparation for this presentation is that it’s becoming more and more difficult to talk about microfinance as a single discipline.

When I was doing my Masters in the UK in the early 1980’s, it was much easier. It was a predominantly agricultural focus, credit union based and those are very rich and diverse literature on the subject. Things have moved on massively since then. We’ve got the evolvement of credit unions still, we’ve got banks, we have NGO’s, we have a wide range of sectors and no longer just agriculture. You’ve got lending infirmaries, specialist sectors and it’s becoming more difficult to draw distinct conclusions across the wide range of the sector that now exists.

I was interested to read in the presentation papers from last year’s seminar, someone who said that what the focus should be is on the four P’s, which was people, people, people and people. And the good thing about people as any statistician or behavioral psychologist will tell you is that while you can’t predict the behavior of any single individual in a crowd, what you can predict with rather disturbing accuracy, and its disturbing to us free thinkers who think we make our decisions independently, what you can predict with accuracy is the behavior of the group as a whole.

I believe that this is where the focus of the development of successful microfinance strategy should be. We have to understand much better what it is that people need and want before we start designing programs that we think will help them. I mean look around you at the business models that work. I was in Suriname a few weeks ago and the first sign I saw coming out of the airport was for McDonald’s hamburgers. This is the first sign I see when I drive to work in the morning in Luxembourg as well. What is it they’re selling? It’s not really the burgers and chips that you see on their shelves, its speed and certainty in an uncertain environment, that’s what they’re selling. You know, you’re on a journey, you don’t want to have to stop too often, you know if you see the McDonalds you know what you’re going to get. You don’t have to go to a McSpoorans or a McTabishes or a Mc – something else and decide do you trust the kitchens are you going to give their hamburgers a go or not or move on to somewhere else? No, what they give you is certainty and that’s what people are interested in I think we need to bring this type of thinking to the way that we approach micro financing. What do people really need and want? How can we deliver it to them in the best and the most efficient manner? Well that’s a broad message to think about.
What I’d like to do in the presentation, in the time available to me is to run quickly through a kind of past, present and future and see whether this broad approach has any relevance to us in the specifics of the developing microfinance industry. Poverty alleviation and economic development are on the agendas of all of us but looking back over the last thirty or forty years, it’s interesting to see that this close link that we now see between economic development and the performance of financial systems is relatively recent.

There are three main stages which we can distinguish, well there are probably more but I will focus on these three. In the 1960’s the development then was seen to be something that occurred through modernizing an economy and then relying upon the trickle down effect, benefits in terms of employment, income generation would trickle down then through to all levels of the population.

Under this scenario, the main purpose of a financial institution was to secure capital from abroad because this would compensate for the very low savings accumulation at home but it didn’t really work. In the 1970’s and 80’s it became apparent that this modernization approach wasn’t working, not much in terms of a significant contribution to poverty reduction. And then the local financial sector became seen as an important source of development with loans being given to small holders, micro enterprises and this is the area in which a number of development banks were established. Now they were really, really profit oriented.

The difficulties of managing this type of approach are probably well known to all of you so I won’t spend too much time on it other than to say that it didn’t meet the needs of the target group. It’s really only when you get into the 1990’s and through to today that national financial systems gained a real importance and it was the commercial sector and access to funding that were seen as the important drivers of economic development and that’s pretty much where we are now.

You’ve got the private sector which is known to be very important but there’s still a lot of uncertainty around as to how best to harness it and how to marry the conflicting demands of profit maximization on the one hand, and poverty relief and economic development. And it’s been a challenge for commercial banks because they don’t really have enough contact with the poorer sectors of society and it’s been a problem for microfinance institutions because they don’t have the type of financial discipline that’s required to make a long term success of their businesses. And that moves me on to the second part of this presentation.

The key indicators for the success of microfinance institutions and some of the key dangers they face:

Microfinance institutions, well they differ from banks in a number of ways, they product that they have. Microfinance institutions on secured short term loans basically as compared to banks with medium long term loans, also short term loans but on a secured basis generally. The delivery mechanisms that are used, the way the product differs, the
way the product is delivered differs considerably. With microfinance institutions, you may find there’s a need to have a sort of different type of interface with the clients. It’s hard to understand how intimidating some commercial premises can be. The best example I can think of how intimidating is if you go into a high-fi store when you have no idea what a woofer or a tweeter is or if you go to by a CD for one of your kids and you don’t know your Busta from your Beyonce. I mean you get the sense of real inferiority and insecurity in situations like those. Similarly one needs to be aware of the types of expectations of the different target groups you have and to provide delivery mechanisms which meet the requirements of those target groups.

Client management, this is important, I mean if you’re an unsecured lender, you can’t sleep easy in your bed at night in the way that a secured bank lender can knowing that you’ve got the title deeds to somebody’s business sitting in your safe. You need close regular, tight management with microfinance institutions and there’s a very high risk of contagion if you let things slip and word gets out that you're not following up. Now many MFI’s have been NGO-based and well there’s not been much sign of long term sustainability and it’s really quite difficult to transform NGOs into successful private entities and the culture has generally been too different. Local banks, I mean they’re starting to get involved in the sector. But why would they do that? Well look at things from their perspective. I mean they’re got competition in their traditional areas of operation.

You’ve got a lot of banks now looking at regional approaches, stepping onto other people’s patches, taking away the blue chip business from local banks. Banks are looking at what’s going on in the microfinance sector, seeing some success stories and looking to see whether there isn’t a market there, a very large market which they could develop, new areas, a broad market, and they’re starting to look at ways in which they can enter into this very interesting and very useful sector. The success factors from a microfinance institution… let me run through these quickly.

Good management information systems, I think that is essential. I mean anyone who’s seen the development of the computer industry over the last fifteen or so years know that you’ve got to get a really good seamless interface between your software and your hardware and you’re seeing this happening now in the microfinance area. People are using Palm Pilots for data collection and monitoring and increasing use of internet, public access and login systems and so on.

Good portfolio management systems as well, absolutely essential. You need these to be able to monitor risk correctly, seek out new areas for client service provision.

Transparent accounting, the third item… absolutely vital. Think back to the nineteenth century, all those old, big, solid looking banks, I mean the reason they made them look like that was to give an impression that even if the balance sheet wasn’t as solid, I mean the bank looked solid and it was all about providing confidence to people because if you’re not in the banking business you have to hold only I don’t know… 8% of capital against the loans that you’re providing. It doesn’t take many people coming in and asking
for their money back to create a serious problem for you if you are a bank so the impression of stability is very important and one of the ways you can ensure that is by having transparent accounts which have passed the tests of all the auditors, people know they can trust the accounts. And you see what happens when it goes wrong as in the experience recently in the region of Basseterre in the Dominican Republic and the impact that that has had on the country feeding through to foreign exchange and slippage and the like.

Fourth point - good quality staff, difficult one this. Margins in the business are not high but you need to be able to attract good quality people.

Good products are necessary and you need to focus upon local needs. For instance, Muslim countries try and find products which don’t lose interest rates for example but remunerate in a different way.

Local currency lending - I’ve learnt from bitter experience that local currency lending really has to be the way to do it during microfinance particularly taking out foreign exchange loans to lend locally, it’s a dangerous area.

And then a good regulatory environment as well. And the thing about the microfinance is that you have to get everything right, you can’t just get three out of four or four out of five, you have to get it all right.

It’s no good just getting one right; you have got to get it all right in order to really succeed. Let me look at the dangers that there are in the situation. I mean some of these things you will know from experience I’m sure.

Too rapid growth – It’s very easy to grow quickly without realizing that there are certain sorts of step changes that are required in the organizational structures that you have. Maybe it’s feasible to operate a small scheme with fifty lenders with a large sheet of A3 paper and a pencil and a ruler but once you move into areas with a much larger volume of lending then you need to think about how do you manage it? You need computer software; you need a computer to run it with. Moving even further than that, you need backups and servers as the business expands and you have to understand the way that the business is moving and be ready at all times to have a system in place that can deal with the expansion. If you expand too rapidly, it’s often easy to run into problems.

Foreign exchange obligations – Now I mentioned this in the previous one but it’s so important that I thought I’d mention it again. Be very weary about foreign exchange obligations.

Contagion, mentioned that as well. It is a very real danger and it’s important to get this part of the formula correct. You need to avoid a culture of non payment - becoming entrenched.
Free loans – we don’t do free loans. National finance institutions, governments near to elections which provide free loans. This is a dangerous area and it needs to be monitored very carefully. It seems to me that if there are subsidiaries around this should be much better to other things than free loans which can muddy the whole credit culture in an area. And then fraudulent corruption, they have the ability to destroy trust in the sector as a whole if they are not dealt with effectively.

Let me turn to the future and underline a couple of points and to maybe raise a few suggestions about areas that could be considered. The key focus it seems to me is how to integrate microfinance institutions into the local banking sector and there are different ways that this can be done. Bolivia Bank has grown upstream into a full-fledged bank. In Peru, Banco de Credito created as a microfinance institution and then they sought out customers from the top down so there are many ways that it can work, it’s not one size fits all in this area and one needs to understand local markets in the construction of strategies for the future.

Should microfinance institutions take deposits? Well that’s a key question for the future. It represents a very large risk, I mean if you are a microfinance lender and you crash and burn well you know it’s sad but there will be another funds supplier along eventually but if in crashing and burning you take down with you your customers’ deposits, and these are people who really need the money, then that’s a catastrophe. So it’s an area that needs to be treated with a lot of caution.

Regulatory environment… and this is very important. I think it is important for lenders to become accountable with proper protections put in place to stop clients from becoming over-indebted.

You see this not just in this part of the world, you see it in Europe as well. You have got unrestricted credit access, store cards, bank loans, and equity withdrawals from your property. So you are getting something like a debt boom.

Economists in those countries are worried about this leading to a crisis. So in whichever economy you are working in, the need for good regulatory control is there. People need to be reined in sometimes from the sort of products they are offering.

And for the future - securitisation. I think if we get to a stage where we are securitising microfinance books and getting ratings for microfinance books then we will have gotten to a stage where we can congratulate ourselves a little bit.

If you will let me finish off about talking just a little bit about the EIB, if you don’t mind, just who we are. We are owned by the European Union member states. There used to be fifteen, the big four Germany, France, Italy and the U.K. but on the first on May, a whole bunch of new people joined another well it was going to be ten but it’s actually nine and a half as Cyprus only came in with half of their population. There are twenty-five member states now and they are shareholders in the bank. The bulk of what we do is within the European Union, about eighty-five percent. We lend more money than the World Bank
and the Inter-American and Caribbean Development Bank and Asian Development Bank combined I think. We also do work outside the European Union. The ACP … 3.9 billion Euros we have for the next sixty-seven years. What we’ve done in the past- as you can see on this slide the Caribbean is an important area for us. If you look at the graph on the far right hand side, this is what we call global loans and this is where we provide funding which is then fed through to final beneficiaries though intermediaries that we work with.

DFL we have worked with for a number of years in this region and we have a very good relationship with them. So you can see in a way the reflection of how much global loan lending we can do is a reflection in a way of the development of the economies. In South Africa a lot of global loans, in the Caribbean a lot of global loans and it’s a reflection of the maturity of the local financial sector. We have under the Cotonou Agreement which was signed a year or so age quite a lot of funding for the whole of the ACP area 2.2 billion of an investment facility and 1.7 of own resources lending which is money the bank raises itself on capital markets.

Set realistic targets is the next lessons I would like to leave with you.

And finally be prepared. Thank you very much.

Cesar Lopez,
Vice President, Latin American Operations
Accion

The Role of the State in Microfinance – A Regional View

The discussion of the role of the state in microfinance really has to be included in the context of the role of the state in the economy. One is a liberal point of view that really the state has no role at all in economy, that the state should be out of the markets so that the private sector can flourish and grow and in the case of microfinance this point of view from the experience of Bolivia and Bangladesh, Bolivia you know has a very mature microfinance market with a lot of private players. The interface went down over the last 5-7 years more than fifty percent and most of the markets are already certified institutions.

In the case of Bangladesh also we have a competitive environment, probably the biggest microfinance competition in the world in that country. There are also a lot of different services they provide. On the other hand now we have the point of view that the government should intervene as there are millions and millions of poor people around the world with no access to financial services. But the truth lies somewhere in the middle. Probably before going into how the government should intervene, let’s talk about how important microfinance is for the economy. Micro enterprise accounts for half of the labor force in Latin America and more than two thirds of the northern labor force in Africa. Micro enterprise generates between thirteen and seventeen percent of the GDP in
each country in Latin American. Microfinance provides a key benefit for the microentrepreneur sector.

The benefits are not all economic but also social. Different impact analyses are available but I am sure that microfinance is a good service for the poor people who did not have access to microfinance services. Also it is important that microfinance has proved to be financially sustainable and available to all clients so that they can get access to the services so in a way it can be done without subsidiaries in the long term.

So if microfinance is sustainable and it can attract people then what is the role of the government? Well there is no pooled information in the markets and one of the things that we found is that the banks have no complete information about the risk that the microfinance sector gets. On the other hand, most of you know that this sector can be profitable, it can be a good business and of course it can have good social impacts. So the key role of the government is to try to put together both sides, the fill the gap of information so that the private capital sector can reach the microfinance sector. Of course the social rapport will be higher than the private rapport so there will be some differences there which will require the intervention of the government. So when we have so much information, one of the key roles of the government which I mentioned before is to keep this information.

A key role of the government is to privacy for the institution through regulation and to withhold information to the client. So during these roles it is very important that the government can provide a supportive environment for the growth of the microfinance institutions. Temptation for the government where there is a gap in the market that is not filled by the private sector is to try and go there to fill this gap instead of giving incentives to the private sector to fill this gap.

Normally when the government intervenes and fills the gap it is more difficult for the private sector to fill that area and so one of the key lessons we have on the intervention of the government in the microfinance industry is number one to take the opening operations of microfinance institutions as micro enterprises.

In Latin America and the Caribbean there is a lot of paper work and transaction costs to open a microfinance institution and also to open a micro enterprise in the region. There are a lot of different taxes, different paperwork, not only there is the cost of open these microfinance institutions but also the time it requires. Many times it can go on for years. Another key lesson we have of the government role is to check the laws to span access of financial services by the poor. Many times there is excess regulation of what kind of collateral they need. Now these kind of regulations give the private sector a lot of incentive to go into microfinance.

It also important to offer business economic services so tat the private sector can provide some key support for the microfinance enterprises and for the microfinance institutions. Okay the idea here is then in the long term it is profitable that in the beginning they require some kind of support from the government to have initial costs reduced. Ensure
that there is better knowledge of what kind of practices that microfinance require. They can follow the example of the base institution. Efficient regulation is also critical.

It is very important to point out that one must be aware that the regulations should be different for microfinance. There does not have to be lower standards but there must be different standards. The regulations also key for the private sector to get the best information on the microfinance institutions and so they are better for the clients and they are better for the government. Roles must be adapted to the specific needs of microfinance.

On the other side, we can information from the government sometimes there is tendency to change the high interest rates because sometimes the government does not understand what is the cost to operate microfinance. And also only the competition can reduce its cost and reduce its rates on the intervention of the government including a fixed interest rate in the market.

Another example of bad intervention is to subsidize to facilitate through technical assistance for the reduction of the costs to start a microfinance institution but when the government starts to give continuous subsidizing to these intuitions in that case the government is really excluding the long term sustainability of the institution. Another bad intervention is to cut high costs sometimes they say microfinance institutions are too profitable. They can also limit the number of institutions in the market and also the best example of bad intervention of the government can be through development banks in the case of Venezuela and Costa Rica when the government paid a microfinance institution with the argument that there is no private institution working in that area.

Claudia James
Investment Officer
Caribbean Development Bank

Involvement of the Commercial Banks in Microfinance

First of all the Bank of St. Lucia has recognized that it has a responsibility to continue the development of its predecessor institution the St. Lucia Development Bank. As a result of that immediately after the merger, the bank set up a Business Advisory Unit within the institution. That unit assisted with various aspects of microfinance development or micro business in other words by providing training for entrepreneurs, managerial training and the objective of that in itself was meant to sustain and to improve the performance of the micro sector. The other aspect is that up to today, some of us from this sector of the bank, business advisory are now corporate offices and we continue to provide such services to the micro sector, the small business sector as well business in general so the bank has
upheld its mandate but I must hasten to add it is doing so now with more caution than it had done in the past.

It very important that the region can get its own solutions and they are learning from their experiences in the field of microfinance. Also a big assumption in microfinance to attract the private sector is that there is not enough money in the government or in the international institution to give financial services to the millions and millions of poor people who need these financial services only in the private sector we can get enough capital, enough funding for these millions of people. But here in the region, in the Caribbean, we have a very interesting situation because of the size of the markets and given the size the government intervention can be stronger than in the other regions. For example, in one island we were starting a project, a potential microfinance investment. It was a small island with a potential market we calculated of around ten thousand clients so but at the same, in the middle of this project we realized that there is a European government giving around 50 million dollars for microfinance to one institution there and giving our potential market that would be about five thousand each.

Christian Harel
Technical Advisor
European Development Fund

Technical Assistance – Scope, Delivery, Impact

I am a technical advisor to the National Authorizing Officer for European Firms within St. Lucia. This office is monitoring EU funds within St. Lucia and is based in the Prime Minister’s office so when I speak, I do not speak on behalf of the European Commission as it could be read on the paper. I am here in the Caribbean for ten years now. I was previously working for the French Embassy.

First of all, before I start my presentation, I would like to raise three major points which are I sometimes have some difficulty in discussion and we have this morning to talk about what exactly is microfinance and I know there is no rigorous definition of that but it is necessary I think really to adapt this word to each country because microfinance, when you are discussing to know what is the market for microfinance, first of all you have to define what it is. St. Lucia you know has a GDP of about two thousand, six hundred US.

You can obviously not develop microfinance systems similar to those in let us say Bangladesh or in Africa or in some other countries. You have also here in St. Lucia, fortunately, a very strong and developed financial sector which is not necessarily the case in South African countries or anywhere else so what I would like to say is microfinance
here, there is some sort of microfinance yes but it is first necessary to look at exactly what is the segment of this microfinance. So far I am going to present to you something which is more not exactly microfinance; it is more support to small enterprises. In fact, it is support to small enterprises you will see in a way mainly to go from an informal sector to a more formal sector.

Usually it is said to take people outside the sector and bring them inside the financial sector. This is very important for the economy, it is very important for the government you must understand about taxes and so on but it very important for the economy to bring these people from the informal to the formal sector. The other point I would like to make, I am maybe going to disturb some of you but you know, a lot of you are going to think that I am creating distortion, financial distortion so this is a point that we can discuss later on. Distortion is not only in these countries but distortion is also in European countries and North American countries.

We are discussing about improving the competition amongst the small enterprises within these countries of course it is necessary to do it with as little as possible distortion but we must not hide our face. Distortion exists in Europe, financial distortion and next door is twenty kilometers from here, Martinique is next side so I agree we must not discuss about grants, subsidiaries and so on but you know next door they are doing it and next door is twenty kilometers from here and when you know that five to ten percent of the St. Lucia population has relatives in Martinique, the information is moving form one side to another side so I agree not to go into strong distortion but it is necessary for the European countries and North American countries also to clean in front of their doors. Having said that I am coming back to the program that is today, from 2000 to now and the origin of this program was mainly because EU at that time and as it was said today, has put huge amounts of money into supporting credit systems within the windward sector and very unfortunately, at that time it was done completely apart from the financial institutions.

The consequences of that, between 1997 and 200 are the following: First of all we can say that about twenty-five million EC dollars, all revolving funds between St. Lucia, Dominica, St. Vincent and Grenada have disappeared. It was done without the financial institutions and we can say that these funds were never revolved. The other big consequences from that is of course it is a risky business as it has been said this morning by the Bank of St. Lucia to deal with micro credit, especially with micro enterprise credit but in addition to that, the position of the donors to develop the specific credit system with revolving funds without financial institutions, has big consequences from the financial institution withdrawing.

It means you know when I was asking in 2000 in order to see how to provide some of support because still there were a lot of EU funds in support of the private sector. Of course there were other programs but directly to private companies. At that time there was part of a team where we had met most of the financial institutions, like the OECS, the four Eastern Caribbean countries and the criticism was very hard upon the heavier of the donors which it was I think really difficult to understand. I could not understand like when I was in Africa, where a financial sector did not exist where the donors came to
create and to build financial institutions but here where such a strong financial sector existing in the Caribbean, to come and do something about was completely I think difficult to understand and I do not want to say more than that. The other thing is that it was completely a lack of confidence of the financial institutions with all the donors.

This was a big distortion by all the donors here. I agree that also most of the financial institution, they were not directly discussing with us about purely microcredit, purely microcredit, I believe, as we discussed with the development bank, with credit unions, with private financial institutions, commercial banks and really you know when we discuss that matter with them, the purely microfinance was not the important issue. The big issue was how to move from micro enterprises, small farmers with entrepreneurial experience, to move them to more entrepreneurs approach, to move them as enterprises with good management procedures and also as I said to move them from the informal to the formal in order to facilitate their access to the existing financial institutions so the truly microcredit, of course the credit union, of course even the Bank of St. Lucia, of course a lot of banks are doing small credit already, it is merging with all the other figures but you also some informal credit which exists already in the shops and in the rural networks and so on so the main concern was about small enterprises. At that time, all the financial institutions came to a point that a very important weakness on the small entrepreneurship where the lack of entrepreneurship is true in the Caribbean is not a criticism just for that but it is true that the entrepreneurship you see here is quite weak within the small enterprises. Maybe it is because of culture, I do not know but it is quite weak.

And the other point is also from the financial institution asking us how we can provide service and support in order to help these small enterprises to acquire the services. Why? Most of the banks or financial institutions, wherever they, are telling us before they come that they have no business plan. Of course because if it is purely microcredit they do not need a business plan but you know people here I think tend to step above that. It is not purely microcredit, they have to move their firm and it is their option to do that and they understand that it is necessary to do it because of globalization because of the free trade they are going to compete. Our farmers here, they are not our farmers, they have to compete. They have to be competitive on the global market even on the service sector. It was a high degree of understanding that they have to be competitive and to be competitive for small enterprises and also to access all the financial instruments which is not only the credit but we can discuss about equity.

This morning there was a discussion that there is a need for equity yes there is a huge need for equity maybe even more than microcredit but this is another point. In order to access these financial instruments, it was necessary for the small entrepreneurs here to be able to access efficient and good services because this is the key stone in order to sustain their enterprises and for them to be competitive. This is why it has been asked to us to help them to develop a business plan, to have them access training and insurance and transfer of technology, for research and partnership, accounting and management and so on. So all the services are extremely necessary in the Caribbean and there is a lack of these kinds of things.
This has been recognized by Microfin itself. They have their department in order to provide services and we understand that in the past there was also a small enterprise development unit which is providing services. One of the problems we found out at that time was that these services are coming from a top-down approach and it means that these kinds of services and I am not criticizing what kinds of services they do at Microfin and so on but this top-down approach does not have the best benefit and efficiency that was expected so in collaboration with the financial institutions and with the government, and the approval of the supervision, this means you are at least three big partners to improve that. It was not easy to make everybody on the same way. We came to a program that we called Small Enterprise Development Plan Facility.

This program first of all will grant funds EDF which have been allocated to each country. I speak about Dominica, St. Lucia and those other countries. Second point is the funds will be channeled through financial institutions with a complete and strong discussion and negotiation with the financial institution. And then we have established to work together this program which is in the essence to provide grant funds, and I know there is distortion here but okay, attached to a loan which is provided by financial institutions.

This is for small entrepreneurs to come up with a business plan. It mean if is two thousand or three thousand dollars of course, you are not going to put up a business plan but for bigger enterprises yes they must come up with a business plan. A business plan that includes not only capital investment but also the services well and clearly identified and upon the approval of the loan by the financial institutions, the grant which is located within the financial institution, is used to finance the services. I think this is more a demand drive and approach.

Charmaine Gardiner
Director
Microfin St. Lucia

We were quite amazed in St. Lucia when we launched our program; we have organized with the financial institutions in collaboration with them. I bet that you did not know that the most important question coming was what is the difference between a grant and a loan? So you know, you start from groundwork to educate the people. It is through the people. The were confused as to what was a grant and what was a loan. And I think the donors here have some responsibility because with mechanism of revolving funds most of the people, well the EU funds we do not have to pay it back and this has a terrible experience in the repayment not only to the EU funds but also to the repayment of other loans, other financial institutions. So most of the people are asking what a loan is and what a grant is.

At least with this program we have clearly explained and made a key separation between loans and grants. We say no more revolving funds. A grant is money coming from the financial institutions which has to be reimbursed. It is a facility which is provided by EU
and by other donors in order for you to acquire services. So far, we can say, and we started this program about one year ago, it is true that in some cases, those especially where you have small enterprise, the percentage we provide is also sometimes covering, providing subsidiaries to some other capital investment. It is true. But you know the distortion is quite small. The most important things in terms of the result which is expected, is to see that the entrepreneur has really understood what the need for good services is in order to develop his enterprise. The result from starting this program in September, about nine million EC dollars has been injected into the small enterprises in St. Lucia. I would say about four million as a grant and five million something as a loan. We have two hundred and twenty-six loans already which are managed by six financial institutions which are of course even Microfin which is also as a portfolio for small enterprises, we have a credit union, Bank of St. Lucia, RBTT as a commercial bank and we do not intervene in the interest rate, we do not intervene in the loan part and we have I believe we have developed a good confidence between the financial institution and the donors which is a very important result. I think we have also participated in the education of the people to get them to develop into a more entrepreneurial way. Thank you very much.

Cesar Lopez
ACCION

Credit Information Exchange

I am going to talk about credit information exchange and how it is important for Microfinance. I remember on of my professors saying that the main problem in any bank relation return is the information exchange. When one client is going to a bank to ask for a loan, a potential client from a bank who can repay a loan and another bank who does not have enough information to know if the client can repay the loan. So there is an exchange of microfinance information between the potential client and in the traditional banking sector, it is done by documented information given to the bank about the potential capacity of payment through financial information audited by an accountant about financial information of the bank. Also the bank is asking for collateral so they can improve the credit rate.

In microfinance, we do not have this documentation. One of the key elements of the microfinance, almost all of the micro enterprises do not have this documentation to back the facts. The officer is the key person to try to get this information to try and analyze the capacity of the client. Also these institutions, the micro enterprises, do not have any collateral that can be accepted by banks so these are important elements that need to be analyzed to get a new client in microfinance.

On the other side, the bank must analyze two elements. One is if the micro enterprise has to capacity to repay the loan, if they have enough collateral to repay it and also the rate at which they can repay it. Analyses in Latin America and some countries in Africa show
that of the clients that become delinquent, about eight percent of those are due to repayment problems, capacity of payment problems. It means that something happens with the business or the loan was too big. But there is a twenty percent portion that is really the client does not want to repay the loan. It changes from county to country.

There are countries like Bolivia where there is a large proportion of clients that want to repay the loan but they do not have the capacity to repay it but we have other countries where there a big proportion of this non-willingness to repay even when the clients have the cash flow to pay it and this is one of the key elements we are going to discuss in the session with respect to the Caribbean as opposed to other countries around the world. So the next question is why is there a difference? Why in some countries do we have better clients than in other countries? Of course it depends on the history, the government intervention, the spirit we have with the banking sector but very important for us is also the incentives they have to repay it. So it is very important to us to cover the rates of the bank but also to keep the client’s incentive to repay the loan. If they do not repay the loan there will be some kind of consequence, a penalty.

What is happening now more and more in microfinance and especially in Latin America is that the banks, the microfinance institutions are moving to get more unsecured loans because the credit history is becoming more important in the region. It means for example if you go to the US or the Europe, you can get a credit card with no collateral. There is a strong incentive to repay it because if you do not repay it, your credit history is going to be damaged and the consequence you have is that you are going to have a big problem getting new money or you can get new money but at a higher cost. So the credit for us is becoming more important so we can move to unsecured loans in microfinance. Now the role of the collateral is reducing.

Given that, we can decide a credit methodology and a credit policy that can be adjusted to the specific needs of each country. So in each a country where we see that credit can be a problem, we put more emphasis on the incentive to repay and it can be done as I mentioned before through credit history, through collateral, through incentive in the product so there is an option to renew the loan or to reduce it in the last payment.

So we adopt this to the specific realities of each country. So on one side we have the credit rates and on the other one we have the operation rates. As I mentioned before, with the credit rates key point here is to get the right methodology. Basically the information you are getting about the clients is through the credit officer and make sure it is key. Make sure there is a willingness to repay. So for all these credit scores we are working out in microfinance, there is this combination of financial ratios and enough financial information is key.

You see for example again the experience of credit scores in Europe and the US, most personal loans are more focused on enough financial information as a key indicator of the probability to repay. More of the credit scoring is more on the side of the financial ratios. In microfinance we are seeing now that the financial ratio is becoming more and more important in reducing credit risk also to improve sector standards by sectors or by groups
by regions are important to do that. So on the other side we have the operation risk. You can decide that very good credit policies along with enough financial information can reduce risk but if it is done in the wrong way, you can get a big problem. The credit policies, especially in microfinance are the same way that is affected in the credit policies.

Given that this is a decision of the microfinance operation it means that you have different branches with different decision making at different levels and so the operational rates are becoming more important because you have the right information but you are not using the right information so it is going through your system so you can finish making the wrong decision based on the wrong information. You then have decided the right methodology but you have a bias in the way you put the information in your system. So credit and operational rates are really inseparable. The credit policy and how they perform in microfinance is not only based on the credit methodology on the size of the product but also very importantly have implemented controls on the operational size to reduce the risk.

What can go wrong on the operation side can be misinformation, miscalculation or misapplication. In the case of misinformation is that if you put bad information in the system, in the end you make a decision based on bad information. You can get miscalculation when you have the right information but the credit officer makes a bad calculation about the financial ratio or about the different factors that you are using to make the decision or you can get a misapplication, that is also very common in microfinance, it means that you have the right information but you are not using the information in the right way, the way it should be used. All this brings us to systematic rates, and I try to end here because I have only ten minutes but the systematic rates are very important in microfinance because you can get different types of errors because you have a decentralized decision making process. It means that you have different financial rates but when you have systematic rates then the role is continually repeated amongst different microfinance branches, you have big problem in the institution and one that you have to adjust.

However operational rates have not been a priority in microfinance and the other has not been a priority in the banking sector in Latin America and in the Caribbean. The new thing is going to adjust to include the operational rate as part of the total rates in the banking sector but this is especially important in microfinance. We have to understand the credit process in microfinance like a process with a flow of information that is going through different levels. So to make sure the flow is going the right way is very important.

Factor one is to control exports because given the small amount in microfinance, anything out of control in terms of the loan can be very costly so it has to be done in a specific way so control exports and analyze trends and statistics from your portfolio to identify red flags in the potential portfolio. Number two, very important is to get automation and acute micro MIS systems. When you put control into your MIS, you are reducing the operational risk and one of the key changes in the MIS designs in
microfinance in the last three or five years is before it was designed for depositary of data and now more and more MIS is becoming a smart and controlled tool to reduce the operational risk.

And finally and also very important is to use the credit scoring. The use of credit scoring in microfinance has become significant over the last three to five years. Credit scoring is basically the use of the data information you have to make the right credit decisions so the use of credit scoring has allowed institutions to use the memory in terms of the data you have to make the right decision. On final comment on this is if you see microfinance ten years ago, you have a credit methodology that was basically the character of the person, people were not doing a very good credit analysis. It was coming in Africa for example to say I give you this loan because I see that this is a good client without any kind of financial analysis.

On the other side you have the consumer loan industry in Latin America and especially in the US now which is completely automated. Now in microfinance we are moving to try and reduce the risk to facilitate the decision maker. It is not going to substitute the decision maker in microfinance for a long time because the credit bureaus do not have the same information on the capacity of payment of the clients. We can get some information on the history of payment, we can get some on the financial characteristics but there is not enough yet to make a full decision even in the most advanced countries. Finally and very important is the human factor - to get an acute quality person is key.

In the end, the information coming through the credit officer, who is going through the street and starting from scratch, they have to calculate the capacity of payment and reconstruct the financial information of the business. If we do not have an acute trained labour force at that level, we are not going to get good results in microfinance. So you see how the credit bureaus are working in most of the Latin American countries now. You have the micro entrepreneur requesting a loan and the microfinance loan office on the street using a palm pilot of using documentation to help to make the credit decision. The information is given to the credit bureau through centralized information about the institution and the credit bureau sends back information to the loan officer about… well basically only negative information. Most of the credit bureaus now are trying to get positive information now as well. The result so far of those experiments in microfinance has not been very successful. The key element so far and at this point in time is the credit bureaus giving key information to help the decision making on the microfinance institution. Thank you.
Grady Clarke  
CEO, Caribbean Credit Bureau in Barbados  

Discussing and Improving Credit Culture in the Caribbean

Our slogan is “increasing the profitability of credit”. That is objective as a company and that is what we will help our subscribers to do. Customer assessment is extremely important in the decision making process and as Cesar said, credit information provided by credit bureaus can be essential. Folks, information is power. Accurate and timely information reduces the credit risk substantially and therefore imperative to gain as much information, accurate information to help you inform your credit decision.

Our new system, and I am glad to have an opportunity to do a little bit of advertising here, is called WIRE – web based, integrated reporting and inquiry system. It is a cost effective and completely internet based system to do credit inquiries. It has radically changed the way in business operate, in particular how they extend credit and as I said, information is power, to be forewarned is to be fore earned. Now there was a very interesting comment made about extending credit in Latin America and about twenty percent of the people to be not willing to repay their debt and in certain countries that percentage differs.

I attended the World Bank’s Institute of International Credit Reporting Conference in Miami a couple of years ago and I came across a very interesting statistic or fact. Basically they say that the smaller the country, the smaller the size of the population, the higher the value of reputation collateral. And let me explain what reputation collateral, well what they meant in the context of the seminar anyhow. In a small society where you are known, where people tend to know you, there is more of a value associated to your reputation, to how well you are known and in fact in some cases where you do not have a lot of financial income statements or formal collateral, that reputation collateral becomes increasingly more important because you may get the loan based on the reputation you have in the community so I would dare say that the twenty percent of people who are not willing to pay in some of the larger countries, I think you may find that percentage being somewhat lower in the smaller countries. Now folks I have not done any research, this is just a deduction from interesting information that I came across at the World Bank’s institute.

Now a little bit about our system. We are totally internet-based, at the same token very secure. You are not going to access our very confidential information without having a user name and password. When you login with a user name and password, you are presented with a screen where you can enter some information and do a search and this case here, last name Hall, first name Winston, purposely misspelled with a ‘y’. I do not know how many of you know of Mr. Winston Hall the famous Barbadian president who escaped maximum security three times. Once you press ‘search’, you will get a search result screen that will show you other similar names to Mr. Winston Hall.
If there is only one record, you will only see that record. Now this is somewhat different to in the United States where for all credit reports you have to have your social security number to access the credit reports and that is a unique record identifier. We hope that in St. Lucia that we will get popular use of the National ID but our initial investigation of that basis, the quality of the data is not quite what we would like it to be. So therefore we will be presenting our search results so that you can scroll and detect which one you would like to get more information on. Now once you click and press view, then you will get the screen that shows you more information. Now the first thing that should alert you is what is in red. This person is the subject of a skip trace, please collect current residence and employment information and e-mail it. Click on the hyperlink and you just send it back to us. Ladies and gentlemen if you are looking for someone, would you not want the assistance of others, other subscribers?

So we will be encouraging people to kindly assist other subscribers in looking for people that are hard to find. Now as you can Mr. Winston Hall is very well described here. His employer, present training services, where I think he is best suited, in particular as an escape consultant. Now we do provide information to assist you in determining one’s capacity to repay. I said assist. We do provide the monthly repayment information as part of our information that we share with our subscribers. Of course we also rate each of the accounts, with ‘one’ being the very best rating and a ‘nine’ the worst rating. Why did we reinvent the wheel? We looked at what Equifacts was doing in North America and we basically copied what they did. Of course we will also be displaying return cheque information as part of the credit profile and certainly from the data we have received so far in St. Lucia, we have an awful lot of return cheque information. Obviously there is a problem with bounced cheques in St. Lucia. Very important is we have a security log that shows all previous checks so we have a log right down to the second for all users that query and we also keep track of who you are querying.

Of course we will get account details, return cheque details so we will show you the day the cheque was returned and the date on which the cheque was settled. And you can query a cheque also before accepting it. You can check the collateral value of a vehicle and that is one of the services that the financial institutions are extremely interested in because all too often a financial institution has taken an asset as collateral only to discover later that that asset was held by another financial institution.

Ladies and gentlemen when I went to your registry here to see how efficient a registry system you operate here I found that it is quite similar to that in Barbados – big logs. So to search for an engine or chassis number in those big books, nobody does it.

Consequently a lot of people buy second hand cars with a loan and encumbrance against it and some banks take assets as collateral when in fact somebody else has priority. Sound familiar? By the way, your problems are my opportunities so when I say good to something bad please understand why. So I am suggesting that you use our service to check our bills or sales database and we give you details such as the amount borrowed, the first payment and in particular because sometimes that first payment differs from the subsequent monthly payments, the date on which the loan was granted, the date on which
it was registered, satisfied or renewed and of course the identification of the parties in the contract.

Ladies and gentlemen, this graph here looks almost the same in any market that I have studied and if I ask Cesar Lopez here to plot a graph for the Latin American market, I am quite sure it will be almost identical. On the horizontal axis, you have the time passage to date and on the vertical axis, you have the probability of collection. The probability of collection goes down the longer you wait to follow-up on past due accounts so the general shape of the graph is like that. What does that tell you? Not that you should follow-up immediately, as soon as possible past the due date? And of course our system allows you to follow-up very quickly because through the internet transactions are real time.

Now the first thing in following up on debtors, is you have to identify the debtor type. There are basically four debtor types – those that are willing and able (basic reminder), willing and unable (well folks, those you have to educate, those you have to help to show them how they can become able. Sending a bailiff to them or sending them to an attorney-at-law and causing them to have to pay more fees is not going to solve that problem. Here you have to consult, educate and work with the customer) and then of course you have the able and unwilling (Well if you are unwilling to pay the loan even though you have the ability to pay the loan quite frankly I have absolutely no mercy for those.
I am not suggesting that you take a baseball bat and bring them to their knees but you have to follow-up aggressively because that is a different animal. If you have the ability but you are not willing to pay first you have to find out why they are unwilling to pay the loan. If the loan is not being repaid because they have received inferior quality of good or service, then you have got to correct that problem and then you can turn somebody who was unwilling into a willing and hopefully very loyal customer again. So each debtor type has to be followed up differently and you have to act early and professionally and do exactly as you have promised the debtor to get paid promptly. All too often we tell the debtor if you do not pay me in seven days I am going to do this that will affect your credit rating and then you do not do what you said.

Written communication should be automated yet very personal and highly specific. You should let the communication affect the credit rating and of course as the view of our credit bureau letters this is exactly what happens because we have a menu of letters. When you select a certain letter, it automatically merges information which you will see in the next slide and automatically at the same time sends a signal to our credit bureau data to change the credit rating information. So immediately, even before the letter is printed already the credit rating is affected.

And here again Mr. Hall just had his information merged. Every letter is specific to each business because no two businesses would have letters written the same way. Of course we also give you the ability to assign debts to us for collection online and thus immediately start the collection process with real information, correct information. And
so that I do not exceed my ten minutes US, I am very quickly going to tell you about the consumer rights.

Consumers have the right to access information contained in their credit file and they have the right to have any information that is incorrect immediately corrected with a letter of apology so we believe very strongly in consumer rights and of course from time to time you do have financially over extended consumers and you know what folks, one of the reasons why they are over extended is because of your clever advertising. You know, you encourage them to get more products and services, come to borrow more money and so now your advertising is working and sometimes they have over extended themselves so that over extended consumer in my humble opinion needs information on how to manage their money better, how to become a good corporate citizen and how to pay you your money on a timely basis. Am I making sense?

In summary, access updated information to make informed credit decisions, avoid extending credit to those who are not paying their bills and bouncing cheques to others, improve service and sales by approving credit to worthy customers faster, get paid faster as negative credit ratings result in other subscribers restricting access to additional credit. And folks the most important part in my seminar is to thank you very much for your time and attention.

Claudia James - Chairperson

Thank you very much Mr. Clarke and we move straight into the discussion as I notice that there is a lot of interesting expressions on faces based on both presentations. So I invite you now to raise any questions or make any comments which you have.

Q: One question, how can you spread that system throughout the Caribbean?

A: (Grady Clarke) Thank you very much and I did not pay him to ask that question. Yes in fact I am pleased to hear and I acknowledge the President of the Chamber of Commerce. The Chamber of Commerce in St. Lucia is our joint venture partner so we are in partnership with the Chamber of Commerce in introducing our credit bureau here in St. Lucia. Our offices are in the Chamber of Commerce but as a result of us being internet based our fire up services are in California, my data processing gets done in Trinidad and we can sell our service throughout the Caribbean. Anybody that has access to any internet can access our website. What we now have to do is get data in the various islands. We have gone from St. Kitts, down to Grenada and done a lot of financial planning seminars. We have subscribers that have pledged to support us and to come on board some of whom have given us data already. In St. Lucia we have seven companies that have given us data. You may say that is not a large database but in Barbados we actually started with seven companies also, ten years ago. And I spent very little time in Barbados; I spent most of my time traveling through the region. Some of the people here I have met with
before so we are now in the process of expanding our services throughout the OECS –
Phase one. Although my operational center, my IT center has now moved to Trinidad and
that is largely as a result of the Trinidad dollar being a very good deal when you have
Barbadian currency so that is why it was better for us to operate our data processing in
Trinidad. But as a result of that infrastructure that we have now developed, we are now
ready to expand throughout the region.

Q: What about The CARICOM Single Market?

A: (Grady Clarke) Can we talk about that? They had a trade mission to Guyana recently
and unfortunately I had another engagement which I had to attend so I did not go to that
but Guyana is very much in my plans. First the OECS, we already shared a common
currency throughout the islands. There is already a significant movement of people
throughout the islands in the OECS and because of the common currency, one common
central bank etc, etc, we thought that it was best to expand into the OECS. And having a
strong partner such as the Chamber of Commerce here in St. Lucia so that is why the
OECS has been our number one market. I was supposed to have done a seminar in
Guyana but we had to change plans but Guyana is very much in our development plan as
is Suriname because that is all Caricom. We believe that as the Caricom single market
and economy, as the CSME really gains momentum, there will be freer movement of
people, goods and capital and as a result of that we need to protect ourselves and
therefore we are moving throughout Caricom; English-speaking and Dutch. Fortunately
my first language is Dutch so Suriname would be fairly easy.

Thank you very much I appreciate your confidence.

Q: I was in South Africa a few years back and they have a very extensive credit process
and all the banks actually they are on the system and as an MFI you also become a
member of that and most of the time we found that our banks you know, there is no
information because MFIs deal with the client but we found out the these credit bureaus
actually work on the bank’s data so unless you can bring all the MFIs on that, there is
initially a problem finding clients.

A: (Grady Clarke) Well that is a good point and initially that credit bureau will not have
as much data as it would have as time goes on because we are building databases and
getting data from customers is like pulling teeth sometimes but have successfully been
able to do it and interestingly enough, in Barbados although we now have bank data in
our database, we started off without any banks whatsoever contributing data and I think
that in the OECS and in St. Lucia we may have a different situation because we do have
certain financial institutions that have expressed an interest in becoming shareholders and
as such once that is complete then we will have the loyalty of those financial institutions
and hence we should be getting nice data from them. So through out experience over the
last ten years in Barbados, we believe that we will be more successful in getting data and
already even before launching we have gotten seven free nice databases. They happen to be seven of the larger companies in St. Lucia but the process has started.

Cesar Lopez

Only to clarify a piece of information. I am talking about the twenty percent who are willing to pay, we are talking about twenty percent of the clients who are not paying. We analyzed the database around fifteen different microfinance institutions in Latin America and of those who are not paying, twenty percent of those are not willing to pay and the rest, they do not have the capacity to repay for different reasons. It is not the twenty percent of the total clients. The whole point is very interesting but is very important point is that when we use the credit bureaus in Latin America have sixty or sixty five percent of the time they do not have any information, the credit bureau, because it is the first time they are accessing the credit. Would you include information on all microfinance institutions and also would you include information of the stuff they are selling for example televisions or radios as it is becoming more and more important in Latin America. The information you are getting is stronger and stronger. There is a problem there initially, there is a problem that the institution does not want to give information because information now is money so at least if everybody agrees that they are going to give information it is going to bring new players so it is very important and that is one of the roles that government can play to put together a basic nucleus of institutions because initially is difficult to get the institutions to agree to give information. If you have a client that is delinquent, you do not want to give the information until you have finished the process to recover the money because you have also the possibility that they can go to another client, get the loan to repay you. So there is a bad incentive in some ways at least everybody is playing at the same time so that you have information piling up.

Charmaine Gardiner

Okay just moving away from that topic, I wanted to make a few comments as we look at the issue of technical assistance. I represent the St. Lucia Bureau of Standards which is an agency that finds itself in a peculiar situation in that not only are we an agency that regulates and enforces standards within all the economic affairs of the island but we are also a service provider. We have identified that as far as technical assistance is concerned there seems to be an issue with the number of interventions per company, per enterprise and also the quality of the technical assistance interventions. Because at the end of the day, having realized the amount of money that is spent in providing technical assistance for the small enterprises, most times we have identified that after the interventions the enterprises are unable to comply with regulatory requirements or standards which eventually will lead to have a negative impact as far as sustainability of that enterprise and that was mentioned here today. Here we see in Mr. Harel’s presentation, in looking at the scope, delivery and impact of technical assistance I do not think we actually focused on that. What exactly is the scope of technical assistance that would be provided by the agencies, the microfinance agencies, the delivery of those interventions and there any real
assessment; what is the impact that those interventions have made as far as the enterprises who were supposed to receive that technical assistance. Most times persons receive technical assistance through attending trade workshops. Did anything come out of those trading workshops? Did persons receive technical assistance for development of business plans? Business plans which most times had limitations.

Mr. Harel identified that now there is a requirement for not only having capital investment being part of the business plan but looking at the services. The persons developing this business plan more times than usual are not able to identify necessary services that will be required in the short-term, medium-term for projections of that business. So you find that as a regulatory agency for example a lot of money may have gone into the development of a business plan for the production of a particular product and at the end of day when thousands of units of that product have been produced, the product does not comply with labeling requirements so you have a lot of money wasted from the initial stages of that project. So technical assistance is something that a lot of money has been put into but the benefits are not being derived from technical assistance.

Christian Harel
European Development Fund

Thank you very much. Well first of all the bureau of standards is also supported by EU funds in order to develop their activities. This is one point. The other thing is that it is true that in terms of technical assistance the services which are provided by the service providers in St. Lucia there is a problem. There were no services before so we are coming on a sector which is quite new and of course this sector in terms of service providers we have in this room already some meetings with service providers. There is a necessity already to increase the capacity of the skills of the service sector in St. Lucia. You cannot develop and provide support to the private sector without the weak service provider sector so there is a necessity to have a stronger one. On those kinds of things we came with the financial institutions into discussion. In order to provide a roster of service providers which are not only from St. Lucia. We have service providers in Barbados, Trinidad and other islands and we really believe that there will be some more funds, some from the government which will be provided to the bureau of standards to provide funds in order to increase the capacity of the service providers.

Julian Henry
General Manager, Microfin, Trinidad

At Microfin, we do not have a formal arrangement for providing technical assistance but we do provide it in some form or fashion primarily through advice and mentorship of our clients but you have to understand that our focus is a little different. At Microfin our focus is on targeting those clients a little more established in the very early or very green
or budding entrepreneurs. Our clients are normally in existence for at least six months to a year. At this stage the clients would have gone through a period or a trial or the rigours of starting out so the clients who we would pick are normally established, they are able to survive in the business place. At this stage there is not too much technical assistance in terms of formal training that we can provide to them that will be beneficial to them but of course any advice and mentorship that we see fit we do get involved and we do provide that service. The provision of technical assistance and training also has some costs associated to it and we feel at this time that it is not something we are prepared to take up on. Our focus primarily is on targeting good loans, good clients who are established.

Frank Whylie
Managing Director
JN Small Business Loans

I think basically my answer is the same. We do not provide technical assistance. It is very expensive. We cannot afford it. What we are providing is credit at the moment. I will be interested to know if Mr. Harel is able to provide some assistance in our neck of the woods.

Debra Williams
Executive Director
MEEL

We do offer technical assistance to our clients but we cannot be all things to all men; what we do is pull partnerships. There are several organizations in Jamaica for example that have the expertise in certain areas. Let us take for example the bureaus, the bureau of standards. We have clients who are manufacturers. Now clearly we do not have the technical expertise to teach them how to do these things right so before we start lending to this market, we invite the bureau of standards to come in and speak to our customers. We have clients who own restaurants. They have to have permits in terms of food handlers permits.

We invite the organization that has the expertise in this area to come in and address the customers. Now to me this is really quite simple. Stop trying to be all things to all men. Stop trying to plant your ownership on your programs. You are running through a country where you have various organizations that are doing pieces of little things and little pieces are not adding up to anything. Get the people to come in, form partnerships to help your customers. Micro enterprising financing as we are over two years. We have links with all the various training agencies in Kingston and whatever training we need whether it is marketing, whether it is budgeting, whether it is how to price your products properly; we invite the necessary organization to come in, no cost to us because this is what they are here to do. They come in and they deliver that technical expertise in building your businesses, in getting your businesses to grow. Now our firm was set up and was funded by CEDA. CEDAR does give us technical assistance. What we do is a
tree in the trader’s concept. So we have MEDA who is Canadians and they have come to Jamaica.

They have trained my seventeen staff members how to train our clients so when we go out and we are mentoring and monitoring we are also training. Whatever deficiencies we find in our clients’ businesses, my staff is able to deliver the necessary knowledge to these people in how to improve their businesses so what we really need to focus on is partnerships and stop trying to be experts in every little area because we cannot. To me this is really quite simple so I will disagree that money is being wasted on technical assistance in terms of accountability and tracking. Your program has to implement a program that tracks these people. Whenever we are getting technical experts to come in we have terms of references. They will not be paid unless all the things listed on that agenda is delivered. At the end of the program they have to write a report to say this is what we trained, these are the persons who have been impacted and six months after we go back in the field and see if what they say they delivered has been delivered. At the end of that now, then a report is sent back to CEDA to say okay this is effective and it is efficient and we will use these people again. It really is quite simple and that is all I have to say.

Roy Thomasson
YBIZ

Youth in Business- Success Factors, Initiatives and Programmes

And that is part of the role I think that is very critical where governments can have an input in this whole thing because in Trinidad and Tobago for example I can think of organizations like The Business Development Company, like Youth Training Employment Programs that have that same kind of focus where people can be trained in different things however Madam Chairperson I wanted to comment on two things Christian said earlier on. He was speaking about the combination of grant funding and loans and in Trinidad, in my opinion if organizations like ours begin giving grants it basically as we would say “mashes up the place”. People then become very dependant on grants and it would be difficult to have them pay loans however in Barbados in my organization. When I speak about my organization now I am not speaking about The Youth Business Trinidad and Tobago, I am speaking about the family, the Youth Business family.

In Barbados what they do is they give grants in addition to loans and it is very distinct but the grants are one step back from where Christian was speaking the grants are at the stage of market research so somebody would bring in a business plan; the plan would be evaluated and at that point they would say this plan is looking good but we are not sure about the market. A grant would then be given for that person to do a proper market study so it can be that the market study would reveal something positive or negative so at that point they can decide not to go ahead with the project because the proper market study
that was done says that the project is no good so that is one step back that Christian might want to consider looking at grant funding as well. The second thing that I want to look at is the movement we spoke about.

There is the need to move people from the informal sector to the formal sector and I am wondering if Emmanuel would not agree with me if I say that is a role for the commercial banks at that stage in moving people from the informal sector to the formal sector and I think there is the role for the commercial bank at the level of the institutions. If for example, somebody comes to my organization and they receive a loan and the loan is repaid. I think the fact that they have received a loan from the Youth Business, if I recommend them to Microfin; Microfin should say yes I will go with this project because this person has a good credit rating at Youth Business Trinidad and Tobago. And at our level again, at the international level there is an attempt to develop something which is being called the Youth Development bond where a document is developed where the client enters into a relationship with the organization and at the end.

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Roy Thomasson  
YBIZ  
Youth In Business – Success Factors, Initiatives and Programmes

I think I have the, I am not sure if it the best time slot of the day – right after lunch. I hope everyone will relax but not relax too much and if you doze off, the person next to you has my permission to give you a nudge to wake you up. To me really this is one of the most if not the most important area of microfinance and small business development and really the future of the countries. As Charmaine said we hear a lot about it and we hear a lot about the future but we also think that the young people are really the present today. They are not just the future but they are right here today, they are in our schools, in our streets and in our homes. If we do not start now, it is going to be very hard to have a future without them. But before I start off, I want to make a few comments; I was hoping that Gerry would be here. First to congratulate DFL and Caribbean Microfinance Limited for the work that they do and for the work that you do. I first met Gerry I think it was in 1998 and as Charmaine said I actually worked in the Caribbean for eight years – from 1985 through 1993 with the OECS developing programs for young people in business.

In 1998 I met Gerry I think it was in Washington and at that time he shared with me his vision, his idea for the Caribbean Microfinance program and I though it was a wonderful idea because I had spent many years in the Caribbean hearing about the real need for this
kind of program so it is rewarding for me to see how his vision and how your vision have all come to pass and I congratulate all of you, I congratulate Prakash, he has been there also I think from the very beginning and I know it is rewarding to see something that starts out as an idea become a reality like all good entrepreneurs do so I really congratulate each of you and I think it is important to realize the impact that one person and each of you with your vision being one person can make by making something like this happen.

I want to talk a little bit about what I see in business, young people or young entrepreneurs as we like to call them now at the OECS but that includes youth in business, micro business, small business, I will not really get too hung up on definitions, I do not want to get hung up on definitions of youth. I have been doing this actually since I was a youth. You wonder why a person with gray hair is actually talking about this topic well it is because I have been doing this since I was a youth but I really that it is important to realize how important this is and really the future of all these countries is based on. We can perhaps talk about the background of some of those issues and talk about what we do at the Young Americas Business Trust.

I usually try to break things down into a very simple form. I am not a macro economist; I am not an economist at all so I like things very simple. It usually starts out who, what, when, why and how. The why is simply that young people in most countries are fifteen percent of the population, well fifteen to twenty-five but in many countries they make up thirty percent of the population. In some countries you have over fifteen percent under the age of fifteen. So you have a huge population that is going to have an impact on the future. And really if you do not do something now, in the future it is going to be hard to look back and see how they made progress because these are people who are here now and they are very much in the present. They also represent the future potential for both social and economic development in these countries and in a very real sense, in your business, they are really necessary to create bankable projects for clients and customers and in many ways it is a very good business because they are a large growing market and we are able to invest in them so that in the future they will also be very good customers. And finally they also have talents and they have energy and I very often hear stories about young people who have successful business projects whether they are fifteen, twenty-five or thirty. But they really need attention and it is not something that is going to happen without attention.

So how does this happen? Well first of all I think we are dealing with young people and we are dealing with development, we are dealing with the future so you really have to keep a long-term focus. I think that for many years donors and other organizations felt like if we did a small one week or two week business course that people would go off and they would become entrepreneurs and they would become successful and they are going to live happily ever after. It does not really work like that. Development is not a project; it is really a process and it is really something that happens over a long period of time and with young people, with many of them in school and many of them very young without skills or without experience we really have to look for the long term and how to do things as a process so that at the end of the road they will be successful and their businesses
would be successful. So our approach now is more of a strategic approach, a systems approach rather than just projects.

We still projects and projects are important but the important issue is how these projects link together in a bigger picture and it is almost like looking at picture of more like looking at a house. A house has many rooms but you cannot live in the kitchen, you know it has to have more rooms than just the kitchen or the living room. Microfinance is a part of that but it is not the whole picture. It really has to involve everyone. They challenge is so great, the challenge of poverty in all the countries of the Americas and indeed the world, including the Caribbean is really so great that only by everyone working together on this problem, can we every hope to make a difference. It is not something that one organization or one individual can do separately and really ever hope to make a dent in the problem so the question is sometimes do we have separate programs for young people, separate programs that target just young people or do we try to integrate them into other programs. Some organizations say well look we do not target young people. We do not have specific programs for young people but yet most of our client base is young.

I think that is fine, that is important but I also think after many years of working in this field that young people have special needs, they have special talents and special ways to work with them and support them as well so you really need sometimes separate programs. You also need to integrate them into the other programs so you really need to have both.

So what are the factors for success? And this really goes for both young people and programs. The first one is creating linkages and this goes along with what I think Debra was saying this morning. It is really well to me it is not rocket science; it is very simple. It is more then any of us can do individually and only by linking with other programs, other individuals, and other organizations can we really build on what we have. The whole is greater than the sum of its parts. Each of us working separately do good work but we really can do more and do better if we link together. Our basic model, our basic idea is that working with young people involves three basic stages. One is youth development and this is youth development at its broadest level. That involves attitudes, personal development, skills.

There are many programs that build these kinds of skills whether it is Junior Achievements or whether is it some of the volunteer programs or whether it is community service or whether it Commonwealth Youth programs and even church programs. Many programs are actually focused on building young people’s self esteem and teaching them that they have the potential to do more than just live in poverty. The second stage is really skills training. You really cannot to anything at all unless you have skills or at least you cannot do it well and this involves technical skills – whether you want to be a plumber or an electrician or a computer programmer. You have to know how to do things. Also you have to understand business.

You have to know, as some old farmer friends of mine used to say, anyone can grow tomatoes but selling them is something else. Anyone can do things but doing it as a
business involves a completely different set of skills and I think that is really important. And it is also not just about knowledge. Most times we think that young people go to school, they should come out and they should be good employees but they do not have experience. They do not have experience working; they do not have experience in business. Most of the things I have learnt in life have been through experience. The same thing is true in business.

You really cannot be a successful business person just talking about it. You really have to have the experience of knowing how to do it and doing it well. And sometimes experience as they say is a hard teacher because it gives the test first and the lessons afterward. Sometimes in experience we make mistakes but that sometimes is the best way to learn and sometimes it is the only way to learn and unless you are perhaps unless you are like our President, George W. Bush, and you have never made a mistake. Watching TV recently, that has been an issue in the US. Unless you really never made a mistake most of us learn by mistakes and it is not important to make mistakes but it is important to learn from them and to sometimes not to make mistakes that are so big that we can never recover. And the third area, and these last two points are really grouped together, is access to resources and that is both access to finance and access to technology. The third one there, the follow-up is targeted support. It deals with the fact that many young people go to school and when they want to start a business, they do not want to take another class.

They do not want to sit in a room and be told by somebody else how to do something. They want to get out and do it. Even if they have taken the course or have a business degree or have taken training, their needs, once they start a business, are completely different. They do not want to take the whole course again. They want to know you know, where is my market, how do I solve this problem, where are my suppliers, how do I do things? And those things are very important and there are many services and many ways to do it whether it is a small business resource center, whether it is a mentor that can guide them or whether it is all kinds of business development services but their needs once they get out of school, once they have had the training, the follow-up has to be targeted to what the needs are. Another area too is persistence. Well persistence is a part of anything. You really cannot do anything unless you keep doing it and keep starting over.

The second point is that it is really about people. People think that business is really about making money but it is well about making money to a large extent but it is also about people. It is about who your suppliers are, it is about dealing with your banker and dealing with your finance institution as someone had said this morning, if they believe you, if they have confidence in you, they will loan you the money. If they don’t, forget it and that is a people to people relationship. It is about families, sometimes if the family does not support the young person in a business they cannot get a good start because they are not encouraged and lots of times in the end it is really about the individual themselves.
So really business is about people. It is about market, it is about what people buy, what people need, the kinds of things that they respond to. Markets I think is one area that is often overlooked. We talk a lot about training; we talk a lot about loans and really sometimes we forget about where is there a market for this product? Are there really people there to buy it? I was watching TV one day and there was the President of General Motors on and General Motors had gone through a slump and they were coming back and the interviewer asked him well how did you recover? And his answer is very simple, very basic and I think the basic importance is making products people want to buy. If we do not make products that people want to buy, then really we do not have a business, we have a hobby.

And also in terms of finance, I do not think that it is just about loans. Loans are an important part of it but really it is more about teaching people how to manage money, about how to save money. Most of the great fortunes in the world have not been made by borrowing money, they have been made by people saving money and it is about keeping costs down. Lots of times people go into a business and they think that they can spend all the money in the world and they find out that their costs are really out of hand and that they are in trouble. So what is the current situation particularly as it deals with young people?

I think over the past few years, there has been the increasing recognition of the importance of young people as entrepreneurs and we see this happening at the international level with the World Bank and Inter-American Development Bank and other international institutions, at the region level with the regional development institutions and at the national level I think that many national governments really recognize the importance of this and recognize the need for it and recognize that something needs to be done and I sometimes also think that it is not that they do not support it, it is that they really just do not know how to do it. I do not mean this to be derogatory because they lots of times are besieged with many other problems but it is really an area that many people have not given a lot of attention to and it really is an area that has to be developed and I think commitment is there lots of times but it is the how to that we still need to work on. This involves also national policies as well as operational programs as we have had a lot of discussion this morning about what is the role of government in these programs.

It is not really as experience has shown, at the operational level but the governments do have a role to play in creating environments, they do have a role to play in licensing businesses to protect the public. They do have a role to play in international trade in protecting and providing access to international markets but it is important to realize what that role is and not get confused in terms of governments making loans because that is really not their business. That is the kind of operation that should be done by banks or other institutions like Microfin. The other important point too is that the system is fragmented. Again many of us work in separate areas and everybody want to have their own sandbox, everybody wants to carry their own flag, they want to be proud of what they do and it is important but we also sometimes lose the benefit of working with others.
or magnifying or as they say in Spanish massifying what we are doing by adding or leveraging what we do best with what other people do best.

The fact of this fragmented system is that it reduces efficiency and it also reduces effectiveness because it means that there are limited resources that are not utilized to their greatest capacity and resources are limited. Also to say a little bit about globalization, and the Americas because I work for the OECS, of course thirty-four countries. I want to tell a little story to start with about an experience I had in Argentina a few years ago. I was there for a business conference, a conference of business leaders, a business forum of the Americas and the theme of the conference that year was globalization.

And as it often happens in Latin America, there had been a huge protest throughout the city all during the conference and there were people on the streets carrying banners and as it often happens at many of these events, there was a cultural evening and we had gone to the opera house in Buenos Aires and as we came out of the opera house, across the street there was a small group of young people who were carrying banners and flags and everything and obviously protesting as we were just coming out and there was a young lady right at the curb with a video camera and she was videotaping people as they came out of the opera house and of course these were people who were dressed up for the evening so they were dressed in their finest clothes and they really looked nice but I think the point she was trying to make was here were the rich business people well-dressed and having a good time and here across the street are the poor young people who cannot get a job and have no food and no future so she walked up to me with her video camera running and I was with my wife and my kids and my board chairman and they are sort of pulling at me to get out of there, they wanted to go and I said no let us talk to them and see what they have to say.

Their first question was what do you think about globalization? And my response was that I think it has some good benefits and it also has some negative factors to it that result from it. Her next question was well what are you doing about it? And I thought real quick well you asked the right person for that because my response was well I work every day to help young people start businesses so that they can compete in an area of globalization and that I think is what we all have to do.

I think we all have to work every day and that is why you do in the area that you work in because really without this kind of work, the countries, particularly the small countries will not be able to compete. I heard recently that China graduates six thousand engineers a year and then South East Asia they are now producing forty thousand bio-tech engineers a year so how does a country that is not even forty-thousand people in some cases you know five or six thousand people going to compete in that kind of global market. If only the kinds of things that we are doing here and the things that you do every day.

And one way to do that is to learn from the experience of others. I mean to learn from the international experience and not just the experience in the Caribbean. And this is something too that as a friend of the Caribbean something has to take a greater role in.
Lots of times at the OECS and other international organizations, we find that the participation in many of the conferences, many of the workshops, many of the programs is not great from the Caribbean.
You need to be aware of and look for these kinds of opportunities to be a part of the broader, the international community because it benefits you and think you will also benefit international institutions. And this comes down to what we are really talking about I think and some things that came up this morning. This is about strategic partnerships. We cannot do business; we cannot help young people do business if we are using a nineteenth century business model.

We really have to look for a business model that is appropriate for the twenty-first century. The world has changed, it is not how it used to be, it is not just about countries, it is about global markets and it is about international markets. The previous models emphasized competition and certainly competition is still very strong and it is what business is about in lots of ways but if you learn and look at what the big guys are doing, they are developing strategic partnerships and the reason they do this is because its gives them greater leverage in their market. So one way to overcome the disadvantages of being small is to develop alliances and partnerships with other organizations, other countries, even other businesses so that if it is that you are supplying or producing something in St. Lucia or somewhere it can actually be sold in the United States through some other organization.

But this kind of model really is based on corporation and collaboration and this is an idea that it works in Asia, it has obviously worked for the Japanese and the Taiwanese and many other countries very well but it is something that we do not think about as being traditionally business, about corporation and collaboration as being the basis of business. We often think of just competition. And a way to do that is to identify shared interest and to be able to leverage who does what best whether that is microfinance, whether other organizations do the training that pre-qualify your clients do that best and microfinance does the loan making the best too. But this is also about being creative, not just always doing things the way we used to do them, about adapting, there is noting wrong with borrowing idea from other parts of the world. You do not have to use it the way they do there because the conditions are different there but you can adapt and you can learn from other people’s experiences. And be innovative. Innovation is a word that keeps coming up in entrepreneurship all the time because it is really what drives progress in many ways and lastly, to be able to use technology.

Businesses that do not use technology will simply not be in business in the future. It’s that simple. Technology is the primary driving engine for business today and it is also something that I consider to be a great democratizer of business. I once went to a seminar in Washington D.C. about how you create an internet-business. They were talking about someone who had started a business on the internet and they were selling computer parts and they were doing this part-time and they were doing it every afternoon when they got home from school and they were thirteen years old. They were in middle school in the US. The internet and technology offers the potential to be able to access global markets, to overcome some of the inefficiencies of small business, to be able to develop these
networks that I was talking about and it also is a way of getting information. You can go to the internet now and learn about anything in the world without ever having to go to college. And also when I say technology I am not only talking about the internet. It is possible to have a telephone, even a fax machine on the kitchen table and to grow tomatoes in St. Lucia or bananas and sell them on the internet or in markets or even by fax machine in Hong Kong and put them on the airplane. This is the kind of technology that really makes a difference. So that is sort of my basic introduction but let us talk a little bit about what we do with the Young Americas Business Trust. We actually were creating this about the same time that DFL was talking about creating Caribbean Microfinance Limited and this was in 1998 and 1999. We decided to do things a little bit differently. I did not see that our role in being part of the OECS, which is an organization of governments, was to do microfinance. We do not make loans but the one thing that I learned over the years were that there are two things the programs and small businesses need and that is access to resources, access to financing and they need linkages, they need those inter-connections with other organizations and other businesses. So we tried to create something that was a little bit different and the key word and the first word is a catalyst so even though we tried to raise money and to finance programs where we can, we are still a young organization and that has proved much more difficult than I thought obviously but we also found that being a catalyst and opening doors sometimes is just as important as financing.

There are young people in business that we have helped simply because I picked up the telephone and called somebody and opened the door for them and then they walked through the door. There is a private sector initiative that is affiliated with the OECS that is actually a NGO. It is based in Washington D.C. and one of the reasons is that we wanted to attract US corporate and business resources under the US tax code.

We basically work in four areas. First is leadership and the second one is entrepreneurial skills training, our emphasis in that is the practical training not creating more courses, the third one is using technology to benefit entrepreneurs and organizations and the fourth one is finding resources both for entrepreneurs and for programs. I will talk a little bit about each one of these areas. The leadership we think that this is important because it is important to develop young business leaders for the future and it is important to link them together. This is the part of our program that deals with linking young people who are already in business. The training I call the wannabes. We found it was actually necessary to do something with young people who actually have businesses. One of the things I have learnt over the years from working in the Caribbean is that the young people in business are important role models for other young people.

Young people do not learn or do not take it seriously if I come and talk to them about business because number one my hair is gray, number two I am too far off but if it is a young person who is fifteen or twenty years old who has made money by producing a product, that is an important role model and an important lesson for them which is much more powerful than something any body can say and I think it is important to bring them together what started out as twice a year and is now five or six times to have events that
will allow them to network with each other, to do business with each other, to interact with other business leaders and with other government leaders.

We had two of them last year, the first was in Washington D.C. in May and the second was in Cancun in September and these were really sort of planning meetings for our program and for what comes next. We had one this year as part of the Inter-American Development Bank board of governors that was meeting in Lima, Peru. We worked with the IDB over a number of years to actually what they call mainstream youth entrepreneurship into their programs that is now starting to take hold and the IDB is actually well a person in the IDB in the meeting in Peru proposed to creating a youth projects fund. We are having an event in Guatemala next week actually. This is focusing on our training programs but also on linking training markets in incubators and we will be doing something in Ecuador with the OECS general assembly. We are just meeting in June and also another one in November in Washington D.C. So we have developed as part of a series of strategic partnerships with the IDB. The IDB going back to since I first went to Washington in 1995 has created a youth development program and has done a lot of things in promoting youth development and youth entrepreneurship at the IDB. It is now starting to take off and as I said some of things we did at the annual meeting in Peru were significant.

I realize of course that some of the Eastern Caribbean countries are not members of the IDB but we have always pushed for that at the OECS though it is still not the case but there are other organizations that you can work through – the Caribbean Development Bank actually is an intermediary for the IDB. There are many ways you can do that. But some of the things that we did with the IDB as part of this program this year is develop a directory of entrepreneurs and organizations. The IDB initially wanted to develop a directory of organization and I said well we cannot just do organizations; we have to do entrepreneurs too. It currently has about five hundred entrepreneurs and three hundred and fifty organizations.

They produce in a printed form but it is also available on our website now and you can still go there and add your organization and be a part of that directory. We are not producing a printed from again, for now but at least you can be part of the internet version of it. They did an assessment of entrepreneurship, youth entrepreneurship by sub-region. There was one that was done in the Caribbean. This was not high level research. This was really looking at what was going on in the region. Unfortunately again they limited it to the IDB member countries but that information also is useful.

We also work with the World Bank Institute. This is our corporate social responsibility program, we think that it is important that young people in business be socially responsible business leaders, that they realize that they are not just in business to make money but to give back to their community. The World Bank has an online course and there is no charge, it is free, it is in English. It talks about developing business social responsibility. We have done a number of video conferences with them, e-conferences, ay contests and actually we are involved with a conference that is taking place in China at
the end of May and one of our young people actually led some of those discussions and is actually participating in that conference.

Another part of this is the World Bank Global Development Learning Network. This is a network of distance learning centers that they have in many countries. What we found is that it was useful to network organizations as some people talked about this morning so that we could share experience and share ideas. We have had about twelve or fourteen of these. Unfortunately, they have been in Latin America, until recently the World Bank has not had distance learning centers in the Caribbean; that is the bad news. The good news is that this year they are starting and that they actually will be opening if not already, I think there in one in St. Lucia and in some other Caribbean countries. So this is something I think we can come back to later.

We will be working with them developing programs for small business and there might be something that we can use here. Our entrepreneur education programs, our emphasis is on practical training, on business laboratories. It is a model that is very similar to junior achievement but it also involves teaching teachers. Last year we trained two thousand trainers and this year we will be doing a workshop in Grenada in July. We are using technology, using our website as a resource to provide information and also as a way to network organizations and individuals. We are also developing a portal for business information so if you want to know how to start a business in another country or even in your own country, you can go there and find information about business licensing and other sources of information.

We are developing a program on entrepreneurial connections which is trying to link US technology with small businesses initially in Brazil but eventually in other countries so that US technology companies can actually mentor small businesses and young people in business.

And we are also developing a program that works with the young indigenous people in Latin America, Afro-Latin young people. We are really looking at indigenous communities and how we can find the appropriate models that work in those areas as it may be different from the others.

And finally looking for money, trying to improve the access to financing, working with international institutions to create programs and finance programs also working with the Latin American Venture Capital Association to create a network of venture funds. Venture funds being a higher level of growth funds than microfinance.

And also lastly, developing programs or looking for funds. We find a model that works for that country to find additional resources either in the US or internationally with the other international institutions.
Thank you. Well I will just talk about the topic a little because it gives a better idea of what my focus is going to be. It is a huge topic, women in general is a huge topic, entrepreneurship all of these subsets are huge topics in themselves so what I propose to do today is focus primarily on the role of microfinance in relation to women entrepreneurs and to focus most of my attention on how MFIs should operate. The other factors will come in as well but that will be the primary focus. I am going to try to be quick because they type of topic it is, it is very easy to get caught up on each individual part. We are just going to go through the key concepts and then I am going to look at the overall rationale, what are the major issues and constraints then what can we do about it and what we have learnt for the Caribbean and in general how we go forward.

This is a mind field, women versus gender, and in the academic field people spend their whole life refining definitions. Since the focus here is really on practitioners we are not going to get very tied up in definitions here. I just wanted to point out that there is a difference. Gender does not equal women even though in common speech we commonly say so and the difference being that women obviously relate to your biological sex while gender is a social construction and it relates to the social relations between men and women and the position of men and women in the society and the important issue is that it is a relative concept. It is always women in relation to other women, women in relation to other men, it is always a relative concept and that is important. The other issue is that in the overall development discourse in the sense of perspective that I am coming from, there has also been some distinctions made. The previous paradigm was the women in development paradigm. Basically that was - add women into development, they were being left out, let us focus on them, let’s add them in. That had all kinds of issues and there was a progressive move into gender in development which is different in that it looks again at the relational aspects not just women in isolation but women in relation to men and to society and also because it challenges instead of adding women on to the existing paradigms and development agendas. It seeks to challenge the agenda itself and integrate women in that respect.

Another major distinction is between practical and strategic needs which we will come to a little later in terms of the orientation. Just basically, women’s practical needs relate to based on their day-to-day lives, their constraints that they face while their strategic needs would challenge the overall structures in which they operate instead of just dealing with the existing structure, seeking to transform the structures. That is not a very academic definition, that it just very quick and includes the basic things. I am trying to keep away
from that word empowerment because it is all over the Microfin literature, people use it loosely, and different people use it to mean different things. Usually is has some concept of autonomy and control and so I just put it out there because it is a big part of the literature but ideally it is better to be clear on exactly what you mean. So now that we have got that out of the way, we can look specifically at gender in microfinance.

Now why do we care about gender? Why did we bother to put it on the agenda here? There are two approaches and what I propose to do today is instead of us spending the whole day arguing over if our goals should be gender equality, if our goals should be profit, to show that there is good reason to focus on gender whatever your objective is within MFI, it could a primarily social objective, it could be primarily business oriented, financial oriented but there is a good case for it under both respects. In terms of the social case, it is very clear. In the international development literature there is the overriding great rationale behind focusing microfinance and making it more gender responsive is the overwhelming gender disadvantage of women. The economic disadvantage of women relative to men has been consistent throughout the world. In no country do women have an equal share of economic resources relative to men and it is estimated that women form about two-thirds of the core.

Within that context, that has brought women and microfinance to the fore on the international development agenda. Microfinance is recognized as critical in terms of entrepreneurship and self-employment so again that has given it a high profile and justified focus on it and there are links between economic empowerment, again for lack of a better word, and wider empowerment so people who are interested in improving women’s overall control of their lives and their participation in political life etc. have focused on the importance of having access to economic resources because it has spill-over effects on other areas for example political enfranchisement. The other view is a rather instrumental view in some respects, it is that benefits for women are benefits for wider society and benefits for their families and in terms of benefits for women in particular in microfinance, what we have found is that there are some reports in terms of the literature of women having access to finance, getting more bargaining power within the household, having greater participation in political life etc. and it increases the individual welfare and also in terms of the group based lending there has been a lot of evidence of the positive effects of collective action and solidarity that women get from these groups.

The other part of course is the idea that women spend differently than men and they tend to spend a higher proportion of their income on family welfare so in terms of donor perspective, sometimes they feel that investing in women because it has bigger ripple effects, a dollar spent on women is a dollar well spent more of less. But some people might not care, they might say that we are not in the business here of promoting gender equality, we may think that we are in the business of serving our clients and making money but we all know that to serve your clients, you need to understand your clients and if men and women are different and have different needs and use financial services differently, you cannot afford not to pay attention to that from a purely business perspective. And the second reason is that being more responsive to gender and being
more gender-sensitive as an institution can provide incredible benefits for the institution itself. Once you are looking at things through a gender lens, you get a more detailed and richer view of the world and better understanding of your clients which you can translate into better customer relations and profits and in addition, you explore growth potential because if you understand that women to some extent are an untapped market, they are still significantly represented within microfinance but there is still more that can be done so if you can understand their needs better, there is a great potential for you to grow.

And thirdly, there are microfinance institutions that have had a gender focus and have effectively targeted women and have had successful results.

There is work done by Microbanking Bulletin and they found that the financially self-sufficient MFIs in the survey had on average sixty-one percent female clients so the best ones had more than half their clients being female so that shows that you can integrate gender and still make money which is important.

So who are these women that we are talking about? Women entrepreneurs are a diverse group but women in society, because of the ideological constructs etc, face a number of similar constraints across the world including the Caribbean. One of the major issues is gender ideologies. We have concepts of what is appropriate for men versus women, types of work, types of behaviors etc and that affects how women behave and it also affects how they are perceived and the context in which they have to operate as business people. They are also structural inequalities. For example worldwide women have a low level of asset ownership sometimes because of specific legal barriers, sometimes because of custom and practice and there is also within the gender ideological component, there is the idea that women are the primary caregivers and all through the gender literature people talk about the triple roles of women. Women productive – income earning, reproductive – taking care of families, taking care of people in general and community roles because women tend to participate more in community activities than men on average so all of these combine to create constraints for the context of which women operate in business.

If you are a primary caregiver that puts constraints on your time, it puts constraints on your mobility if you need to be close to small children etc. If you are spending your life taking care of people and doing particular things, you develop skills in those areas so you would tend to pick sectors that would necessarily reinforce that so it affects your sector choice. It also affects information constraints in the sense that some certain mediums of communication are open to both genders, some are not so in some instances, in relation to business information, women may not have as much access to information as men. Also men in some contexts there is an education barrier. Fortunately in the Caribbean it is not a big problem but in other contexts literacy levels of women in relation to men are low and therefore that provides a further constraint to them when operating as entrepreneurs. There are occupational barriers related to what I said earlier about sectors that women tend to gravitate towards and are considered appropriate for them. And then there are growth constraints on women both on the demand side and from the supply side. Supply-wise, people might not see them as viable clients and they may not adequately address
their needs and therefore they cannot access the services that they need and from the
demand side they may be restricting themselves to particular things that do not attract
support or they may simply just not have the time to get involved in these things that they
would like to under other circumstances.

So with that picture it is not surprising that worldwide there has been some evidence that
on average a lot of women entrepreneurs have basically an unattractive profile. They tend
to be constrained in the informal sector, in the low growth areas etc and as you can see
these are clearly linked to the issues we were talking about earlier. You can see clear
correlations between mobility constraints and gender ideologies about what is appropriate
in terms of how the profile looks. Obviously let me emphasis that that is not every
entrepreneur. That is a generalization; it is in a sense the lowest common denominator.
There is diversity but that is the worst case picture. So in light of that, if this is the
context in which women are operating in, we would need to look and see how we can
address it. What I propose to do next is to take a look at some best practices in terms of
looking at gender issues and integrating them into MFIs but before that I just want to
emphasis the key issues for the Caribbean because that was the general picture. Relative
to that general picture which I just painted, in the Caribbean in particular we are in a
relative good position because there is less structural inequality than in other contexts.
Women can own land and have a lot of legal and political rights that they do not have
elsewhere and a lot more freedom.

There is historical participation in women outside the home in income generating activity
so that is not a constraint but there are some paradoxes because in spite of the enormous
gains in terms of education etc, we still have not seen in the Caribbean that translating
into economic and political power for women so it is a bit of a paradox in that sense. In
terms of microfinance, different from the other contexts in that there is a lot more
individual rather than group-based lending, a lot more mixed lending as opposed to
women-only groups that operates in other contexts and there is a range of operators
within the finance sector as a whole. So there is a different context in some respect. In
terms of women entrepreneurs though, the basic profile that I identified in consistent with
evidence on women entrepreneurs in the Caribbean. The same of similar social and
cultural constraints in terms of reproductive roles etc and in numerous studies including
the ILO study in 2001 have identified these as constraints that women face as
entrepreneurs in the region. The big differences again – less structural constraints, less
education constraints, longer history of female participation but these differences are not
sufficient that we cannot say that we cannot learn anything from other contexts because
the bottom line pictures are still remarkably similar.

So what do we do? We have decided that it is important to serve them so how do you
make microfinance more gender-sensitive. Well this is drawing upon a lot of work that
was done by the UN. The UN Capital Development, founder of their special unit on
microfinance and between them and a number of other researchers who have focused on
these, we have been able to identify some best practices which I am going to share with
you now. In terms of the general guidelines they are pretty clear and straightforward
there. You need to use detailed gender analysis and be explicit about it because you
cannot, especially in a context like the Caribbean where discrimination is not so glaring, it is easy to believe that all things are equal but you cannot have similar services on a level playing field, it would give you different results so you might say that you are not discriminating against women but because the starting point, the social context that they are operating in is different, you are not going to get equal effects which is why you need to pay attention to gender, you need to pay attention to have an explicit focus and do detailed gender analysis.

You may not always have to skills to do it but this is where training etc comes in or market research etc but it is important. You need to contextualize. Do not just take a program from somewhere else and just transplant it here because gender issues even though there a broad similarities, how they play out in different societies is very different and it is going to make a difference to your bottom line and to your clients so you need to contextualize it. The rest is pretty straightforward – you need to understand your market so you need to do research and new research that differentiates between men and women and different kinds of men and different kinds of women. You need to recognize heterogeneity amongst women.

We talked a lot about graduation. Women are at different stages. There are maybe mature women who have small children and their needs are going to be different from a twenty-two who has a three year old. You cannot just say women and men; you need to make it as detailed as possible. You need to address gender at every stage: from planning right through to implementation right through to you evaluation of your impact if especially a gender goal is one of your goals. If gender is not one of your goals, it may be by the way, but at least in your planning you need to account. You need to tailor your products and services to meet the needs and constraints of women and men and how do you do that? You have to understand them first and then you have to develop appropriate projects and then you have to deliver so research is paramount and that is your starting point.

We are going to go into a little more detail now in best practices that have been identified in terms of being more gender-sensitive as MFIs. In terms of products, once you have done your research, then you need to cater your products to your market. Most of the research has identified that because we see that women are concentrated in a particular sector then we would have to match your payment terms etc to suit the business cycles of those particular sectors. That is normal practice that you would do for your normal client, analysis, but it is more important to do it women because of their special nature of businesses that sometimes women are involved in. You need to enlarge the scope of areas in which women can get loans. You have to understand that women are not just income earners. They are managing households so if they have the primary responsibility from household consumption, and then there is a shock etc. it is them that are going to have to make up the sharp fall. If they only have access to finance for business they may take money from the business and they business may suffer so you need to be aware of these things and make other products available, financial services available to women such as for example emergency loans for household consumption, for investment in human capital within the household etc.
You can also expand beyond loans to things like insurance or special leasing products. There are arranged saving schemes but that has its own issues because then you get into regulation cycles but where possible, where there is a gap, you need to consider those things. In terms of processes and regulations, you need to be prepared to accept non-traditional forms of collateral. If women own less assets than men, they do not have the same amounts or it is not as likely that they will have something up to offer as traditional collateral which is probably the reason that they cannot get credit in the first place from the commercial banks so you need to be more flexible on those issues, simplify the process and empower women as far as possible.

The last one is not sop relevant for us, in some contexts that is a big issue in terms of women signing as opposed to men.

You not only have to have the right product, you need to deliver it properly and effectively. As we said a lot of women have enormous mobility and time constraints so even though in general in business it is good to be efficient, it is good to be convenient, it is even more critical if you are dealing with people who are hard-pressed for time so you need to be conveniently located. Go to them as far as possible, stream-line as far as possible so that it is not cumbersome for them. You have to be proactive because of the context that we operate in. You cannot assume that they would come to you or that what you are already doing is actually reaching them. You need to actively seek them out, go to them where they are, speak to them, communicate with them in channels that are readily accessible to them and encourage their participation in product design for example through focus groups etc., monitoring of your product. Make appropriate linkages with complimentary services.

Best practice is of course to separate but if you are offering microfinance products, you need to make sure or be aware of where they are going to access the complimentary service. If you are not, you may be providing yourself in a separate section or you may have contacts with somebody else but complimentary services are very important with women entrepreneurs and included in complimentary services is not regular business development services. It may be just childcare facilities that will allow women to have the time to focus on the business. You have to have the right personnel. That includes hiring female staff but a woman does not equal gender-sensitive. You need to do gender training for your staff. You need it to be contextualized to what they are actually going to do. It has to be practical. There is no point just talking big words over their head about big academic theories. It has to be tailored to the context in which they operate. And you cannot lose sight of your financial viability issues. Once you identify the right product, you identify the right mechanism, you have to find cost-effective means of doing so or else it is not going to be sustainable. Women are clients and are therefore part of your business and it is not like handout so you need to approach it in a business-like approach even though you have a social orientation as an organization. Those are the best practice issues so what do we know about the Caribbean in particular? Everything that I said applies and as you can see is general good practice for a business in general but it is especially critical in serving the needs of women. In the Caribbean context you need to be selective in the scope of products and services that you provide. We talked about the need
for complimentary services but within the microfinance sector there are people with
different niches.
You as an organization may have a particular core competence or core capacity so you
may not be able to offer everything that a particular client needs but you need to be aware
of the whole spectrum and see where you fit in and act accordingly. I need to emphasis
that there is a great need for research. You have to address the issues that we spoke about,
the heterogeneity, women at different phases of their lives different sectors, different size
operations etc. Identify what women needs are, what their practices are and what they
value. That understanding is critical because it reduces the misinterpretations that
sometimes happen.

For example some research was done by Dr. Barritol at UWI on women entrepreneurs
and she found that they were perceived as being averse to growing their businesses but
when she in fact interviewed them what it was was not necessarily that they did not want
their businesses to grow but they did not want it to grow through taking our partnerships
or though equity options. They wanted to maintain control. So people just said that they
did not want to grow though there was an opportunity there but they wanted to grow in
particular ways. If you do not understand you may look at the situation and draw the
wrong conclusions. A good thing is not to take anything for granted, question everything
and find out directly and challenge perceptions and definitions of entrepreneurship and
risk. Women are sometimes not validated as entrepreneurs.

People say that they are in female sectors but some of those very female sectors
occasionally do have growth potential or do have niches so you should not dismiss them
and you have to challenge the definition of risk. A lot of women put their own assets up
for the business; invest their own assets and sometimes people do not count that and say
they are risk-averse. There is nothing riskier than putting your whole house etc up in a
business. That is a huge risk, bigger than borrowing other people’s money to some extent.
You really need to challenge the preconceived notions that you may have. And in light of
that, basically as I said the best practices that we identified are relevant to our context but
within our context I think we need to pay some special attention to these issues because
since gender discrimination is more implicit there is a tendency to assume that everything
is okay. So you need to really question everything you ever assumed about everything. So
what are the conclusions? They key ideas. Addressing the needs of women entrepreneurs
from a microfinance perspective it is worth doing whether or not your overall goal is
gender equality, poverty reduction or just making a profit, it is worth doing. It is
compatible with industry best practices. The things that you do to be gender responsive
are things that you would do to be client responsive in general that make business sense
to do so you just need to integrate a gender perspective into those processes such as
research etc. It can be financially sustainable; experience has shown that and it can
contribute to gender equality from some of the mechanisms we talked about; links
between economic resources and other things.

In general, you need to question everything, analyze, serve the client, innovate and make
the links according to your role and your goal. Your role being your role as an institution,
you may be profit oriented. If you have a social role you obviously will have to put a
little more emphasis on certain things than another person would and you may be doing the same things but you might be doing them at different depths or apply a large number of resources to it depending on what your overall role as an organization is but you still would be doing something whatever you goal is.

Lastly we need to decide what the limitations are. In terms of microfinance and women entrepreneurs there are limits to MFI capacity. We touched on it a bit when we were talking about complimentary services. Within microfinance there are different roles for different institutions. Some of them deal with start-up; some of them deal with businesses that are a particular size so as MFIs you need to understand what your limitations are and you need to identify the roles of different players. We talked a lot today about the role of the state, the role of donors etc and there are roles for other agencies to play. Like Ms. Williams was talking about, partnerships are critical. You know that there is a need for complimentary services, it needs to be separate, and it is not your core competence – make a link with somebody who can provide it. Do not seek to be an expert in things that are outside your field of expertise.

In terms of microfinance and gender equality, there is a huge literature on that but while it can contribute to the gender equality, the benefits vary and they are not automatic, sometimes they are bad, sometimes they are good, sometimes women do not have great control because men control the role, sometimes it does not have a net positive effect on their welfare because men stop spending as much if they are bringing in money therefore the net effect on them is just the same or sometimes the commotion is linked to bias against women, it very much depends, but sometimes it is positive and sometimes it is not.

Microfinance, well we cannot say this enough, it is necessary but it is not sufficient. For women entrepreneurs it is part of a package but for gender equality it is part of a larger project that deals across sectors of education systems across the court so it is important, you should do it but other people need to be doing other things. Thank you.

Sylvester Clauzel
The St. Lucia Heritage Tourism Program

Microfinance and Agri-Business – Findings of an IICA study in the OECS

Thank you. I though I was second but that is fine. Basically when the program announced late last year that we were going to examine agricultural linkages to tourism, many people were surprised and though what does that have to do with the heritage of the country? And the justification was it was twofold yes certainly providing food, local food to the tourism industries which is certainly part of the heritage of the country and secondly because of the decline in the agricultural sector and the movement of so many people out of agriculture and attempting to get into tourism without the training, the understanding and everything else that goes with it. We were very concerned that
people’s hopes and expectations were being driven beyond what was realistic and what the sector could actually absorb and therefore we thought it was important to begin to channel the minds of farmers in the direction of the things they do best which is to grow agriculture produce which is an avenue in which they can participate within the tourism industry by providing agricultural produce to the tourism industry without thinking that the only way they could participate was to get visitors to come to the farms. Immediately Oxfam, Great Britain, got wind of what we were trying to do and began to do what they called a feasibility study but it was more like a scooping exercise done on St. Lucia and in the region to see what was available and what the conditions to make this happen were. Certainly there are findings which I will share with you briefly which confirmed the heavy dependence of tourism in the region. In fact the Caribbean as you may or may not know is the most tourism-dependant region in the entire world accounting for thirty-one percent of our GDP, employing over a million people. However with receipts of 19.6 million in the year 2000, that is direct receipts, with that came figures of 75% economic leakages, 70% of fresh produce is imported, exactly what we do best, what our farmers do best, we still import 70% of our fresh produce, 67% of that coming from the US wholesalers. That information is provided from the UN trade data. In the case of St. Lucia, we found that from 1993 and you will note that 1993 marks the beginning of the major slump in St. Lucia, certainly within agriculture that along with that movement away from bananas, came an increase in the production of other commodities like tomatoes, cabbages and other commodities that hotels desire. We saw between 1993 and the year 2000, an increase from 153.4 tonnes of tomatoes to 336 tonnes by the year 2000.

In the case of cabbages 128.4 tonnes to 296 tonnes and in the case of lettuce, from 75.9 tonnes to 113 tonnes. And that applies to almost every other sector cantaloupes, lettuce, watermelons, you name it both in terms of root crops, vegetables and fruits. So there was a willingness on the part of farmers to move, to diversify away from bananas and begin to do other things. The interesting thing about all of that is we found that only between 25% and 30% of agricultural produce was actually being consumed by the hotel sector for various reasons. Hotels complained of poor quality, of low or inconsistency in terms of the volumes that was presented to them, that the demand for alternative produce was not being met and by that I mean if something was unavailable, the farmers were unable to provide them with alternates or even to make linkages with other islands or other farmers within one island who could provide those produce.

One example is a hotel may have an arrangement with one farmer to provide them with tomatoes. If the farmer cannot provide those tomatoes he will not inquire from other farmer or other areas. There is an absence of sharing of information that allows them to meet the demand and so hotel become very skeptical or continue to be very skeptical about depending on local farmers for produce. As a result of that there was a kind of disconnect between small scale producers and the potentially very large hotel market.

Also farmers complained that the two, three month credit time was unacceptable. There is no way that a farmer can wait two to three months to earn money. The marketing board which was supposed to provide that trading company or middle source for them did not work either again because of improper market intelligence and improper communication.
of information. Very often farmers would arrive at the doors of the marketing board with produce and the marketing board would say well we just ordered so many tonnes of tomatoes so we do not need your tomatoes. There is a disconnect between what is on the ground and the information they have. And mind you a license has to be given by the Ministry of Agriculture to import agricultural produce so somehow when the information goes to the Ministry of Agriculture somehow it is either not collected properly or the channels in which information is collected is inadequate or does not work properly so we have all these problems. And so there was this absence of market information, the distribution system was not working properly, the farmers’ organizations themselves were not acting as good trading organizations for farmers and in addition there was very little access to credit. Most farmers had difficulty in accessing credit. You heard this morning that there is a reluctance to provide credit to farmers because of the high risk. And just quickly, the international climate does not help at all. Certainly the new international structural adjustment programs are certainly not helping our islands and trade barriers are certainly militating against our own competitiveness.

We know that lots of agricultural produce continue to be subsidized in the first world and we were called upon not to subsidize our agricultural farmers for all kinds of reasons so we find ourselves in a very uncompetitive situation not to mention the fact that we are small and we are small-scale producers so our economies of scale are also affected. So basically what we attempted to work with Oxfam is to develop a program called Market Access Initiative and the objective largely is to create trade in specific processed and fresh agro products between small-scale farmers and the formal hotel and related tourism sectors in St. Lucia. The study tried to identify products that they would begin with. In other words the idea was not to go with everything so we want to identify what areas does St. Lucia have some sort of competitive advantage in? And we identified about eight of those – tomatoes, cucumber, dasheen, cabbage, yam, pumpkins and in terms of fruit crops, cantaloupe, watermelon and grapefruit. In the case of dasheen we were quite surprised to find that dasheen is produced by most farmers and we could not understand why because we were wondering about the demand side. We discovered that dasheen is a crop that if a farmer cannot sell it, he can eat it and so that made a big difference. It explained why so many farmers grow dasheen.

In addition to that we find that there is a growing demand for dasheen, in fact we got dasheen at this hotel for lunch today. And so there is a growing demand for it and it is a useful crop for farmers to grow. As I said before, if they cannot sell it, they can eat and so the issue of food security for a farmer is addressed by that. So these are the crops that the project is attempting to look at.

The other component is to develop the capacity of the Farmers Organization to share market information with its members and to support a crop diversification program and to ensure that production planning actually meets the market demand. Another important component of the project is to set up a new commercial trading company. There is a lot of mistrust with the St. Lucian Marketing Board and we found farmers reluctant to work with the Marketing Board and it is a major issue for us. We kind of had to explain to Oxfam that despite that problem, you could not alienate the
Marketing Board. It is an important organization. It has a lot of infrastructure that can be used and so basically through lots of dialogue and negotiations, we were able to agree to a certain kind of operation trading company that would involve largely the infrastructure of the Marketing Board, the Farmers Organization and Oxfam having majority shares. The idea is that you want a stable source to have majority shares in this company so Oxfam will provide those majority shares. At the end of the five year period, they would move out and the shares will go to the farmers’ organizations and other private sector interests. The idea is to keep it as a private sector organization. And the project will certainly ensure that the exchange of market information works effectively and that we can record and demonstrate the reduction of poverty at the farmer level. In fact it is very important for us and for Oxfam that we show that those interventions actually lead to poverty alleviation.

Very people often say I have built a road, I have set up a trading company, I have done this but you do not see the connection to poverty alleviation on the ground. The critical component is to measure the impact constantly throughout the project to ensure that throughout the project we can measure the reduction in poverty levels as a result of that intervention and secondly too, to demonstrate the reduction in cost and risk for the hotel sector. They will not get involved unless their bottom line is affected and so that has to be demonstrated as well.

So basically, just to end, I just want to identify the five program areas of the project. Its advocacy and policy which we want to influence, production planning, capacity building for farmers and farmer organizations, extension services which turned out to be very weak and a lot of the information sharing coming from farmers to the decision makers has not worked properly because of the improper working of the extension services and finally the business finance support which we hope to work alongside Microfin in. So basically we have got support from the EU to do the diagnostic studies and the feasibility business plans, the next step is to take those business plans for financing and the idea is to begin to work with an organization like Microfinance to take viable, agricultural business initiatives to the next stage of financing. Thank You.

Thaddeus Constantin

Microfinance and Agri-Business – Findings of an IICA Study in the OECS

Good afternoon ladies and gentlemen. I am concentrating solely on the St. Lucia market. The study is entitled “The possibilities of Microfinance in aiding the development and diversification of the agricultural sector in St. Lucia”. Some of the background information, we realize that 47% of the population was employed in agriculture from the period of 1996-2001; 11% less than 1986. It can be noted that in a census from 1976-1986 the percentage of the population employed in agriculture was almost constant. The contribution of the agricultural sector to the GDP fell steadily over the ten year period from 1991-2000. The agricultural sector accounted for 56.8% of exports in 2002; 76% of that being bananas, 14% less than the previous year. A correlation study performed
showed that there was a high correlation between banana exports and the exports of fresh agricultural produce. Some of the other background information includes that the banking sector lent 2.1% of its credit to the agricultural sector in 2001, 8.1% of that was lent to the hotel sector and the greatest part of that lending was provided to person growth. 261 were disbursed by the National Research and Development Foundation and the Rural Enterprise Development Initiative Program between March 1997 and April 2002. The National Research and Development Foundation reported 6% loan recovery and 50% of the projects are no longer in operation. The other lending agencies on the islands reported similar findings.

Some of the constraints of agricultural lending - natural phenomena: It can be seen that some work has already been done in the provision of irrigation to a number of farms on the island although most of these farms are still geared towards the production of bananas. In the case of pest and disease, the island does not have serious problems with pest and disease and with proper crop rotations and preventative measures, these can be reduced. Lack of insurance is one of the problems plaguing farmers, economic factors, the technical support provided by the different agencies that provide this support, the efficiency of the production, market arrangements as Mr. Clauzel stated, business habits of farmers: only 4% of farmers on the island keep records, the financial issues associated with agricultural lending, the legal environment - in St. Lucia it is difficult for a lending agency to recover its security after a loan has been defaulted upon. This is different from the other islands in the Caribbean where the security transfer is done with the greatest of ease as compared to St. Lucia. Land tenure – most of the lands occupied by St. Lucia are under family holdings; and also the policy framework.

Potentials of the Agricultural sector – We have a growing tourism and manufacturing sector which are providing local markets for agricultural products. A study performed by Little & Phillips, which is a study where they studied St. Lucia and Grenada. They observed that there was a high feasibility ranking for root crops and some vegetables in these two islands. The fishing sector has been able to satisfy the local market as stated by the fisheries department. The poultry production in eggs and meat, although highly feasible, has not been able to be productive enough to satisfy the local demand. The production of freshly cut flowers has not proved efficient and has not been able to satisfy the local demand. And the production of endemic & exotic species of plants and animals is part of the sector that we have not even started to look into in St. Lucia; quite feasible I might add.

Factors that will increase the feasibility of agricultural loans:

- Better record keeping on the part of farmers - like I said earlier, only 4% of farmers keep records and that would affect the agricultural practices and also their financial practices, their business habits.
- Accounting and credit counseling services - these are two areas where we can help farmers.
- Research to increase the efficiency and productivity of those in the sector.
• Effective testing and timely transference of technology: a lot of the times when technology is being transferred it is usually quite old and quite outdated. We receive the technology and we try to transfer it to the farmers without undergoing a phase of testing and if we undergo any testing, the information would lie on somebody’s desk, so it would not get the farmer on a timely basis.
• Improved legal environment - that has to do with the security aspect of the lending.
• And infrastructural developments – As we can see the government has already undertaken some work, working with roads and also the irrigation systems to allow for off-season planting especially needed in the case of vegetables.

The promotion of parallel growth in the different economic sectors – Balance is necessary in every aspect of life. If we do not have balance in our economy it means that we will always be in the same situation. It is necessary for all sectors of the economy to move together as a unit and also growth can be promoted. This would allow for a lot of the food import-export deficit which is quite high, I have figures here but I do not have to time to present them, and the reduction in poverty. Thank you very much.

Julian Henry
General Manager
Microfin, Trinidad

Financing “start-ups” – the Experience of FUNDAID for over 30 years

Thanks Prakash. I will try to stick within my ten-minute quota. I put some thoughts about start-up financing to paper. I will try to go through them very quickly so that we do not spend too much time. It has been said that 50% of small businesses fail within the first year of starting and 95% fail within five years. It is almost like a game of survival for start-up businesses where only the fittest will achieve success. While poor management is cited most frequently as the reason for failure, inadequate financing comes in as a close second. Anyone starting a micro enterprise is going to find it very difficult to access financing and for obvious reasons.

Any profit focused in MFI will tend to stay away from start-up businesses simply because they are too many uncertainties. It is much safer to focus on existing businesses that have survived the trials of setting up, have found the right product mix and marketing niche and are now showing steady cash flows but are we selling ourselves short here? Attaining critical mass is always one of the key factors for successful MFIs and also one of its many challenges especially in the Caribbean where economies are small. Maybe we are too caught up with the idea that micro enterprise is all about survival of the fittest when we should realize that it may also be about survival of the luckiest. It is likely that while we are prospecting our target market communities, looking for new businesses that have survived the initial trials of getting off the ground, there are other potentially great
entrepreneurs who have never had the fortune of having the right factors including financing coming together for them.

The implication here is that while there are notable risks and challenges associated with financing start-up operations, if due diligence and consideration are applied to individuals, who have the right qualities, financing start-ups can be a viable option even for MFIs whose objectives are profitability and sustainability.

What is a start-up business? Well one can simply say that it is an individual with a dream to be his or her own boss and to chart one’s own destiny. These individuals are strong visionaries who are prepared to take risks. It is said that many of these individuals can be found in Woodford Square in Port-of-Spain. This is a place well known for its homeless people. It has also been said that the owner of the Subway chain of restaurants started his business at age seventeen with a start-up loan of $1000 granted to him by a friend. Imagine if instead of a friend, it were one of us here who made that dream possible.

Notably successful entrepreneurs have certain identifiable qualities that can be systematically investigated by the MFI to allow for a proper risk assessment and there is still an unmet demand for individuals who have the right qualities to start businesses but without the financial opportunities. By widening the range of potential clients and accelerating the rate of portfolio growth through responsible lending to both start-up and established businesses, we are opening windows of opportunity for a larger segment of the market further helping to raise standards of living within our communities and reshaping the business client from one of dependence to a culture that is more proactive and productive. In so doing, we are improving the working conditions for microfinance institutions and improving our chances of obtaining sustainability and profitability. One such organization that has been making significant progress in the financing of startups is Fund Aid and it with high regard of their mission and principles that I talk a little bit about them now.

Trinidad and Tobago Development Foundation, Fund Aid, was founded in 1973 as a company limited by guarantee under the companies limited by guarantee under the companies ordinance and registered as a charity exempt from taxes. The basic idea of the foundation was to provide access to seed capital to people in need of transforming themselves into entrepreneurs while improving their social situation. Its initial funding was raised through donations and grants from the local community which were matched with grants from the Inter-American Foundation. At this stage, the organization’s financial, human and technical resources were geared mainly towards guarantying community development loans. In 1991, Fund Aid received a loan from the IADB and started lending to startup businesses up to a maximum amount of TT$30,000. As it is focused on startup operation, its clientele would normally have little business experience and so loans are generally linked to compulsory training and technical assistance.
To date Fund Aid has financed of 3,600 loans and supported a creation of 8,800 jobs. In its many years of operation, Fund Aid has faced many challenges, particularly because of its emphasis on startup loans.

It has been difficult to maintain an economically viable position due to a number of factors:

- The existence of delinquent accounts,
- The high cost of providing training and technical assistance,
- Collateral used by clients generally have little resale value, and
- Other micro credit programs with different philosophies about micro business.

But Fund Aid has not been able to survive as a startup loan provider for over 30 years without learning some valuable survival lessons. It maintains a philosophy that incorporates a high degree of integrity and a full commitment to the creation of opportunities for the small man to improve his quality of life, that it important to be flexible to client loans and that you have to build close relationships with your clients in order to properly understand and serve their needs as well as to ensure client retention and referrals. Earlier this year, as Fund Aid and Microfin entered into a strategic alliance with the view to pull in resources and experiences together to better meet the demand for micro credit in Trinidad and Tobago. Both Fund Aid and Microfin shared the same philosophy and follow the best international practices and it is with eager anticipation of success that we move into the future together.

So my question is, does financing startups make sense? I will conclude here and I am saying that the answer may possibly be that it may not be feasible for every lending institution but for those MFIs whose mission and whose objective is to promote better opportunities and improve standards of living for the small man, yes. And to those MFIs which are serious about obtaining economic sustainability and maximizing profits, there are certainly clear advantages to ensuring economic and social stability at the micro level.

Thank you.

DAY 2

Amy Lofgren
Country Manager
Microfin, St. Lucia

I have been a microfinance practitioner for thirteen years now and a couple of the things that Cherianne and Roy had to say really have shown themselves in my experience. Early on in the microfinance proliferation of MFIs because were seen as such a more bankable group of people they tended to repay at higher rates than men did. They tended to reinvest in their families at higher rates than men did. Microfinance really focused on women and the multiplier effects that can be created through that and that must have
fallen under women and development ideology because what we found is that when you lock out an entire group of people they become resentful and there are examples from all over the world but the worst case that I have experienced was on a field trip where a particular village was so angry that the men were not being offered any form of financing in any way that for a period of weeks women were going home and having acid thrown in their face or being set on fire. So when you think about an intervention that is aimed at only one group of people, you have to consider who all the stakeholders are and how they will react to that. Secondly, while I was working in Kenya there was a very small credit union that ended up becoming very very successful in its region and what happened was that women were really the main participants at first but as the men saw the success of the project, they would come in and replace their wives names with their own so it is a responsibility of the microfinance institution to remember who their client is and ensure their safeguards especially when you are taking savings because this was actually in fact the women’s savings and then the men were coming and putting their name on it.

In conjunction with what Roy was saying we should really focus on young women in business because it is quite tragic when you see young women whose families are focusing their resources on the boys and they feel that they have less values or their opportunities are not as great and having worked in Thailand quite a lot, the one thing that everyone can fall back on but women in particular is falling into the sex trade and this is particularly a vulnerable area for young women who do not have other skills so it is important to foster not only women in general but especially young women in business.

Ishtiaq Mohuiddin
Regional Manager
Microfin

Microfin’s Initiatives in the Eastern Caribbean

On this question of gender and women, just to mention some experience we had with this program in St. Lucia. It is sure that this program is not aiming at first at women but two hundred and thirty people have already benefited from this program. It is quite, I do not want to say surprising because well you know the Caribbean is such a surprise but I could say that there is more than fifty percent of these small enterprises which are managed by women and by doing the monitoring, in fact the most successful small business that we can see is mainly managed by women and in our report not a long time ago that was put in the newspaper, we said that the women are taking over which is in fact in terms of small business at least in St. Lucia. What we can see is that women are very vibrant and active in terms of entrepreneurial spirit. Most of the well-managed firms in St. Lucia are managed by women so it is true that there are some programs which are not gender-oriented but...
(Inaudible)
Q: In your presentation Thaddeus, you said that in the agricultural sector there is no insurance or agricultural insurance but do you know any regional insurance companies that are willing to provide insurance for the agricultural sector?

A: (Thaddeus Constantin)
Well in the little research that I did, I did not find any but I could do that research and give you that information.

Q: (Amy Lofgren)
I have a question for Thaddeus. Right now we are seeing a tissue culture project for bananas coming into St. Lucia. I have worked with tissue culture bananas before and my experience is that they produce two fronds yet the tissue culture that we are bringing into St. Lucia does not do that. It is highly dependant on inputs or fertilizer and you spoke about irrigation and these particular plants prevent inner-cropping. I was wondering what your thoughts might be on that.

A: (Thaddeus Constantin)
Well the tissue culture initiative is a very good initiative actually. The thing about it is mono-cropping has proved to be unsuccessful in agriculture the world over. If we are going to continue working with bananas, we cannot phase it out completely, it is wise to bring in the technology that will allow for effective production but it is necessary that the farmer learns how to inter-crop, how to rotate his crops to allow him to have other income sources and also to allow him to control his pest and his disease more effectively. Like Ms. Lofgren is saying the banana tissues that are being brought in need to be kept on the farm for a five year period for them to be feasible. In that five year period, if the farmer is able to plant a certain proportion of his field and then rotate the rest of his field allowing that farmer now to have more than one income source instead of just concentrating on just the bananas. If he concentrates only on the bananas, tissue culture plants being very susceptible to pests and disease, especially the sicatoca and the yellow sicatoca that we have now. If he concentrates only on this and he has an outbreak of disease or he has a natural disaster, he is going to lose all of his money. If he allows for a sensible crop rotation he will therefore be able to save face in the times of disaster. I hope that answers the question.

Q: My question is addressed to Mr. Clauzel. You mentioned the new entity being formed between Oxfam and some other persons with the view of taking over the roles and function of the Marketing Board. Are they going to be carrying out the same functions, are we looking at duplication of efforts, misuse of scarce resources or are we looking at two entities with two totally different roles? And before I conclude, I just want to add on the question of the dasheen. I think that it
is not just a question of the farmers being able to eat it; I think it is the sale of it. It is saleable. This from my knowledge is one of the reasons why the project where farmers were actually given monies for the planting of dasheen failed because they could get more on the local market than they could get on the export market.

A: (Mr. Clauzel)
Thanks, first of all, I am sorry if you misunderstood the first part. That is absolutely not what I was saying. It is not a parallel company. It is a training company which is going to comprise of the St. Lucia Marketing Board and the farmers organizations. It is not a parallel company. In fact I thought I tried to make that as clear as possible when I said that. We made it very clear that there was no need to duplicate efforts in that area despite the resistance of the farmers who themselves were clamoring for a separate company which we had to be firm on as that did not make any sense but I am glad that you asked me to clarify that. On the second point of dasheen, I mean what you said is right I am sure. Thanks.

Q: Mr. Dhanrajh, you mentioned that DFL is not involved in startups because it is too risky. However there is a strategic alliance between you and Fund Aid and they are involved in startups exclusively?
A: Yes Fund Aid is exclusively involved in providing startup facilities. Although there is a strategic alliance, Microfin will allow Fund Aid to do what they do best and that is to handle the requests of startup loans. Microfin will continue doing loans which are businesses which are six months and over and established but all the risk of the startup loans is being bourn by Fund Aid.

Q: And how is Fund Aid financed?
A: How you manage the risk in financing startups is on two levels. Number one is that you are going to require a different type of funding or grant monies or something because you have not just lending but you must have some level of support services that goes along with it. In terms of funding you know that even if you did very good selection of startups what you are going to find is that there is going to be failure not necessarily because of the person but because of the untried and untested idea, so that is one level. The second level is that even your staffing requirement is going to de different. The kind of person who can work in a startup scenario is going to be different, it is not going to be substantially different but it is going to require a different level of effort and efficiency. You are going to have to spend as a person much more time with startup businesses because you have to do a lot more mentoring than you can afford to do in a strictly commercial micro credit operation. So you have got to structure the lending by arranging a different type of financing and having a different type of staff.

Q: Yes that is very well understood and you also mentioned that the loans are linked to compulsory training and technical assistance but with all of that being done, like you said there will be some failures and I just wanted to get an idea of what the level of success is with new startups or failure, whichever one.
A: Okay the one thing that we do not have apart from the information that we will eventually get from Fund Aid, we do not have any definitive percentages that we
can give you. The failure rate in lending to startups is much higher than in lending to already existing businesses where you have persons with a track record of at least six months to one year in a business because from our own experience, sometimes there is a feeling by persons that owing your own business is a very glamorous thing, having your own business is very glamorous and you can control your time. In fact our experience is that when you open your own business you have no control of your time if you want to have a successful business and sometimes the failure of a lot of the startup businesses based on the expectations or the actual not being consistent of what they thought it would entail but we have no track record in lending to startups so we have no figures to quote.

(Julian Henry)

The figures that I quoted, 50% failure rate after one year and 95% after five years, those are figures based on a study done in The United States; 95% failure rate within a five year period. Those were figures that were derived from a study done in the United States. I cannot say that they will be applicable to our situation here but I thought it was good information to bring to the air.

Q: (Amy Lofgren)
I have a question for Mr. Clauzel. Farmers are notorious for their stubbornness and difficulty in changing their thinking and Thaddeus had expanded on the issue that the technology transfer could be quite slow for a variety of reasons. One of the inherent problems in providing microfinance to agriculture is the seasonality of it. I know that there have been some attempts to bring in greenhouses here in St. Lucia and the attempt has not really gotten a full force behind it and I was wondering if Oxfam and Heritage will be trying to smooth any of the seasonality of production.

A: (Sylvester Clauzel)
Yes Amy that was a major considering during the study and the planning stages of the project and you are right, we found lots of resistance on the part of the farmers to adjust to new ways of doing thing and one example is what you were saying. They were insisting at one point that we provide them with money for inputs and we were hard pressed to explain to them that we need to asses the viability of the operation first before you can be given money for anything and in any case if you were given money it would be as a loan and you only get a loan if you have a viable business. It is difficult because farmers come from a history of getting lots of grant money, loans that they feel they have no obligation to pay so you are right, the learning curve in that area is going to be steep and I agree it is going to be a challenge for us. With respect to the greenhouses, I think farmers have recognized that the seasonality, certainly problems they have with rotting during the rainy season is a major issue and the discussion with the farmer organizations certainly confirmed the understanding of that problem and the need for technology or some technology shift in that area. We think too that if the farmers
organizations themselves can be so strengthened to force their farmers to comply, in other words we feel that if we can get through to the leaders it might be possible to get to the membership.

(Amy Lofgren)

A: I would like to address that if you don’t mind. First of all, within the microfinance industry there are moves towards micro insurance, micro housing and different types of products to address just those needs that you have been talking about however microfinance is not the panacea for the problems of the world. It is merely an equalizer to allow people equity access to the same business resources that we should all be able to take part in. I think that it’s a mistake to think that microfinance’s objective is to solely increase people’s standard of living but I see microfinance’s role more as a prevention of letting people become more poor or unrecoverably poor.

Yes we do want to see clients graduate above the poverty line and go on far ahead of that but that is not the experience of the majority or microfinance clients but what seems to be the real grace of microfinance is that so many things can happen in life; life is risk, taking a loan is risk, giving a loan is risk and when you are talking about very low income people the idea that someone could break a leg and not be able to work or have a sick child and not be able to go to work that day – those are issues that will create greater poverty so really if you look at microfinance as a way to prevent people from falling into greater poverty, to unrecoverable poverty, then you have a sort of a spring board to actual more economic growth because if a parent can ensure that they can pay their children’s school fees, that child is more likely to do much better in the next generation. This is sort of what the American dream has been built on that every generation will do better than the generation before. So within our own generation, seeing huge leaps forward and income growth would be wonderful, I would be on board with that 100%. I think it is highly unlikely but what we hope to see is less people becoming even more poor.

Prakash Dhanrajh
Vice President of Caribbean Microfin Limited

Summary

Okay with that final comment, because we could carry on this conversation until seven o’clock and walk straight across to the cocktail session, what I will do is to hopefully take not more than five minutes to just summarize the day’s proceedings.

We started with David Crush and the EIB making a comment and saying that micro credit is about allowing people fair access to financing options and he did give us some of the success factors in micro credit which would be:

- A good MIS,
- Good portfolio management systems,
- Transparent accounting,
• Good quality staff,
• Good products,
• Local currency loans and
• A good regulatory environment.

He however indicated to us that there are some things that we have got to look out for:
• Micro credit operations that are growing too rapidly, because if you are not set up to deal with that rapid growth you can run into severe problems.
• That you have got to look out for you foreign exchange obligations especially in terms of your loans.
• You have got to look at the government programs that are offering free loans because you may end up with a clientele that becomes very dependant on handouts and
• You have got to look at fraud and corruption within your environment and with the society at large.

In terms of the role of the private sector in micro credit Cesar was very definitive in indicating that there was really no role for government in doing anything positively. In other words he is saying that they should leave the private sector to do what it does best which is to encourage the growth and development of business. What the governments however must do is to be supportive rather than restrictive and that they should promote competitiveness rather than try to interfere with competitiveness. What governments also must not do is to things like putting ceilings on interest rates because that is interfering in the financial sector and interest rates in micro credit must be sustainable. It must offer the micro credit provider an opportunity to cover costs and make a return that will ensure sustainability. What the government must also not do is to subsidize operations or themselves get in to subsidized micro credit lending. The importance of micro credit he indicated had to do with employment creation, a lot of it having to do with self-employment but even with people who eventually employ themselves, they create other opportunities for people especially in their communities. Microfinance will increase GDP and will also indirectly allow people social benefits they may not be able to afford, to do things.

Mr. Emmanuel Haynes of the Bank of St. Lucia indicated that the Bank of St. Lucia was involved in micro credit lending to a very limited extent and to me that is not surprising as these loans are considered to be too small to be of strategic importance to the bank. In other words the bank is more interested in other kinds of lending and micro credit lending really should be done by people whose primary business is micro credit lending. Lending by the commercial banks to micro credit requires very good collateral when they do do it in the commercial banking sector they are asking in many cases for as much as 50% in cash collateral and the owners of micro enterprises will tell you that if I had that 50% in cash I would spend it myself. The other is that the bank staff are not trained to understand micro enterprises and those involved in micro enterprise lending, the people that do micro credit lending are very very special people. I can speak for myself; I could not live in such conditions where I am not sure at the beginning of a day where my bread is coming.
from. These are very special people and they need special people to deal with them and that is where the staff in the micro credit operations play such a vital role.

What we also learnt is that for the foreseeable future, specialist micro credit institutions like Microfin, must continue to service micro credit businesses as the commercial banking sector as we know it will not be able to do that. They are not interested, it does not give them, based on their high overhead cost and their low productivity, and I am not knocking them but they are simply not set up with these nice offices and very comfortable surroundings and staff that does not want to leave the office, to do micro credit lending.

In terms of Mr. Christian Harel what he did is that he told us that lots of funds from donors, which include government programs, have been thrown at the poor sectors of the economy with very little positive impact, that donors have chosen in the past to set up new entities that rather than deal with existing financial institutions and that this must change and it is in fact changing, that there is a need for services to micro enterprises and that there must be a clear separation of grants and loans. In terms of credit information, the credit information exchange, Cesar reiterated that good credit appraisal requires loan documentation, collateral, credit worthiness and a willingness to repay. He gave us an example of some study that was done, I think it is in Latin America, where in persons that were in arrears, 80% did not pay because of capacity but that 20% of those that did not pay had to do with the willingness to pay so that in our evaluation of the persons that we do micro credit lending to, we have to in some form or fashion find out about their character, find out about their past credit history, to be able to decipher which is the 20% that we should not be dealing with. We also learnt from Cesar that credit scoring, while we understand the benefits of credit scoring, it is still a while away and that we are going to have to depend on past credit information a little while longer in determining who we should be lending to.

In terms of youth and women we learnt that no segment whether by age, sex or any other superficial criteria should be left out of the economic development process.

In conclusion we have seen a number of people go through this very long day and I hope that it is because we all have a deep interest in micro credit and we are very serious about making a better society for ourselves. I would like to thank you for your participation and look forward to seeing you all tomorrow, bright and early but before you reach here bright and early tomorrow morning, I hope to see you at seven so that we can all enjoy these pleasant surroundings and continue the discussions in a more informal setting. Thank you very much.

Frank Whylie
Managing Director
JN Small Business Loans

We have a staff complement of thirteen of which eight were field officers and the program operated from seven locations in Kingston and the adjoining parish of St.
Catherine. Our objectives – there are three. One is to support micro enterprise
development in Jamaica, two to create and maintain jobs and three to assist micro
entrepreneurs to increase their income and improve their quality of life.

Our loan program: our target group is small business persons who are unable to secure a
loan from traditional banking sources. It begins with a first loan of between $5,000 and
$50,000 Jamaican dollars. Repeat loans in increasing amounts are available but these are
based on repayment record of the previous loan as well as the capacity of the business to
repay. Our maximum loan is $200,000 Jamaican dollars and our terms range between 10-
15 weeks. Collateral for these loans are household appliances, tools and equipment and
third party guarantees.

How is the program accessed? First of all you need to be at least 18 years old. Secondly
be the owner of an active and profitable business for at least a year. We do not finance
startups. You need to reside or work in the community for at least one year. You need to
be able to show evidence of paying bills on time and most importantly they must have a
sound character.

Our growth: since inception as of March 2004, we have moved from 2,000 to 6,520
clients. The value of our loans at the end of the financial year in March was 109.4 million
Jamaican dollars. Our staff complement moved from 30 to 66. We now employ 39 field
officers who are based in six regions which comprise 29 locations across the island. This
is a graph showing the movement in the value of loans and another showing the
movement in the number of loans in the portfolio.

Since inception to date we have made 34,543 loans valued at a little over a billion
Jamaican dollars. The number of loans disbursed for the last year was 15,765 for a value
of 476.6 million.

Features of the portfolio: Portfolio at risk over 7 days of 3.4%, over 30 days 1.6%.
Traditional way of measuring the portfolio… 2.78. Average loan size is 16,780 and the
loan term 22 weeks.

Features of the portfolio: New employment generated – 9,267, employment maintained –
6,520, A total of 15, 787. Similar to Debra the females account for 73% of the portfolio.
The distribution again similar 71% of the clients involving distribution, 8% involving
manufacturing, 7% in services, agriculture 5% and transportation 2%. There is another
sector called other which is a bit large, too many small loans.

We have some partners, first of all Jamaica National Building Society that provides
financing. Unfortunately we are not lucky like Debra we have to borrow at market rates
form them. They also manage our disbursement and collections and provide IT support.
We also have a corporate agreement with USAID that provide us with technical
assistance in the form of computers, management information systems and so forth. We
also use the Jamaican post office through which from ten locations we also disburse loans
and collect and we have a borrowing relationship with Pan Caribbean Merchant Bank.
who does provide us with credit funds. Those are some comments from our satisfied clients.

I want to turn very quickly to some of the challenges. We saw challenges as the following which I am going to try to go through very quickly. First of all is client selection and retention. One of the problems we have is how do we eliminate poor payers from the system while at the same time trying to grow a large portfolio? One of the things that we have tried of course is to start with first of all if the clients do not pay on time we have a standard principle. If you do not pay on time you are eliminated from the program. Now Accion does not believe in that for example. They say that our retention rates are too low but you can’t have high retention rates and low arrears we have found that out so that we are trying to do is to respond quickly to the payments. We are able though our loan management system to respond very quickly but as I said if the clients do not pay on time they are eliminated from the program. The converse to that is so long as you pay on time you are guaranteed a repeat loan.

Moving on, the next one is managing credit in the field which Debra referred to. This has to do with the selection and training of good field staff. I had a discussion with Julian earlier this morning about how critical the staffing is to these programs and Debra referred to it to the various pressures that they come under and in my case my staff is about to be unionized which also of course carries with it a certain amount of challenges as you are aware but what we have tried to do is to rely heavily on continuous training and feedback from the staff to ensure that our policies and procedures remain standardized and that they are followed very strictly. And of course we are heavy on supervision to ensure that these policies and procedures and maintained. Thirdly is developing a real time management capability.

We through the help of USAID were able to identify a loan management system. It is not perfect. We took a year in researching various systems that are available. We really did not find any that quite fit a micro enterprise lending scenario but we got a close fit. We have had to do a lot of customization and the product no longer resembles what was purchased but it has been helpful because it has been able to give us information within 8 hours after payment what is the situation relating to each client. Our officers are connected to it so that at the end of a working day they are able to access the system to find out whether or not their clients have paid and as a result can react quickly to non payment. The third is the issue of collateral again Debra referred to that earlier. The target group does not posses bankable collateral. We accept serialized household items – television sets, component sets things like that and the target group does attach a lot of value to that however in most cases they are unable to prove ownership since they have no receipts and of course more importantly from a banking point of view these assets depreciate very rapidly. I mean a television set can decline by the time the end of the first loan is arrived at so what we have had to do is that we tend to rely more heavily on the character of the borrower so we start initially with a very small loan and as we develop confidence in the borrower and the business then the loan size is increased so that we don’t rely very heavily on the collateral.
The fifth is the lack of business experience and the difficulty of separating business income and expenses from that of the household among the target group. I think reference was made to this yesterday and this is primarily the reason why we do not finance startups. We prefer to work with people who have been in the business for at least one year in our situation because we are able to see some kind of purpose, they have already gone through the difficulties of getting up and running and it lessens the risk. The next is the timely delivery of credit. We have a lending methodology that reduces turnaround time to seven days for a first loan and two to three days for a repeat loan. We have tended to focus in pretty dense areas of the country so as to ensure that there is a certain amount of volume. Our officers use laptop computers in the field and we have eliminated the bureaucracy that is attached to lending. We have one document that the client is supposed to fill out which is essentially a pre-application form. Once that is completed our officers do the rest of the work but they are working from a program on the computer which provides some assistance in determining loan sizes and loan amounts.

Then there are the other factors, the social and the rest. Debra referred to that too – they also have the same problem. Crime and violence in Kingston in particular and in some of the other rural communities which affects all the clients and our officers. The stresses are unbelievable in some areas. Whenever there is a flare-up in violence we simply have to sit it out which means that if a client goes into arrears during that period we simply wait. In most cases they will come back, in a few cases clients have removed. They are under witness protection for example so we can’t find them that kind of problem but it comes with the territory.

Then there are legal issues. We have been appealing to our Minister of Finance for a waiver on things like stamp duty for stamping a bill of sale and stuff like that but the truth is that we have not had a positive response yet because he simply says well you are charging a higher interest rate why can’t you finance it yourself? So that remains a challenge and until that is done what it does is to expose the portfolio because people can use the same item at two or three other institutions because you have not got a stamped bill of sale to protect it. Then there are of course economies of scale. We are challenged to offer our services island wide to reach the poor and at the same time to be profitable. Decisions relating to branch locations have to be taken bearing this in mind and as such we have always tried to stay in those areas where we are likely to have a large enough population.

We have been affected for example by the fallout in tourism in a certain section of the island just caused by 9/11 which immediately affected all the economic activity in that area. High operating cost is another challenge as I was just discussing with Debra this morning. Rising petrol costs, telephone costs, stationery costs all of those are killing us but we cannot raise the rate of interest. Then there are the external uncertainties – acts of God and man, downturn in the economy, crime and violence all of that affects us but I want to end by stating the benefits which are very simple. It is the empowerment of the poor, the empowering of women and fostering a positive approach to social stability in low income communities. The way forward we think and those are issues raised.
yesterday, a credit bureau is badly needed in Jamaica because we suffer from two things one is multiple lending in the sector – Debra’s clients are my clients, my clients are Debra’s clients and the clients play us off one against the other. And there is the issue of collateral, the inadequacy of it so that a group credit rating would make up for the collateral deficiency.

Improvement of loan appraisal systems - we are presently in the discussion to develop a credit scoring methodology for micro credit with one of our subsidiaries and of course the use of palm pilots in the field for data gathering. We have started to disburse through debit cards which are owned by the parent company and we wanted to take it to the next level where the clients can in fact use the debit card to make a payment and of course new product development and training for our entrepreneurs. Thank you all ladies and gentlemen.

Ishtiaq Mohiuddin
Regional Manager
Microfin

Good morning. When we talk about Microfin Eastern Caribbean right now we are talking about actually two countries. It is Microfin St. Lucia and Microfin Grenada and we are hoping that in the near future we will serve in other Eastern Caribbean countries and in the Eastern Caribbean we have actually been working for the last one and a half years so we are pretty new here and when we say our initiative, right now most of our initiative is work in progress. I mean we are doing some planning and market research to see how we can serve this market so let me look at some of our goals – what we are trying to achieve. One of our goals is we would like to bring micro credit clients directly to the formal financial system; to sever of clients efficiently and by that we mean that if we find that in Caribbean countries, in some countries we need to introduce individual lending products we will, if we need to have group lending products we will. Our goal is basically to serve the clients efficiently.

One of the things we see in Jamaica and in Guyana is that the group lending is quite popular and I see why because coming from Bangladesh where group lending is still dominating the marketplace. There is basically two reasons because in Bangladesh when you are talking about micro loans you are starting at $100 US dollars and when you are talking about a US$100 loan it is very difficult to process and analyze the loan individually because it is just not cost effective to do that and a country like Bangladesh has an advantage because they have a huge population base. In Bangladesh if you open a MFI and you expect that if you serve 20km working area you are supposed to get about 15,000 clients so the country is mainly almost designed for group lending products even though over the last 20 years now it is more shifting toward individual lending because the clients have more experience and they understand what is credit culture. They understand that when you take a loan you have to pay it back so the credit culture is developed.
Another one of our goals is that we would like to offer different products in the market and especially when we look at the Eastern Caribbean countries. In countries like Jamaica, Guyana, Bangladesh where you can start with just one product and you can work at least five years with just one product and you can have a couple of thousand clients but in terms of if you see in the Eastern Caribbean we are looking for in the next few years maybe 600 clients and so it is very difficult to serve a client base just with one product and this is mainly because of the size of population and as a private MFI we would like to have an adequate region for our share of this even though this is another couple of years before we can do that but definitely that is one of our goals.

Our initiatives: The individual lending product as we deliver it here mainly it was first introduced in Microfin Trinidad and they have fine tuned the product over the last few years. Even though we do not exactly duplicate the product and then try to replicate it here we look at each individual country and try to modify the product but when we talk about our product we talk about regional-based development. Our product is a regional product because we would like to share some of the costs and experience and one of the reasons is because the Eastern Caribbean is a very small market.

Our product is very flexible in terms that we can serve a wide range of micro enterprises because we can offer different flexible repayment frequency and also interest rate but for us like anybody else the staff training and the quality of staff especially in individual lending where you look at an individual business and try to make decisions. We try to minimize our transaction costs to the client. I think that this is a very important point because our experience is that clients are more concerned about transaction costs than interest costs and what is the transaction cost for a client? If you ask a client to submit a business plan most of your clients and our clients they cannot prepare a business plan so they have to go somewhere and prepare a business plan and there is a cost for that and if you do not like it then they have to redo it so there is also a time cost.

So what we do is whatever financial analysis we need, whatever business plan we need, we ask our credit officers to do it rather than asking them to do it. Also we try to minimize other transaction costs like collection, like organization, we don’t take traditional collateral like land or building. If we ask a client to give land as collateral, a problem is to formalize that collateral as a security, the cost for it so we try to avoid those. Then our clients always ask how long it will take to process the loan. To them if it is three days or three weeks there is a huge difference so that we consider as a transaction cost and also how we are processing the loans.

If we ask our clients to come one day to fill out the loan application form and the next day if the credit officer wants to discuss business you have to ask the client to come another day to your office then the third day you ask him to come to collect the disbursement cheque so I mean basically what you are asking is shut down your business and come to us so I mean as a good MFI like other MFIs what we practice is our credit officer must go to the field and you process whatever you need right there so that they do not have this transaction cost because at the end of the day you charge the person interest. They are more concerned about this transaction cost and if we discuss we will probably see that there are many other transaction costs that sometimes we ignore.
We also provide incentives to client for on-time loan repayment. We definitely see in the Eastern Caribbean that because the concept of private MFIs is fairly new to this part of the region we see that there is a problem of credit culture and to develop a credit culture of course you try to educate which is a long term process but in the short term you also want to give some incentives for on-time repayments and we do have some incentives in terms of if you do pay on-time we provide the second loan within 24 hours. We cannot necessarily always do that but in the organization these are the things that we monitor when we talk about our performance. It is just not how many loans we are doing. And when we do loan analyses it is not only the financial analysis, we do a lot of character-based lending which is some of the features of group lending.

What we are doing is right now, we only focus in financial services, we do not provide other support services like training, accounting, marketing but we feel there is a need though and we already have seen two groups of clients one group of clients who is trying to move from micro enterprise to small businesses. They are trying to jump to a different level and we see for them it is not only financial services, they also need other services and in the Eastern Caribbean we also see another trend is the lack of product diversification is different situations. If you go to any harbor and see these gift shops selling items for the tourists, you will see 50 stalls selling exactly the same item and you do not see any product differentiation.

You go to downtown and you will see that in one plot there are 30 businesses selling exactly the same household item so in these businesses it does not matter how much working capital we give you, your rate of return is very low because you are not doing any product differentiation or diversification so what we try to do is through a partnership with the European Development Fund we are trying to research some of the support services who provide these supports but one of the challenges for us to find these service providers because a lot of the service providers they do not deal with small businesses but we monitor the service providers, we create a database of the service providers, we see who can deliver services to small businesses and we monitor their services and through the European Development Fund we try to provide for these fees but we do not attach this, we do this completely separately. We do loan analysis based on your existing performance we do not say that to get the loan you must take services.

Some of the products that we are right now thinking of one which is diverse financing. Basically we have seen many of our clients who are not necessarily coming for financing because they want to expand their business but they are having very short-term cash flow problems. One is because in the Eastern Caribbean lots of small businesses they depend on hotels like this, supermarkets and big businesses. A significant portion of their sales goes to these places and these large buyers they experience very flexible credit slumps and these are creating a problem for the small businesses and this is why we have done market research on diverse financing and we think that we can work on this area, there is an opportunity but we cannot offer traditional diverse financing which is what we see in the developing countries, it has to be modified based on this country because there are a number of issues that we can discuss later.
In terms of micro lending we would like to go on agro-lending but this is something that we are not very familiar with and there are a number of risks associated with it and it is very different from traditional micro-lending that is why we are working with a number of institutions within the Eastern Caribbean who are providing non-financial services to small farmers.

Another thing I would like to mention is outsourcing of non-lending activities. If you take ten best practice MFIs around the world and if you try to compare their services you will see that somebody is doing individual lending, somebody is doing group lending and somebody is saying we will just do financial services, somebody will say we do financial service training some other organization takes deposits, some other loans and these are all best practices so if you look at the product and how they deliver it is so different from country to country because they try to adjust based on the country and the culture but what we try to do is seeing that one thing is common to all the best practice MFIs is they have very strong support services whether you are talking about human resource services, accounting transparency, internal audit, marketing support and to develop this thing there is a cost and for Eastern Caribbean countries what we found out is that when you talk about 600,000 clients it is very difficult to justify the costs and luckily for us our parent company they have been in the financial services business for the past 30 years and they so have these facilities so what we are doing is basically we outsource these facilities to be able to, even though we are not paying it right not, our goal is to eventually pay them for the services rather than creating the support services in each country. Thank you.

Issac Anthony
Ministry of Finance

It has really been a pleasure to be here because this is actually the first workshop that I have ever attended on the whole business of microfinance and micro enterprise although I have attended workshops where they have dealt with it as a particular subject, as a presentation but not dealing with it as a theme. For me it has been a very enlightening session because it has certainly given me some insight as to how for example government can help shape policy as it relates to the development and growth of micro enterprise certainly in St. Lucia, given of course the importance of that sector in terms of helping to promote economic development, alleviate poverty and of course to help address some of our social ills. As you know in St. Lucia and I can also say for most of the islands in the region one of our biggest problems is that of unemployment.

I see microfinance institutions playing a vital role in helping to alleviate this problem and of course helping to alleviate poverty. Clearly there are very strong, and first of all I must apologize for being late I didn’t quite get all of the presentation that is the first one but certainly the short answer to this question is there a basis for cooperation among Caribbean MFI obviously is yes, in fact that should be encouraged. I think one of the presenters raised the need for the establishment of a credit bureau and I think that is
where there is an opportunity for collaboration, working with other partners of course because clearly that would certainly serve the purpose of the various entities as highlighted in yesterday’s presentation.

One thing that I didn’t hear and in fact I wanted to get some feedback on this – what happens for example when persons who have had poor records of payment, it is very clear for example that such persons have the ability, they have very good ideas, very workable projects but their problem appears to be one of managing funds and also they have a very poor track record when it comes to paying. Do we just ignore these people or do we just tell them no next time around? Is there a facility for perhaps counseling such persons to help them to improve on their behavior and try to ensure that next time around they can be given an opportunity? I think we need to have that and perhaps there can be that kind of collaboration, perhaps again that is where government can come in, in terms of working very closely with those entities in terms of trying to ensure that we have those sort of support services.

A lot of the points for example that have already been highlighted by Ms. James and I think it is something that we need to look at very seriously but I would just like to reiterate the importance of those sort of entities certainly in the context of St. Lucia. I would certainly like to see the growth of micro enterprise. I also have some concerns regarding government’s direct participation although I have to admit that we are currently directly involved through what we call the bell fund and I think we have the manager right here and he might be able to tell you a little more about it, which is largely funded by the government of St. Lucia but I think given some of the peculiar problems associated with government’s direct intervention, I think perhaps the time has come for us to revisit this but of course it came in at a time when perhaps there wasn’t sufficient facilities of that nature or entities of that nature so it was really a response to a situation but now that I think that there is a growing awareness of the importance of micro enterprise.

I do believe that there is an opportunity for certainly government working with the private sector to encourage the development of micro enterprise. Our unemployment rate in St. Lucia is just about 28%. Now with such a high unemployment rate clearly if we encourage the development of micro enterprise at the individual level I think that it would certainly contribute to helping to reduce this particular problem. I think that essentially this is what I would like to say for now. Thank you.

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**Errol Chapman**  
**IPED**

IPED formed the EDC, we call it the Entrepreneurial Development Center and one of these things that we do is give business counseling. Our officers are technically skilled and they actually go into the fields to see the application of for example fertilizers,
pesticides, give advice, sort of things like that. In every sector that we finance we give this kind of counseling and advice. In fact we recently employed an environmental consultant to deal with environmental issues, agricultural consultant to find ways of developing the product for these people, teaching them the right ways so that sort of complimentary services we also find it is critical to the delivery of microfinance. On the issue of sustainability it is my personal feeling that if you really have a vision, like I said in my presentation, how can you teach people to run a successful business when you are not showing the effects of being successful yourself? In the future what are we really saying to ourselves? It really says to us, for example some of us are borrowing money at very subsidized rates and if we were to pay market rates what impact would it have had on our performance so these are the things that I think that being sustainable, even at market rate, one should also take those things into account.

I mean we all suffer the inflationary effect on our monies, it all comes back to cash flow at the end of the day and I congratulate Microfin on that and I would even encourage other institutions to strive for that. Now many times you can’t because it is very hard to cover inflation and those sorts of things but you have to work on that, reducing your costs and so on. The similarities that I have noted, like the other observation made is that you know we all have the similar objectives. Some people describe microfinance at different levels from what I have learnt from listening to various people.

Some start from very high levels like USD$2000 and over but mainly in the Caribbean I think we start very small, like somebody said real micro microfinance but what I want to know is the collateral. I think the similarity here is that we don’t really focus on the traditional forms of collateral. People talk about the use of television sets, character as collateral and those are the things that we do also. We are even right now, in our inter-land for example, those Amerindian communities, people do not have that type of access to funds and they have a barter system in a way and we are actually getting involved in that barter system so we take a cow for a man, his cattle for example as repayment for a loan. You have to find what the people know about. We can now exchange that for cash because we are from Georgetown. Those are things you have to find.

So I think in microfinance to get a target you really have to find ways, find the right methodology to get there so I think these are the similarities and what I would like to just ask, because we find in a country like Guyana for example, you have a lot of cost subsidization going on because we are more affected by the larger loans and these sort of sustain the operations and I was listening to two presenters from Jamaica and even when Ishtiaq was talking about in Bangladesh the population of the country alone lends itself to that sort of small lending. It is not so in Guyana and so I am wondering, in terms of our cost subsidization, like to the persons in Jamaica, what is your largest size of micro loan or small loan? I think somebody said their average loan size was $16,000 Jamaican in terms of their largest loan size, well we have three windows but what is your largest loan size would be very helpful to me to get some information on that and if you would just let me ask him a question that I had for him. How did you make the transformation from when you took over the portfolio? I guess those loans that you took over were bad.