MICROFINANCE IN THE CARIBBEAN

2ND ROUND TABLE

held on

June 10–11, 2003

at

CDB CONFERENCE CENTRE
Wildey, Barbados

Sponsored By
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<th>Full Form</th>
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<tr>
<td>ACCION</td>
<td>ACCION International</td>
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<tr>
<td>BMC</td>
<td>Borrowing Member Country</td>
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<td>bn</td>
<td>billion</td>
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<td>CBET</td>
<td>Caribbean Business Enterprise Trust</td>
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<td>CDB</td>
<td>Caribbean Development Bank</td>
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<td>CGAP</td>
<td>Consultative Group to Assist the Poorest</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<td>CTCS</td>
<td>Caribbean Technological Consultancy Network</td>
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<td>DFL</td>
<td>Development Finance Limited</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>ECCB</td>
<td>Eastern Caribbean Central Bank</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>FI</td>
<td>Financial Institution</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNP</td>
<td>Gross National Product</td>
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<td>IDB</td>
<td>Inter-American Development Bank</td>
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<td>IPED</td>
<td>Institute of Private Enterprise Development</td>
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<td>MICROFIN</td>
<td>Caribbean Microfinance Limited</td>
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<td>MFA</td>
<td>Microfinance Advisor</td>
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<td>MFI</td>
<td>Microfinance Institution</td>
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<td>MIF</td>
<td>Multilateral Investment Fund</td>
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<td>MIS</td>
<td>Management Information System</td>
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<td>MOMS</td>
<td>MICROFIN’s Operating Management System</td>
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<td>mn</td>
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<td>MSE</td>
<td>Micro and Small Enterprise</td>
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<td>NGO</td>
<td>Non-governmental Organisation</td>
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<td>Organisation of Eastern Caribbean States</td>
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<td>ROE</td>
<td>Return on Equity</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>USD</td>
<td>United States Dollars</td>
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<td>UWI</td>
<td>University of the West Indies</td>
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FOREWORD

There is a need to exchange views about microfinance in the Caribbean and to learn from experiences within the region and around the world. The Roundtable meets that need because it involves open participation and interaction among experts, practitioners, regulators, donors, government officials and international and regional institutions.

The 2nd Roundtable was sponsored by the Caribbean Development Bank (CDB), the Multilateral Investment Fund (MIF) and DFL Caribbean. We are all grateful to the sponsors and to Ms Claudia James (CDB) and Ms Sushma Lalla (DFL) and the CDB/DFL team that worked hard to make the event successful. We hope that the proceedings they compiled will be of interest and value to you.

The 3rd Roundtable will be held in St Lucia on May 4th and 5th 2004. The proposed venue for the 4th Roundtable is Grenada in 2005 (the UN Year of Microfinance).

G.M. Pemberton
President
Microfin Caribbean Holdings Ltd
OVERVIEW OF ROUND TABLE PROCEEDINGS

Governments in the Caribbean are anxious to alleviate poverty, create jobs, and generally help their people achieve a better standard of living. Governments need to better understand the role that microfinance plays in this process. Governments also need to avoid programmes that could cause more harm than good to entrepreneurship at low-income levels.

This was one of the conclusions drawn by international and regional speakers at the 2nd Annual Roundtable on Microfinance in the Caribbean, held last year.

As the date draws near for the 3rd Annual Round Table, politicians, governments, central banks, donors and all other stakeholders might find it useful to review the intense discussions and conclusions of last year’s conference.

The Roundtable attracted an impressive array of experts all deeply committed to sharing their knowledge and experience to make microfinance work in the Caribbean. They came from the World Bank, the United Nations Capital Development Fund, the United Nations Development Fund, the Inter-American Development Bank, the Department for International Development (DFID), Caribbean Development Bank (CDB), the Eastern Caribbean Central Bank, Accion International, Sogebank of Haiti, Banco Ademi, the Canadian International Development Agency, the Institute of Private Enterprise Development (IPED), FundAid and, of course, organisers Microfin, Caribbean Development Bank and Multilateral Investment Fund.

All the countries in the Caribbean have large pools of low-income citizens and pockets of poverty. Natural entrepreneurs exist in these environments but require access to financial resources to carry on their own business. This has long proven to be a powerful means of breaking the poverty cycle as people can become more independent and can better help themselves.
But, as last year’s conference highlighted, there is no one delivery model for success and numerous entities have failed in their mission. Societies must develop workable models that suit their own culture and socio-economic conditions.

However, across countries and cultures, there were some common constraints that speakers agreed had damaged the growth and expansion of microfinance.

Governments, the speakers said, started microfinance institutions that were unsustainable and failed. They insisted on low-interest policies while being lax on repayment resulting in the failure of programmes. Microfinance then got a bad name making it more difficult for other microfinance agencies to find funding, reducing the supply of microcredit to the poor.

“There is nothing more difficult than trying to do sustainable microfinance in an area that has been plagued with programmes that have bad repayment rates. When people learn that they don’t have to pay back microcredit, they don’t pay back anybody for a long time”, said Director of the Consultative Group to Assist the Poorest, Elizabeth Littlefield. Government programmes with high delinquency rates, really do go pretty close to poisoning the waters for those of you that follow who are trying to do microfinance”, she warned.

Yet Governments have a critical role to play in developing a sector that, in some economies, accounts for up to 40% of total employment and contributes 25-40% to GDP.

According to President of the Caribbean Development Bank, Professor Compton Bourne “only 3-5% of the micro entrepreneurs in the region have access to credit”. He added: “If the goals of the region’s policymakers for job creation and employment are to be achieved, mechanisms must be found to improve this access and to do so in a manner which encourages the growth and development of micro entrepreneurs”.

The speakers saw Government’s role as providing the enabling environment, appropriate regulation and education.
International experience has shown repeatedly “governments’ direct provision of financial services has almost never worked”, Littlefield said. She warned: “Governments and central banks can easily prevent a commercially viable, vibrant microfinance sector, or they can support it. In far too many countries, we see governments’ well-intentioned attempts to stimulate the market having the opposite effect”.

Agreeing, Peter Kooi, Director-Special Unit for Microfinance at UNCDF, stressed that government’s role was as an enabler, not a provider of financial services.

Bad practices, by governments and politicians, include subsidised credit schemes, political credit schemes, targeted credit schemes which all weaken institutions, prevent them from becoming sustainable and distort the market, Kooi said.

A country is then unable to get out of the start-up phase of microfinancing, even if it has potential successes, as these ‘crash-credit schemes’ prevent them from capturing the market. “These practices, when they are widespread they really keep the sector in the start-up phase,” he stressed.

“Politicians giving out free credit before an election is still quite attractive. So its their incentive structures that we have got to try and shift and the incentive structures of some donors who like a quiet life by appeasing the politician who wants to win the next election”, said a speaker from the Department for International Development.

A country might also hinder the development of its microfinance sector by preventing the microcredit company from providing credit at a price that will allow them to become profitable. “Where there are interest rate ceilings, people don’t have access to microfinance”, noted Kooi said.
Agreeing, Littlefield said: “We all know that delivering tiny transactions is costly, but that poor people have shown over and over that, to them, access to ongoing service is far more important than cost…Interest rate caps effectively prevent commercial microfinance from happening”.

Without commercial microfinance, the supply of microcredit will never be sufficient to meet the demand of aspiring entrepreneurs, the speakers agreed.

“The only way to expand in microfinance beyond the five per cent covered now is to attract the private sector and the commercial bank has to be a crucial player in this process”, said Cesar Lopez, Vice President-Latin American Operations – Accion International.

To achieve that, “the issue of technical assistance to governments to develop tighter fiscal frameworks so that they don’t borrow excessively and crowd-out the private sector”, is high on donors’ agenda in the Eastern Caribbean, said Peter Quinlan, Private Sector Development Advisor for DFID in Barbados.

Even as they sought ways to expand the supply of microfinance, Monique Cohen, President of Microfinance Opportunities, reminded the conference: “It’s not a magic bullet and its not going to get people out of poverty. That is the general accepted truth about it and we should not believe that it would. There are a lot of other things that you need to support for poverty alleviation, whether its education, health infrastructure, removing people from slums”, she said.

Participants agreed but also affirmed that microfinance, when successful, had proven itself to be a powerful vehicle for driving economic growth, creating jobs and providing a sustainable and hopeful future for the disadvantaged.

Speakers were adamant that commercial microfinance was essential, that start-up companies must be supported and encouraged, that donor money should be better targeted to be more effective and that more needed to be done to encourage people to become self-employed and to educate micro-entrepreneurs on managing a business.
In particular, speakers emphasised the need for all stakeholders to agree on a vision for microfinance in the Caribbean. Only then, would it develop and fulfil its real potential to create wealth, jobs and economic development for the poorest and most disadvantaged in the society, they said.

Future developments in microfinance may include using non-traditional outlets, such as lottery outlets and gas stations, to deliver micro-credit at a low cost. It may also include the development of a diverse range of new services that match the needs of the poor such as micro-insurance, micro-pensions and transfer services to receive remittances from relatives abroad.

Some of the issues tackled by the conference included: -

- use of technology to make microfinance companies more efficient
- the importance of market research in understanding and targeting customers
- debating who should fund the riskier start-up businesses
- the need to distinguish between grant assistance to the destitute and microfinance for viable businesses
- providing other business services not just credit
- the need for training for both the lender and the borrower
- using donor funding for higher-risk micro-credit customers and allowing commercial banks and other commercial organisations to lend to the lower-risk customers and the successful microcredit borrowers
- the role of credit unions and
- the role of the CDB.

Through these annual Roundtables, the region is building up a body of microfinance knowledge pertinent to the Caribbean, based on the experience of Caribbean practitioners and the dissemination of worldwide knowledge by CGAP, ACCION and others.
The Roundtable organisers are committed to continuing the necessary discussion, information sharing, research and analysis to make microfinance policies, strategies, programmes and instruments more effective; develop new products and services for micro-entrepreneurs; and help Caribbean governments and funding institutions find ways to make regional microfinance institutions more viable.
OVERVIEW
Mr. Audley Walker – Chairman, MICROFIN

Thank you very much. Round Table Participants, Colleagues, Ladies and Gentlemen, a very good morning to you. It is my pleasure to welcome you to the 2nd Roundtable on Microfinance in the Caribbean.

The first Roundtable was held last March in Port of Spain. The proceedings generated a very positive outcome. The presence and active participation of the Department for International Development (DFID) the Inter American Development Bank (IDB) the Multilateral Investment Fund (MIF), CDB, PROFUND, the European Investment Bank (EIB), Microrate, CIDA and the Central Banks of Guyana and Trinidad and Tobago, added valuable depth and perspective to the experiences of the practitioners.

This year, we feel a sense of joy and hope that the Roundtable has quickly outgrown its original corporate and national boundaries. This provides me with an opportunity to tell you a little about the Caribbean Microfinance Limited, shortened as MICROFIN. MICROFIN has been a subsidiary of DFL Caribbean since 1999.

The objectives of MICROFIN are, firstly, to assist the largest possible number of feasible micro-enterprises in the Caribbean, consistent with the optimal level of cost efficiency; and, secondly, to generate a high level of economic value-added on its own capital in order to maintain financial soundness and asset worth, thus ensuring MICROFIN remains a sustainable source of financing for micro-enterprises. Our success will therefore be measured by how many people we support and by how well they succeed in their businesses. When they succeed, we succeed. If they fail, we will surely fail.
They are business people like ourselves. Our job is to help them create wealth. Even if they are starting from zero wealth, they are our clients. DFL, based on its own history and experience, has a clear understanding that enterprise development objectives can be, and indeed, in the long run, must be achieved via financial viability.

MICROFIN’s lending policy is built on that understanding of development finance. However, MICROFIN has its own culture, operating systems and methodologies that have been fashioned from our own research and experience, guided by the best practices and successes of others. In that regard, we owe a great deal of thanks to Banco Adiba, IDB, DFID, MIF and many individuals who helped us get started.

Now that we have started, we have quickly realised that getting started is just a start. Moving forward requires new thinking, fast action and adaptation. While many successful institutions in Latin America, Asia and Africa have become powerful role models for community-based, professionally managed operations, their interests, concerns and goals are not new. What is new is the determination to do a better job of producing results that really matter.

Economies fluctuate, societies change and peoples’ needs become more acute. MICROFIN cannot be a static application of tried and trusted models. Microfinance requires continuous improvement to be effective. That is why we are here today.

This Roundtable is important to the people of the Caribbean. It is therefore, very encouraging to see a high level of Caribbean integration in the room, and I make special mention of the presence of Haiti. It is also very encouraging to note the presence of three specialist international agencies, and I have very great pleasure in giving them a special welcome, and I acknowledge Ms. Elizabeth Littlefield who is the Aid Director of the World Bank and Chief Executive Officer (CEO) of CGAP, Mr. Peter Kooi, who is the Director of the Special Unit for Microfinance with the United Nations Capital Development Fund (UNCDF), and Mr. Cesar Lopez, who is the Vice President of Accion International in charge of Latin American Operations. We look forward to this Conference and we thank you for being present.
It is also my privilege and honour to introduce the second speaker for this morning’s proceedings, Dr Compton Bourne, who is the President of CDB, a post he took up on May 1, 2001. Prior to this appointment, he was Principal of the St. Augustine Campus of the University of the West Indies (UWI), from 1996 to 2001, the Vice Chancellor for Planning and Development, and the Deputy Principal of the St. Augustine Campus, 1990-93. He also held an appointment as Professor of Economics from 1981 to the year 2001. His specialties are money and finance, macroeconomic policy, economic development, education policy and management. He played a very major role in the preparation of the UWI Strategic Development Programme for Science and Technology and Distance Education and the redesign of cost recovery policy. Dr. Bourne also served as a Director of the Central Bank of Trinidad and Tobago from 1987 to 2000 and he is a Past President of the Caribbean Studies Association and Past Vice President of the Caribbean Agro-economic Society. I have great pleasure in presenting Dr. Bourne.
OPENING REMARKS
Dr. Compton Bourne – President, Caribbean Development Bank

The Caribbean Development Bank (CDB) recognises that micro-enterprises are important to the economies of the Region and to poverty reduction. They generate employment and in some economies account for up to 40% of total employment. They also have a positive impact on productivity in environments where economic opportunities are limited. Further, these entities make significant contributions to the gross domestic product – the estimates of their contribution to GDP range from 25% to 45%.

CDB’s Support for Micro-enterprises

CDB has been actively involved in the development and support of micro-enterprises in the Region through the provision of resources to its financial intermediaries for their lending programmes. Technical assistance has also been provided to the financial intermediaries and microfinance institutions to facilitate capacity building. Over the seven-year period, 1996 to 2002, CDB has provided more than USD 8.5 million to financial intermediaries for the financing of their micro and small-scale enterprise lending programmes.

Over the last 17 years, the non-financial business development support services such as on-the-job training, short-term attachments and product development provided by the Bank’s Caribbean Technological Consultancy Services Network (CTCS), have proven to be invaluable to the growth and development of several micro-enterprises in the Region.

Asset-based lending, however, appears to be the focus of a number of financial institutions and this may be a reflection of the risk perception of these institutions in their relationship with micro-enterprises. The fact that at the end of December 2002, only 28% of the resources committed to the sector by CDB had been disbursed may provide some basis for this assumption.
Organisational responses to this problem vary from adapting operations to ensure that products and services meet the financing requirements of micro-enterprises, to the establishment of financial institutions (FIs) dedicated to providing microfinance.

In this regard, I take this opportunity to congratulate Development Finance Limited (DFL) for its visionary and innovative approach to the problem of providing self-sustaining financial services to micro-enterprises in Grenada, St. Lucia and Trinidad and Tobago. Its subsidiary, Caribbean Microfinance Services Limited (MICROFIN), is the first Regional microfinance institution (MFI).

**Impediments to the Growth of Microfinance**

Notwithstanding the number of new entrants in the business of microfinance and the expansion of existing operations to include the provision of credit to the sector, microfinance has not reached its full potential in the Region. There still appears to be significant unmet demand, and access to credit is still limited. The reviews of this segment of the credit market conducted by the Bank and other donors have all confirmed this.

For existing financial service providers, the concerns relating to the three main operational weaknesses, namely, credit risk, costs and the target market, are critical, and if they are not addressed, these weaknesses will impede the growth of their microfinance portfolios and ultimately affect their sustainability.

**Other impediments to the growth of microfinance in the Region include:**

1. **THE REGULATORY FRAMEWORK:** The recent growth of the number of institutions providing credit to micro-entrepreneurs is evidence that the lack of a framework has not impeded the development of microfinance in the Region, irrespective of whether or not this development is sustainable.
The process of sensitising the Region’s operators and regulators about the sector’s peculiarities, issues and the need for regulation and supervision is critical if the adverse impacts of failure are not to jeopardise the very existence of the institutions providing credit to the sector.

2. **GOVERNANCE OF MICROFINANCE INSTITUTIONS:** As the institutions grow and increase their asset base, good and effective governance must be the watchwords of the Boards and Management of these institutions.

3. **FINANCIAL SERVICES:** The focus of existing institutions has been on the provision of credit to the poor. However, there is a wider range of financial needs that have not been met. Among these are savings, insurance and appropriate leasing mechanisms that could significantly reduce the capital outlay required at business start-up or expansion.

4. **HUMAN CAPITAL:** One way to improve the quality of an institution's services, its outreach to poor clients, and its financial performance is to upgrade the quality and capacity of its human resources. At the management level, training is needed in several areas such as financial management, risk management, information systems, market research and product development. Loans officers and technical staff need training in credit operations, business planning and customer care.

5. **IMPROVED ACCESS TO INFORMATION:** The availability of accurate and reliable information on existing and potential clients is limited. This has served to reduce the capacity of the institution to manage its loan portfolio and it has restricted the degree to which institutions are able to impact on potential clients and market opportunities.

6. **ACCESS TO CAPITAL:** It is estimated that only 3-5% of the micro-entrepreneurs in the Region have access to credit. Micro-entrepreneurs generally do not have the ability to provide the level of security required by financial institutions in order to obtain resources. Access, therefore, is critical to the growth of this sector.
If the goals of the Region’s policymakers for job creation and employment are to be achieved, mechanisms must be found to improve this access and to do so in a manner which encourages the growth and development of micro-entrepreneurs.

**CDB’s Initiatives**

CDB is aware of these problems and I am pleased to inform you that the Bank has started to focus on them. In this regard, the Bank’s recently approved Private Sector Development Policy attempts to delineate areas of intervention that are most likely to have an impact on micro, small and medium enterprise development.

The Bank’s medium-term programmes for micro-enterprise development will concentrate on developing the capacity of private financial institutions to address the credit needs of the sector, providing support to the development of the regulatory framework for the operation of microfinance institutions and to the development of mechanisms to mitigate lending risks. In addition, programmes will focus on the development of the human resources and the provision of sustainable non-financial business development services.

In conclusion, let me reiterate that this Roundtable is timely. I must congratulate DFL. The collaborative effort of MICROFIN, the Multilateral Investment Fund (MIF) and CDB is indicative of the type of strategic alliance and level of co-operation required to promote the development of microfinance in the Region. Having reviewed the Agenda, I am positive that the presentations and discussions will help the participants to clearly understand the issues related to the **Continuous Improvement** of MFIs in the Region. More importantly, I trust that the Roundtable will also generate several creative ideas, which can be used to help solve the problems, which have impeded the development of microfinance in the Region.

Thank you.
CONTINUOUS IMPROVEMENT – WHY, WHAT AND HOW

SUPPORTING THE DEVELOPMENT OF MFIs – AGREEMENT ON A UNIVERSAL PERSPECTIVE

Ms. Elizabeth Littlefield – Director, CGAP

Thank you all very much, especially the CDB and DFL for inviting me. It’s a real honour and a pleasure being here, particularly as it is a region that I know very little about. I personally have not worked in the Caribbean and CGAP itself has not worked very much here either, so this is a tremendous opportunity for me to learn.

I was asked to talk to you about the global perspective that CGAP, as a consortium of 29 member donor agencies/governments, can provide and the strategies we have put in place for building financial systems for the poor. This is a strategy that we have developed over the last couple of years and it is embraced by all 29 of our member donor governments. I start with the premise that microfinance is rapidly integrating with the rest of the mainstream financial sector. The term “microfinance” will soon either vanish or come to mean only a very narrow “methodology” compared to the broader world of financial services for the poor. None of us will any longer be experts of the tiny and tidy little domain that is microfinance, with its known actors and proven methodologies.

We are building financial systems to reach poor people, entire financial systems in poor countries geared to serving their citizens. That’s a very different job than what our little microfinance universe initially set out to do. Microfinance has been seen thus far as a kind of a niche, off in a corner of the development industry, really too small and too micro to be relevant to the broader development goals. In fact, we know that microfinance is far, far more than just a methodology that works so well, making tiny, little loans to picturesque women who faithfully pay them back.
We need to get away from that caricature if we are ever going to live up to our dream of building entire financial systems in developing and in transition economies that work with the majority of their populations, generally the poor. This requires a kind of a “top-down” and systemic approach that recognises that every country has its own assets and infrastructure or different kinds of distribution mechanisms (or the potential to build those mechanisms) to deliver financial services to its poor. A variety of different approaches, models or combinations of different approaches and models will be appropriate in different circumstances, with different institutions targeting different market niches according to their own capabilities and strengths. NGOs, Banks, Co-operatives and other mechanisms will compete with and complement one another.

Rural areas will have different solutions than densely populated ones. Agriculturally dominated economies will be very different in terms of the solutions they find than countries with mainly traders. Economies that are externally focused will be very different from ones that are internally focused. Countries with liquid banking sectors will have unique opportunities for partnerships with MFIs. So each country will require a different combination of solutions. In some countries the microfinance NGOs may well be the most appropriate model for small countries, such as here in the Caribbean, and other delivery mechanisms may not be necessary.

Donor funds, in this scenario, will focus on the more difficult populations that require subsidies to be reached (because, for example, they are in areas that are so sparsely populated), because we know that subsidies are not required on an ongoing basis to provide financial services to the poor. They can pay for the services that they want, and will do so. Donor funds may also focus on other jobs — like R&D or early institution building — that commercial funding would not cover. So, different countries will require different kinds of solutions or combinations of solutions, and different actors will merit different amounts and lengths of subsidy.

Let us step back for a moment and look at the evolution of microfinancing. How did we get where we are today? Many will remember that the origins of microfinance really started with the co-op movement in Indonesia and Germany in the late 1900s.
But skipping forward to more recent history, many of you will remember those days in the 1970’s when the informal sector was viewed as a symptom of economic dysfunction, something for governments to be embarrassed about. In the 70’s, governments thought they could direct credit — loans — to help increase employment and productivity through government agencies, but in fact they accomplished neither.

Heavily subsidised government agricultural credit programmes spread all over the world and almost to a one, they failed spectacularly. Repayment discipline was very weak, the money was creamed-off by the elite, never reached the poor and, ultimately, disappeared. Sadly, some countries still have these subsidised government programmes despite the long history of their failure in country after country.

Then, in the 1980s, we started seeing the small micro-credit projects and “schemes,” usually buried in broader multi-sectoral donor programmes. They were small and interest rates were often still subsidised. But towards the end of the late 1980s a seed, which was the germ of the microfinance industry, began to take root. That was the recognition that poor people faithfully pay back, can afford the cost of delivery of financial services, and that a cost-covering commercial approach was possible. It was this private sector approach that fuelled the exponential growth that we saw in the 1990’.

Suddenly people were talking in a whole new lexicon. They were talking about ‘clients’ rather than ‘beneficiaries,’ ‘institutions’ rather than ‘projects’ or ‘schemes,’ and about ‘services’ rather than ‘micro-credit facilities.’ Suddenly, there was a newfound respect for the poor as responsible and worthy decision-makers about financial things that happen in their lives. Today we recognise that what we are really doing is building financial intermediaries whose clients are poor and that are fully integrated into a poor country’s or a transition country’s financial system.
So, let us look at the lay of the land today. We estimate that there is a potential market in the world of about one billion people from poor households that could use financial services. There are roughly 10,000 MFIs serving those poor and they reach, as President Bourne mentioned earlier on, only about 4% of the total population of the poor. If you are an optimist that is an exciting opportunity; if you are a pessimist, it sounds like this is a big, expensive research and development experiment that has not proved much. But, in fact, it is more complex than that.

The Micro-credit Summit estimates that there are 38 million (mn) people who are receiving credit services from MFIs and about 65 mn receiving saving services. Strikingly, the top ten or twenty biggest MFIs in the world reach almost half of that market. Thus, there is huge concentration with the biggest institutions, then at the next level there are fewer than a couple dozen that have about 100,000 clients. Several hundred have no more than 3,000-4,000 clients, and then it drops off very steeply and the vast majority of MFIs have less than 2,000–3,000 clients. Notably, only about 1% of those 10,000 MFIs are financially sustainable. But there is far more going on in the world of financial services for the poor than MFIs.

There are far, far, more financial service providers serving the poor than any of us have recognised in the little microfinance universe so far. Let us go one level deeper, or double-click, as they say, on that supply side bar. Let’s see what it looks like. CGAP is doing some work now to get a picture of the global landscape for financial services. We estimate that maybe as many as 600 mn people, many of them probably poor, are already receiving financial services from some kind of non-profit-maximising institution, somewhere in the developing world, somehow. About 75% of them are receiving their financial services from postal banks and state banks. We know that many of the postal banks and state banks are doing a pretty terrible job of providing those financial services. They are usually poorly managed, inefficient, loss-making, mono-product institutions. Their repayment rates are low and services are not adapted to what poor people need. Yet, is there not some potential to work with these institutions to see if they might learn from the NGOs and the MFIs how to develop financial services that are useful for poor people? Conversely, the MFI universe may have things—such as deposit mobilisation—it could learn from these institutions.
Let us take another look to understand more deeply the market penetration of the traditional microfinance institution we have seen in different parts of the world, and which models are working where. A while back, CGAP and ACCION did some joint research on the market penetration of MFIs in Latin America. We compared the existing clients of MFIs to what we estimate to be the potential market in those countries. We looked at small, medium and big countries in Latin America.

In the small countries — the Bolivias, Dominican Republics and Paraguays of the world — we saw the penetration of about 100%. Most eligible and reachable poor people were already receiving financial services from at least one MFI. But when we moved to the medium countries and then the big countries like Brazil, Argentina, Mexico and Venezuela, we saw not only that the absolute number of poor clients being reached by MFIs was much lower, but the relative penetration was extremely low. Penetration ranges from 100% in the small countries to not even 1% in the big countries.

This holds true not only for Latin America. With the exception of Bangladesh and Indonesia, one sees the same phenomenon—of the traditional microfinance institution model not only flourishing in big countries but working extremely well in small countries—happening in other parts of the world as well. In Africa, Uganda and Benin have over 700 MFIs each, yet Nigeria and South Africa have virtually nothing of the classic MFI model. In Eastern Europe, Bosnia and Albania are full of microfinance institutions while in Russia, Ukraine and Uzbekistan — virtually nothing. Even in Asia, Mongolia and Nepal are very rich in microfinance markets, but China and India have very little (again I speak here of the MFI model only). This is just food for thought, that may suggest that here, in the Caribbean, you need not to dismiss too quickly the NGO microfinance model, as it may be exactly suited to your smaller countries.
Now, what does all of this mean in terms of what we have to do globally to build sustainable financial services for the poor? First, we need to develop a far wider range of diverse and sustainable institutions. Second, we need to promote a far wider range of different kinds of financial services. Third, we need to build the information infrastructure that was also mentioned by President Bourne: the infrastructure and architecture of information that is going to be required to fuel a commercial and robust microfinance sector. Fourth, we need to foster a much sounder policy and legal framework. And last, we get to address the problem of improving donor co-ordination and improving aid effectiveness.

I am going to touch briefly on each of these and then spend a little bit more time on the donor issue. First, on the issue of developing a far wider range of diverse and sustainable institutions serving the poor. We know that, as was said earlier, different types of financial institutions will have different market niches, and that’s o.k. Not every institution has to reach the poorest of the poor and not everyone is going to deserve a subsidy to do what they do. At the bottom end, we recognise that the destitute — those without enough food to eat — clearly need a different service than micro-credit or microfinance.

Let us look at a couple examples of what we mean by diversity of financial institutions (FIs). I know credit unions (CUs) are a major player in this part of the world, as they are too in Eastern Europe and Central Asia. We see that, of all the poor people who receive services from financial institutions in Central and Eastern Europe and the newly independent states, the vast majority are receiving those services from CUs. We know also that the savers far outnumber the borrowers, which is something that we see in the rest of the world, as well.

In rural El Salvador, about half of the population has access to some kind of financial services. Of those, more than half get their financial services from traders and processors, not from financial institutions of any kind. Actually, there are a number of other examples of non-FIs being very powerful delivery mechanisms for financial services in developing countries, and this may be one important delivery mechanism to experiment with in the future.
If you think about it, non-FIs often have infrastructure that already exists in poor people’s neighbourhoods, and villages such as lottery outlets and gas stations. All these may well provide a way to get financial services deep down into those areas without having to build dedicated branch infrastructure. It may be a way we can reach poor clients more cost effectively, and faster, because the infrastructure has already been built and bought.

Second, we need not only a diverse range of financial institutions but also a diverse range of services: it is just not about micro-credit. This too was mentioned earlier on by President Bourne. We are here to build financial intermediaries that will intermediate between the demand for credit and the large supply of domestic savings that exists in most big countries.
In fact, we find that when MFIs get licensed to be able to take deposits, they often soon find that they are overwhelmed by a demand for safe, secure deposit services that far outstrips the demand for credit. This is often a huge pent-up demand by the poor, for a safe, convenient, readily accessible place to save their money and thus manage their household cash ins and outs. Credit, of course, is very important too. Still, let’s not forget that credit is debt, and in some cases, when used inappropriately with people too poor to pay back, it can increase vulnerability of the poor rather than decrease it.

Other appropriate financial tools include money transfers, and micro-insurance. In some places in the world poor people desperately want a way to move money from their urban markets to rural families, and those services simply do not exist. Micro-insurance is being experimented with, with some success, and there are even fledgling micro-pensions being developed—hard currency pensions for the poor living in countries with soft currency.

Third, the information infrastructure is critical. Reliable, comparable and high quality information about the performance of MFIs is an absolute pre-condition for a linkage between these institutions and a formal financial sector. Poor peoples’ savings should not be invested in institutions that are not financially sound and transparent. Nor will commercial banks, locally, ever lend to such institutions. So we urgently need to improve the quality of information all across the spectrum from where it begins at its collection from loan officers to management to auditors, evaluators and to supervisors. In fact, this is an area that CGAP is working on at each level of the information flow.

This leads up to the fourth point, which is the role of governments. Governments and central banks can easily prevent a commercially viable, vibrant microfinance sector, or they can support it. In far too many countries, we see governments’ well-intentioned attempts to stimulate the market having the opposite effect and rather forcing it from developing into what it should be.
There are three key ways to ensure the right engagement (there are many more, but these are the first to look at). First is the recognition that the government’s role is as an enabler and not a provider of financial services. This has been shown the world over, but it bears repeating. Governments’ direct provision of financial services has almost never worked. Second is recognising the need to support a wide range of institutions, but with a calibrated level of supervision. Institutions that do not take deposits do not need prudential supervision. Supervisors generally have far too much on their plate worrying about the big banks with systemic risks to justify supervising institutions that are not taking deposits.

Thirdly, and sadly, interest rate caps throughout the world, well intentioned as they may be, are still a very important limitation to microfinance. We all know that delivering tiny transactions is costly, but that poor people have shown over and over that, to them, access to ongoing service is far more important than cost. They are willing and able to pay the fair rate an institution needs to charge to completely cover the cost of delivery, and doing so is the only way to ensure permanent access and sustainable institutions. Interest rate caps effectively prevent commercial microfinance from happening.

Lastly, the donors. As a donor consortium, one of the main things that we at CGAP are put on this earth to do, in addition to helping set standards and be a resource for the broader industry, is to work to improve aid effectiveness. To be honest, it is one of the areas in which we have succeeded least well and at which we are now redoubling our efforts. The truth is that donors have huge challenges to doing the right thing when it comes to microfinance. First of all, most donors’ staff and management do not have the right incentives. Their incentives are to disburse commitments and move the money. Microfinance is, by definition, a low-spend, high technical input area — just like the rest of the private sector and services sector.
This has been very awkward for most donor agencies to deal with, because often they need to disburse as much money as they can with as few people as they can. Second, they often lack the right kind of resources — again, too much money and too few technical resources, or too many generalists and not enough specialists, or too many people at headquarters and not enough in the field, for example. So for donors, getting the balance of resources right is an imperative.

Finally, the right instruments. Multilateral and regional development banks’ primary instrument is loans to Government. Such an instrument is very ill adapted to supporting a fundamentally private sector activity that may require grants and technical inputs, rather than loans via the Government.

Let us take a closer look here at what we mean about this problem of disbursement pressure and commitment pressures. Is it really true that there is too much money in the street? It certainly surprises most people, because there are a lot of very good institutions that have a hard time raising money. We tried to answer that question by doing some research in Africa, and here is what we came up with:

![Understanding Absorptive Capacity for Donor Funds](image)

**Example: Absorptive Capacity in Africa**

- **Demand:**
  - Equity Base of near-sustainable MFIs
- **Supply:**
  - Donor grants & soft loans
  - Invest. funds of govt, dev. banks & donors
  - Private & Socially Responsible investors

➢ Then why do good MFIs have a hard time raising funds?
We first looked at the “demand” side. We took all the financially sustainable MFIs or the ones that were near sustainable and we added their equity bases up. It came to $65 mn. We then looked at the “supply” side and looked at all the money that was earmarked for sustainable microfinance from donors, new investment funds and local apexes. In Africa, over the next 3 years, it was about $350 mn. So, we took the $65 mn — the total (then current) equity base of the African microfinance institutions — and doubled it, feeling that it would be logical for a fast growing industry like this to double over the next three years. We compared it to the supply side and we see that the supply of funds looking to be invested in sustainable MFIs in Africa far exceeds the absorptive capacity of the institutions in that continent — by almost 3 times, in fact.

You could argue that we should look at the loan portfolio and not equity, and indeed there are lots of different ways we should look at this. But this gives you a rough idea that there is a lot of money out there that seems to want to do the right thing and few institutions that can absorb it. So why is it then that good MFIs have such a hard time raising funds? What is going wrong? Well, we have a few ideas.

Donor money is plentiful but, as far as it is structured right now, it is pretty ineffective on the whole. Why is that? Mainly because donor funds, in general, are donor-driven rather than demand-driven. They can be politically driven, going to the countries that are the politically hottest at the moment. They can be driven by disbursement pressure or commitment pressure. They are often narrowly targeted to something that the donor wants to achieve — a certain population group, a certain input to finance, for example. Oftentimes, the funds themselves are poorly structured — they languish in big apex institutions whose design makes them pretty un-useful to MFIs, or they often have burdensome conditions of monitoring and reporting accompanying those funds.
We think that to best support microfinance a donor should base their funding on the MFI-identified needs in terms of the amount, structure and timing. The terms would be flexible, again to best support that MFI, but they would be entirely dependent on performance. We believe in the tranche-based grants where minimum performance criteria are set and if those criteria are not met, just like a regular equity investor, subsequent tranches are not issued. But those tranches have to have teeth. If you are doing a performance-based grant, you have to be serious about an institution that does not meet criteria, and be ready to cut them off when they do not.

In closing, I would just leave you my thoughts from our perspective as a donor consortium, working with donors like many of you to improve the way they support these vastly wide-ranging and diverse institutions that make up the universe of financial services for the poor. What does “good” donor money (and “bad” money) look like? Good money acts like an investment — rather than charity or a donation. It invests in institutions, rather than in projects or schemes that are donor-driven. It is performance-based, rather than earmarked to achieve a specific purpose for that donor. Where useful, it should be invested via wholesale mechanisms, such as networks, rather than at the retail level.

Oftentimes, donors do not have the technical capacity or the physical presence to be working effectively in the field, and therefore they should consider secondary organisations, like other networks that exist, who can provide the technical assistance and governance required. It is shocking, but true: some donors are still lending in their own hard currency and expecting MFIs to bear the currency risks. Clearly, currency risk needs to be undertaken by the donor wherever possible.

Good money means coordinating with other donors — I do not mean collusion, I mean coordination — where donors get together and figure out how each can best use one another’s comparative advantage to support the sector. Far too many donors must plant their national flag on every project they support, rather than allowing it to be subsumed under a broader donor-coordinated mechanism.
Last, donors need to take more risk and smart risk; moving deeper down into the sector, allowing successful institutions to graduate to commercial sources of funds rather than hanging on to the latest success story. Donors need to take more risks and allow institutions to graduate away from them to commercial investors when they can.

Thank you very much.
I would like to thank DFL and the Caribbean Development Bank for allowing me to give a speech here. I would like to talk about the Microfinance Sector development approach.

1. **Stages of Development**

When we look at stages of development and when we look at countries that already have a mature microfinance sector, these countries went through four typical phases of development. Firstly, there is the **Start-up Phase** where you have a lot of experimentation and institutions that try to target lower segments in the market. Their experimenting is often characterised by high default and loss making types of operations. After some time, leaders emerge. These are institutions that learn the trade, they learn the business, they learn how to look through the eyes of the client and they know how to do business with the client and they gradually become sustainable.

![Development stages of the microfinance sector](image-url)
Since they know how to do business, any investment in these institutions leads to increased outreach. As Elizabeth said, you have those institutions that you subsidise every year and their outreach remains more or less the same because they make a lot of losses. These loss leaders finally learn how to deal with the lower segments in the market. The outreach is high in the emerging and experiment phase. This is followed by consolidation where the client base increases, the staff also increases and the management information system improves. In countries with mature microfinance industries, for example Paraguay, Bolivia, Cambodia and Indonesia, you see that at the consolidation phase, you institutions that gradually want to become a full-fledged financial intermediary.

Often the regulatory framework is not in place to allow these institutions to further diversify their financial instruments. However, once this happens, they fully integrate in the financial sector. When you look at the development of the sector, you see that in the beginning, public funds are needed to help kick-start the sector and if this is done well, the sector can mature and in those countries where it is mature, no public funds are needed to finance or subsidise the sector and in fact leading MFIs pay taxes.

2. **Upscaling and Downscaling**

   In that process, if you take the market here there are financial institutions that specialise in targeting the high-end of the market and those that specialise in the low-end of the market such as MFI’s. In the expansion and consolidation phase, MFI’s gradually upscale, they grow with their clients and once they do that, they develop new products and they see other layers of clients and they gradually expand. When this happens, the commercial banks or other institutions that are more focused on the higher end of the market suddenly start taking the low-end segment of the market more seriously. Before, it was a subsidised and sometimes even a political area instead of a private sector area.
However, once they see that there are institutions that are sustainable and profitable which target the lower segments that helps the banks and other institutions to gradually downscale. If institutions that specialise in the lower segments try to make a jump to suddenly focus on the high-end or vice versa, they ‘burn their fingers’ as it’s really a gradual process to upscale or downscale a financial institution. The question is, if you are in the start-up phase, how many years does it take? In some countries it takes a long time and in others you can go through that process very quickly. It all depends on whether you are able to address the constraints that keep the sector in the start-up phase.

Constraints
(a) When you look at the constraints, one key issue is the emergence of leaders who really show that they understand the market. It becomes clear that they can professionally address the market and that they can do this without subsidies. From the projections you can see that they can become profitable, they know how to develop and deliver products that clients really want in a profitable manner.

(b) The availability of funding was mentioned. There is a lot of funding around but it is not very targeted. What I understand from Dr. Bourne, in the case of CDB, is that only 28% of it was disbursed and the issue here is lack of capacity to deliver the products in an efficient manner in order to become profitable.

(c) When you look at the enabling environment, countries that remain in the start-up phase have an environment, which does not allow an institution to provide credit at a price that will allow them to become profitable. Where there are interest rate ceilings people don’t have access to microfinance.

(d) There are also legal requirements. In some countries, central banks ask for very high reserves for insufficiently collateralised or non-collateralised loans and this keeps the sector in the start-up phase.
(e) The presence of bad practices such as subsidised credit schemes, political credit schemes, targeted credit schemes - projects which weaken instead of strengthen institutions to become sustainable. When this happens you distort the market and one can’t get out of the start-up phase even if you have potential leaders, as these ‘crash-credit schemes’ prevent them from capturing the market. These practices, when widespread, really keep the sector in the start-up phase.

(f) Limited demand for a single product. As Dr. Bourne said in his speech, and apparently here it is recognised, you should diversify in countries with a sufficient population. For example, the Grameen Group lending model works quite well in densely populated areas. However, once you come to areas where the population density is lower that one product is not enough to become sustainable, you have to diversify.

2. **Key Issues**

(a) **Microfinance Institutions**

The major issue is sustainability. When we talk about sustainability we refer to the following areas:

(i) Institutional - that you have the right organisational form for that stage of development, good governance, staff capacity and MIS, procedures and policies.

(ii) Technical - that you have the right competitive products with low transaction costs and tailor-made to the needs of clients and that you are capturing the right market.
(iii) Financial – the right pricing, profitability and a high portfolio quality

(iv) A credible business plan – this sounds logical but in my experience I have not seen a lot of MFIs with credible business plans. More often it is a wish plan rather than a thoroughly worked out business plan.

(v) Funding – attracting funding for the financing of the business plan is also important. They may start where the market is most conducive. That also seems quite logical. But unfortunately it does not happen. Political reasons or donors may ask institutions to work in very difficult areas or directly with difficult client bases. In the start-up phase it is best to start where the work is the easiest where the client base is most dense and the product is simple. Once you build up the capacity you can go for another level.

(b) **Downscaling** – the key issues for downscaling of commercial banks or credit unions are:

(i) Total commitment by management and this should remain. This means that there has to be a strategic value for the institution. This could be profitability or an extension of the branch network or an expansion of the client base. In commercial banks it is important to have a specialised unit because it is a different type of approach. If you go on a large scale with say 10,000 to 20,000 low-income clients or poor clients, obviously it is a very different type of group when compared to your high-end clients. So sometimes even in terms of location, this is different.
(ii) Policies and procedures. When you target the lower segment of the market, in the case of commercial banks their collateral and legal requirements for disbursements are too complex and cumbersome to address the mass type of credit delivery.

(c) Creating an Enabling Environment. The key issues are:

(i) Constraints to the development of the sector need to be identified and removed in order to increase the potential demand. Strategies that MFIs or units of commercial banks could follow when the density of demand is not very high include offering low rates, high return services, reduced transaction costs and high penetration rates in scale and scope so that wherever the market is, you try to penetrate it with different types of tailor-made products.

(ii) A conducive legal and policy environment. Let us go back to the first graph with the vision of creating an inclusive financial sector where first you invest in the sector to kick-off and then gradually the sector is included, starts paying taxes and contributes to public funds. If it is agreed that the sector should become sustainable and microfinance should become like a commodity and this has happened in other countries, then you have a long-term vision.

You can then sit around the table to develop a strategy to reach this goal and identify which donors could contribute to the process, what policies are required for the implementation of the strategy and what are the legal and regulatory constraints to implementation. If this does not happen what you get, as Elizabeth said, is the ‘good money’ and the ‘bad money’. Everybody is doing this and that and in the end you are not building or developing a microfinance sector.
(iii) Donors - they should act as investors in microfinance sector development. I think that should be the focus. For example, in Bangladesh a donor had a beautiful project in a few villages. They were very proud of it but it was not sustainable. There was a lot of default but the donor said they had a lot of impact. In that area there were a lot of local MFIs but they did not work in the villages adjacent to the ones where the donor project was located. This was a result of distortion of the market. As a result, other MFIs were afraid to go to villages close to the project site because they felt that it would ruin the quality of their portfolio. This was not looked at in the project evaluation report. No one looks at the adjacent villages and asks why people in these villages don’t have access to microfinance.

The focus should be on sustainability, a shared vision, identification and removal of constraints to the development of the sector. Finally, any investment in the sector should support its development.

Thank you.
FINANCIAL VIABILITY – THE LATIN AMERICAN EXPERIENCE AND BENCHMARKS FOR EFFICIENCY
Mr. Tomas Miller, Investment Officer, Multilateral Investment Fund (MIF)

Good Morning. First I want to thank CDB and Microfin for making this Second Roundtable on Microfinance possible in this beautiful place. I am delighted to share with you some of the experiences that we have at MIF. The fund was established in 1993 to encourage the growing role of the private sector in Latin America and the Caribbean. MIF was equipped with funding of $1.3 billion for both grants and investments to support small and small-scale primitive interventions and new approaches to act as a catalyst for larger reforms.

MIF has different instruments. We use equity, loans, quasi equity and grants to promote small and micro businesses in Latin America. We have committed about US$220 mn in 35 venture capital funds and in 18 MFIs. We are constantly seeking for new approaches to solve old problems. One of the areas that has consumed a lot of our time is trying to help build a microfinance industry in Latin America.

The experience of donors in making investments in Latin American MFIs

In the 1990s donors took earlier risks of start-up institutions which private capital was unwilling to take. The current status, we have today both multilateral and bilateral agencies participating in specialised investment funds, like PROFUND, a successful investment fund that is winding down after eight years of operation; Lacif, a debt fund; and more recently, other funds, like IMI sponsored by the ITC Group, Gateway and Accion Investments sponsored by ACCION. We also do direct interventions. We constantly look for joint ventures by donors with private participants, in strategic investments, in new entities like Bangente in Venezuela, in Bolivia, and initiatives in Haiti. There are several other examples that I could mention but, in general, what we are trying to do is team up with private investors. Many MFIs are now active and recognised borrowers on local capital markets in Latin America.
Challenges in Mainstreaming the Industry

The challenges that the industry faces are that we still have confused and inconsistent legal and regulatory environments. We have governance challenges caused by the ownership structures and probably, because of the newness of the activity, we still have little capital involved to date because of the high-perceived risk. But, we see some performance by market leaders, which are increasingly visible, and many of these MFIs are the best performers in their financial sectors. Returns on equity of 15% are not uncommon.

We have various institutions at various stages of growth. Healthy competition in certain countries and stable diversified funding sources. We see an increase in interest by the traditional banking sector but not yet a socially desirable level. There is more consistency in lending methodologies and best practices are proven and as a result, actuarial analysis and benchmarking can now be made. It is easier for a donor or an investor to determine where to allocate resources now.

We see the development of new financial products that raise new opportunities for investment and diversification. Micro-credit is not only a service, we have heard that before, but we are seeing institutions involved in insurance, savings facilities, deposits, debit cards, credit cards, transfer of remittances - which is an area that we have recently been very involved in, exchange of currencies and safety deposits. In general, MFIs are dealing now with different ways to manage liquidity and cope with risks.

How to we bridge the gap between formal capital markets and the sector?

As capital markets become increasingly globalised, investors have a wide area of investment opportunities and very little time to spend in choosing between alternatives. That is why the industry needs to move forward in terms of standardisation of legal structures, methodologies and regulatory structures. We think that the main challenge for the industry is attracting more private capital to the sector. For this to happen, we need more transparency, consistency and high quality of financial information.
Advisors, rating agencies and other third parties that can intermediate between entities and potential investors should be involved. MIF has funding for these types of activities. We also think that it is important to share risks with the private sector. An example of this is the purchase of bonds, which we did with Microfin and DFL a few years ago.

As I mentioned before, remittances are an important area. We estimate that Latin America receives $33 billion a year in remittances from international migrant workers that have moved to the developed world and are sending, on a monthly basis, a small amount of money. We see this as an increasing opportunity for financial institutions to tap into these resources and there are opportunities for the securitisation of these funds. Successful transactions have been made in Mexico and El Salvador. MIF’s goal with respect to remittances is that consumer welfare can be improved if we reduce the transaction cost and channel some of this money through the financial system.

For this to happen there needs to be research and awareness of the amount of money that is flowing into the region. We are brokering relationships and helping MFIs on the receiving side with banks located in the countries where the migrant workers have gone to work. We see a lot of similarities between microfinance and remittances. Both consist of small amounts, large volumes, small transactions and the challenge is to reduce transaction cost. The clientele is similar and the branches of the MFIs are strategically well located where the recipients of these remittances are.

Just to put the Latin American experience in perspective, Latin America is the area of the developing world that exhibits the larger amount of self-sufficient financial institutions. According to the *Micro-Banking Bulletin*, out of 57 institutions that report information to the *Micro-Banking Bulletin*, 51 are financially sustainable. The efficiency is 23% if you measure the total administrative expenses of the loan portfolio. Those institutions that we deal with in the MIF, where we invest or provide loans, are normally in the area of 15% or less than 15%. Adjusted return on equity on assets is pretty attractive, compared to the returns by the commercial banks.
In this particular issue of the Bulletin that was issued in November 2002, Latin America is behind Asia. It used to be the other way around and I think it’s because of the macro-economic development and the fundamentals of the MFIs.

It is said that despite its attractive yields, if you look at the total outstanding credit that the MFIs and the co-operatives have in Latin America it is about $2.5 billion and if you look at the outstanding loan portfolio that the private sector and the commercial banks have it is about $0.5 trillion. Microfinance, as a percentage of this, is still minimal as it less than 1%. This raises the question, what do we do to get this number up?

If you look at the household survey data and define micro-enterprises as those enterprises with less than five workers, then we have a total of 59 million micro-enterprises in Latin America. Then, if you look at the total clientele of the MFIs in these countries, you find, on average, only 2.6% of the micro-enterprises are clients of MFIs. I am not saying that only 2.6% of micro-enterprises have credit, I am saying that MFIs reach out to only 2.6%, ($1.5 mn). In some countries you have a very low outreach. For example, you have the case of big countries like Brazil where you have 19 million micro-enterprises and only 62,000 are clients of MFIs. In general, you can see that other countries are pretty successful in terms of the level of deepening and the challenge is mostly in bigger countries.

Latin America, in the last decade or so, has been trying to promote adjustment policies, that is policies that are oriented to achieve better utilisation of the existing and available inputs. If you go back to economics, you have a production possibility curve and two outputs, Output A and Output B. Let’s assume they are financial services here of one type and financial services of another type. Through these adjustment policies, we are trying to look at ways to fill the efficiency gap.
For example, at Point S, we have this amount of Production B and this amount of Production A. As we move towards the frontier, towards the production possibility, towards Point T, with the same amount of inputs, we are achieving a higher production level.

That has been the story of microfinancing in Latin America, increasing productivity and producing more with the same amounts. How do we achieve this? Through training, changes in methodologies, better controls, eliminating distortions, supporting best practices, demonstration effects and supporting institutions that have right incentives to do the job correctly, and by acting as investors, that is by helping those institutions that have good mechanisms and good financial indicators. We have tried to push this to the frontier. The challenges are incorrect government policies that make it hard to move from Point S to Point T. There are still weak institutions out there and there are institutions that do not have the appropriate structures of incentives to move from Point S to Point T.
Now, for the future. If we want to move, if we want more micro-enterprises to have access to the financial system, we need growth policies, which are basically shifters to this production possibility curve. Once we move to Point T, we know here there is only a low percentage of micro-enterprises that have access to financial services, so we need to shift the production possibility. This can be achieved by eliminating bottlenecks, attracting more capital, attracting more human capital, adopting new technologies, and looking constantly at new ways of doing things so that you can produce with different production functions. We do all this because the evidence is there that good performance and good financial indicators are highly correlated with economic growth, capital accumulation and the efficiency of resource allocation. The more monetised the economies are, the better it is for the economic units.

Challenges for the Future

Finally, what are the challenges for the future? They are:

(a) Integration of capital markets and attraction of private capital

(b) Consolidation. After listening to Peter Kooi, I was thinking that we do not need consolidation, but actually integration.

(c) We need to apply different models for big countries. The models that have proven successful for small countries are probably not the same as those that we need for bigger countries.

(d) Economies of scale - The good news for small countries like those in the Caribbean is that the recent evidence shows that even small MFIs can be as efficient and profitable as larger ones, so there is no correlation between the size and the profitability and efficiency levels.

Thank you.
COMMERCIAL BANKS IN MICROFINANCE

Mr. Cesar Lopez, Vice President, Latin American Operations, ACCION International

I would like to thank DFL and MICROFIN for inviting ACCION to make this presentation. Today, I will talk about commercial banks in microfinance, are they here to stay or are they here only because of the clear demand?

If we divide the providers of financial services into groups, we have two major groups. The first is the lesser-structured financial service providers, which consist of three sub-groups. They are the money lenders, the providers of goods and service that give short credit to micro-entrepreneurs and some of the commercial stores that sell appliances to the poor on credit. They were the major providers of microfinance services until the 1970s.

They have been losing market share very quickly in the last 20 years. Not only have they been losing market share but the total cake is now bigger because we have a second group of financial service providers in the sector. This group consists of the following five smaller groups:

(a) Non-government organisations (NGOs)

(b) the boutique banks or the specialised microfinance banks which may have started as NGOs and then they become banks such as BancoSol in Bolivia or some started as specialised commercial banks like Banco Solidad in Ecuador or some merged with NGOs.

(b) the government banks

(c) co-operatives and the mutuals

(d) traditional commercial banks, which have started to become interested in microfinance.
The second group offers microfinance services cheaper and more efficiently than the first group. In countries like Bolivia where the second group is starting to become the dominant player, the interest rate is lower, there are more financial services and they are more efficient. Inside the second group we also have two major groups. They are the institutions that are regulated and those that are not regulated. Starting in the 1980’s, 80% of the clients in the microfinance sector in the more structured group were NGO clients. In 2002, 70% of the total portfolio in the microfinance sector are coming from the regulated institutions. Again, there has been a revolution in terms of who are the major players in the industry in the region.

Of the boutique banks, the commercial banks and the government banks, the commercial banks have been probably the most interesting players in terms of the model. Are they here to stay? Are they here for the long term? The answer is crucial for the microfinance industry. The only way to expand in microfinance beyond the 5% covered now is to attract the private sector and the commercial bank has to be a crucial player in this process.

MFIs have already shown that they can be profitable. The question is can they be profitable enough to attract private investors and can they generate a return on equity (ROE) that’s attractive to the commercial banks? What about the volume? They can be profitable but, as Tomas showed, it can be less than 1% of the total volume of the commercial banks. In the last 2 to 3 years, in Latin America, the ROE of most MFIs was going down. For example, Banco Sol was the first commercial bank in the region and the years when they had 25 to 30% ROE are gone. There is more competition and market saturation and the ROE is declining. Are the commercial banks patient enough to go through the cycle and wait until they get an ROE, which they consider attractive. All this goes back to the question – are the commercial banks here to stay in the microfinance industry or are they only here for the short term?
What are the major advantages that commercial banks have in this industry?

(a) **Infrastructure.** Clearly, the major advantage that most commercial banks have is the infrastructure. They have a network of branches in place and therefore they already have a presence in the market. In ACCION International we have two examples of major commercial banks that have gone into microfinance. One is SOGESOL, which we will hear about this afternoon, and the other is CAREFE, a subsidiary of Olpichincha, which is the biggest commercial bank in Ecuador with more than 200 branches. Every time that CAREFE is establishing a new branch to offer its microfinance services, the only thing they have to do is to open a space in a branch of Bank Olpichincha.

In the case of ACCION network, we have two partners, Banco Solidaro (a boutique bank) and Bank Olpichincha. For Banco Solidaro to open a new branch to provide microfinance services, the average cost is about US$50,000. While for CAREFE the average cost to open a new point of service is around US$10,000. There is a big advantage, as the additional cost to add the service in one branch of a commercial bank is marginal.

(b) **Multiple Services.** At the start, commercial banks can offer a variety of services. When you open a new point of service for microfinance in a branch of Bank Olpichinca, they already have savings, consumer lending, bill payment services and transfers and this is another huge advantage.

(c) **Brand Recognition.** It is difficult for a new bank to compete with a traditional commercial bank, which has already established a name in the market. Most of the commercial banks in Latin America have been there for over 80 years and in some cases 200 years. They already have an impact in terms of advertising and brand recognition.
(d) **Financial resources.** Established commercial banks can directly access international capital markets. In addition, the cost of funds is much lower than the cost in the boutique banks.

(e) **Governance.** Most of the commercial banks are 100% private and they are profit oriented.

**The Disadvantages**

The main disadvantages are:

(a) Lack of market knowledge. The commercial banks don’t have the market knowledge of the microfinance sector.

(b) Lack of credit methodology to penetrate the sector.

(c) Size. The commercial banks cannot function like the boutique banks because they are bureaucratic institutions and therefore less flexible in their ability to adapt to the methodology and method of operation in the sector.

**The Models**

There are many different models that the commercial banks in Latin America have tried to enter the microfinance sector. They include the following:

(a) The Internal Unit - trying to get an internal division in the bank to provide microfinance services. This has been done by Banafe in Chile, Banco del Pacifico in Ecuador and Banco del Nordeste in Brasil.
(b) Strategic alliance with an NGO or other microfinance providers. The interests of both institutions are the same in the short-term, temporary solution. In the long-term, if the operation is profitable, the bank will want to get full control of the institution. Examples include Banco del Caribe and Bangente in Venezuela and Unibank and Nkwe in South Africa.

(c) Financial Subsidiary. This involves the creation of an independent financial subsidiary such as Financiera in Peru.

(d) Service Company Subsidiary. This is a subsidiary of the bank, which does not have all the capital and regulation requirements of a commercial bank. They are the newest players in the sector. They are easy and cheap to establish, as not a lot of equity is required to start the company because most of the portfolio is already in the bank. The service company specialises in the lending methodology, basically generating the loans but the portfolio is in the commercial bank. They don’t have to worry about funds because most of the commercial banks are liquid and where they are not liquid, microfinance is a small portion of the total portfolio. Examples include SOGEBANK in Haiti.

The major problems with this approach are less independence in decision-making, less flexibility in terms of human resources and management procedures. There is also a big problem with the corporate culture in terms of unity as the subsidiary cannot be independent enough to adapt to the specific needs of the sector.

When you look at the service sector model, it is clear that you can get a number of long-term contracts with the commercial banks. In terms of financial costs, there is the total cost of funds for the new institutions, the fees paid for the use of the commercial bank branch network and services provided such as legal, accounting and marketing services.
In summation, we have had three experiences in Latin America with this model and one in Haiti. The big challenge that we have with the banks is how work with them so that the MFI can get the services that it needs. The MFI competes not only with the other units in the commercial bank for these services but also the other subsidiaries of the bank. There is also the question of integration of the microfinance services at the branch level.

One also needs to avoid duplication of services. There is also conflict with other divisions of the bank such as the small business unit. In general we see the entry of commercial banks in microfinance as a big challenge for the industry. The banks have a big advantage in terms of cost and funding but they need more time to become familiar with the sector and also to learn about the right methodologies for operating in the sector. The models for entry into the sector that we spoke about have problems and there will mistakes but, in the long term, for me it is very clear that commercial banks are going to be major players in this industry as only commercial capital can reach the one billion potential microfinance clients.
ENSURING CONTINUITY – THE IMPERATIVES

MARKET RESEARCH FOR MICROFINANCE: DETECTING THE NEEDS BEYOND THE NUMBERS

Monique Cohen, President, Microfinance Opportunities

We have talked this morning about financial viability, governance and transformation. The focus was on the supply side of the equation, the parameters for the successful delivery of microfinance services. My theme for this afternoon is ‘market research for microfinance: detecting the needs beyond the numbers’. I doubt that would have appeared on the agenda of a microfinance conference two years ago. Yet it is a ‘hot topic’ in microfinance today, together with the mantra of ‘flexible and more diverse products’.

Market research for microfinance takes us across what often seems like a big divide, to the demand side of the equation: who is buying the MFIs service and what do they want? It is only recently that many in the industry have acknowledged that in the end, success depends on not just getting people in the front door but keeping them there with products that make sense for them. Obvious, yes but long ignored. What I want to do today is to challenge you a little to revisit microfinance from a client’s perspective, with an eye to delivering microfinance services in a way that is more appropriate to the client. Let me also suggest that if MFIs don’t get the product line right, sustainability will be hard to achieve.

My presentation this afternoon will touch on four issues:

1. Reasons for the emergence of a more market-led microfinance agenda.
2. Key questions for understanding clients.
3. Using market research to understand the nexus between:
   a. clients and products,
   b. clients and institutions, and
   c. clients and markets.
4. The tools for and costs of conducting market research.

Background

Before exploring the value of bringing the client towards the centre of the microfinance discourse, let us take a minute to consider ‘why’ this growing interest in market research or, put more broadly, this shift to market-led microfinance, is an issue. This has not occurred in isolation but is the consequence of changes in the industry at large and a response to common problems experienced by MFIs in many countries. It is integral to the growing trend towards a more market-led or client-focused agenda for microfinance.

Until now, the MF industry has been largely product-led. Clients were seen as a given, most MFIs, backed by donor money, assumed that if they opened for business, clients would come in through the front door. At first, that is often the case, but over time the rate of new entrants often slows down. There was a cookie cutter view of products; for many they were again a given. Short-term working capital loans were dominant. Competitive markets with little product differentiation as in Bangladesh, Morocco or Uganda, are not unusual. The diversification of the product market in Bolivia or Kenya as well as Uganda is a relatively recent phenomenon.

The method of service delivery prescribed by the new world of microfinance has primarily been solidarity group lending or village banking. A few MFIs have offered individual loans from the beginning. Under this donor or product-led industry model the prevailing product norm was ‘one size fits all’. The premise was that if an MFI opened the door, the clients would come flocking because there were few alternatives. Adherence to this paradigm made the microfinance sector one of the few remaining product-driven businesses in the world.
The impetus to move away from this product-led focus towards a more market-led or client-driven agenda, in which market research is an integral part of doing business, has come from several directions:

- Increasing competition among new microfinance service providers of all sorts is growing (NGO, banks, finance companies). In the absence of product differentiation and given small loan sizes, clients tend to jump from one lender to another as household cash demands arise. They may also borrow from multiple lenders because the level of credit on offer is too small. Service providers were shocked by what they viewed as a lack of loyalty which they believed was implicit in the social contract and trust that underlies much microfinance lending.

- A growing awareness among many MFIs of the fallacy of their initial operating premise that they were the only game in town. In many markets this is clearly no longer the case because of competition, but I doubt that it was ever true. For most clients, microfinance was never the only source of credit. Money lenders, partner groups and other informal finance organisations have always played a role and continue to do so.

- Drop out rates that are higher than desirable. (see Table 1)

<table>
<thead>
<tr>
<th>Table 1: Some numbers........</th>
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<tr>
<td>• Average number of loan-cycles before lending is profitable in Latin America: 4-5 (Brand and Gershick, 2000)</td>
</tr>
<tr>
<td>• Typical drop-out rates:</td>
</tr>
<tr>
<td>– Bangladesh: 5-10% pa (Wright, 2000)</td>
</tr>
<tr>
<td>– East Africa: 30-60% pa (Hulme, 1999)</td>
</tr>
<tr>
<td>– South Africa (Northern Province): 35-50% (Stark et al., 2003)</td>
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Source: Graham Wright
We have come to a point where the industry has matured and many MFIs are realising that they need to become more business-like if they are to grow. If MFIs are to raise attraction and retention rates, many have concluded that they will need to deliver products and services that are responsive to their client needs. They will also need to recognise market opportunities and develop strategies to take advantage of these possibilities. Growing a loan portfolio with existing customers needs to be more than simply larger loan sizes at prescribed intervals; it must also meet the challenges of providing access to a broader range of financial services.

Being more responsive to clients requires understanding one’s market: who is the competition? For both formal and informal competition, this means determining more precisely an institution’s market niche, not simply the ‘unbanked’ in the broadest sense, but identifying specific segments of the ‘unbanked’ market. We may need to be clearer about what ‘unbanked’ means. Are people who receive remittances through the banking or postal system really ‘unbanked’?

In retailing, the customer matters. They are the key to staying in business. MFIs are in a competitive market and need ways to ensure that their clients’ voices are heard. Until now this has not been so. Clients were viewed primarily as simple statistics used to measure numbers reached, X per cent repeat customers or number of active savers. To change this, we need to listen to our clients, to undertake market research.

For many MFIs, doing market research is no longer a choice, it is critical to survival. This was brought home to me at a meeting in Moscow 10 days ago. As I talked with the staff of MFIs in Bosnia Herzegovina, it was clear that their market is so competitive that they have been compelled to use market research to identify the segments where each feels it can have a comparative advantage in the market.
The entry point for understanding clients, for getting the product right, getting the service delivery mechanisms right and increasing one’s market share is summarised in three fairly simple questions. They are:

- Who do microfinance institutions reach and who do they not reach?
- How do the poor use financial services and what are the implications for our existing and potential products?
- How do we increase the poor’s access to financial services to better serve their needs?

The answers to all three not only inform the emerging market-driven microfinance agenda but also suggest ways to increase the scale and depth of outreach. By providing more appropriate products and services, MFIs should be able to attract and retain more clients and thereby expand the efficient and sustainable delivery of services to as broad a spectrum of the poor that is possible. This includes those that:

- drop out because of the inappropriateness of what is on offer;
- are excluded because they live in areas that lack access to microfinance services of any type, in part because they are too remote or are perceived as too poor and too risky;
- are deemed high risk clients by MFIs; and
- choose to self-exclude.

These questions have been on the table for a while, so let me share with you what we have learned.
Take the first. Who do we reach? Drawing on data from about 50 countries we can argue that the majority of MF clients belong to the narrow band defined by this oval (see Figure 1).

**Figure 1**

**Who are the Clients?**

- Most clients are moderate poor and vulnerable non-poor.
- Extreme poor to a considerable degree are largely excluded.
- Programmes reach a range of clients, but targeted programmes include more extreme poor.
- Destitute are outside of reach of microfinance programmes.
- Better off vulnerable non-poor and lucrative ‘unbanked’ are excluded by attempts to target the provision of services.

Since the renewed interest in clients over the last few years, we have learned a great deal about how clients use financial services. The needs of poor people are diverse. Broadly we find that microfinance and, predominantly credit, is used by poor households to generate income, to accumulate assets and to manage the ever-present risks that can rapidly deplete their concrete gains in assets and income. Let me be more specific:
We also know that:

- Micro-enterprise development is only one use of microfinance. Clients use loans to mitigate risk, invest in an array of social, financial, physical and human assets, such as home improvements or education, and to take advantage of opportunities as they present themselves. Many are uses which might be better met with more appropriate or finely tuned products.

- Vulnerability and risk are key organising principles for clients. Together with growth objectives such as stabilising and increasing income and building assets, they are the basis by which clients assess the value of the financial services on offer.

- Sources of risk can be structural, can be unanticipated crises such as sickness or death, and can be high cost life cycle events such as marriages, funerals or educating children.

- The ‘average’ product does not always respond to the client’s reality, in which the need for and the use of financial services changes over time (see Figure 2).

![Figure 2: Household Life Cycle Financial Needs](image)

- **Birth** (C,S,I)
- **Death** (C,I)
- **Old Age** (I,S)
- **Marriage Ceremony** (C,S)
- **Education** (C,S)
- **Health** (C,S,I)
- **Shocks** (C,S,I)
- **Working Capital** (C,S)
- **Productive Assets** (C,S)
- **Investments** (S,C)
- **Asset protection** (I)
- **ONGOING FINANCIAL NEEDS**
Market research offers us a way to understand not only these uses of financial services but also how to deliver products and services that best respond to these needs. It focuses on customer preferences and customer financial behavior and generates information that can be used to determine the most appropriate products. Also, market research can help determine how to collect information about clients, how to use it for decision making and how to assess and consolidate a MFI’s position within the market.

In making the case that MFIs should conduct market research, I think we need to pause and ask, market research for what? At the beginning, I introduced the concept of market-led microfinance and I want to return to it now. If the goal is to attract and retain clients, our market research must look at the client perspective on three levels: products, institutions and markets.

First, let me start with clients and products. Much of the market research that is currently being done is around this nexus. As I mentioned, when it come to products, flexibility and diversity have become the mantras. The challenge lies in designing and delivering products and services that more appropriately fit the needs of MFI clients.
Market research is an integral part of the product development process (see Figure 3).

**Figure 3**

**Market Research & Prototype Development Process Overview**

- **Research Issue**
- **Research Plan**
- **Quantitative Research**
- **Qualitative Research**
- Understanding clients’ needs
- **Product Ready for Testing**
- **Quantitative Research: Prototype Testing**
- **Refine the Concept into a Prototype**
- **Testing the Product Prototype**

Source: Graham Wright

The gains from doing market research can be enormous, the costs of not doing it can also be high. Let me offer an example of each:

Recently, Teba bank in South Africa introduced a new product called GROW WITH US SAVINGS ACCOUNT. The 'Grow with Us' Savings Account provides affordable financial services to those who previously might not have had access to savings accounts, such as the informally employed and those who require facilities to keep their money safe and to save. To market its product, Teba planned to rely on its front line staff. Management presumed that success would depend on training the clients in saving and budgeting. Thus, the key to adoption was front line staff who understood the basics of financial management so that they could help the clients. To achieve this, Teba used a wide variety of education techniques including:
• articles in the Bank’s newspaper,
• a book,
• a poster,
• a brochure, and
• a competition for staff on savings.

The product was also promoted through the media, particularly via radio press releases and the sponsoring of a savings week. Key messages to the clients were focused on:

• the importance of saving,
• the need to plan to save (have a budget), and
• Teba Bank can help you budget and save

Levels of client intake fell far short of the targets:

• Competition from the informal as well as formal sectors was greater than anticipated.
• Radio proved to be a good medium to get people to open accounts but not to move them much further forward.
• Branch staff did not engage – there was no product champion, few staff ‘read’ and thus did not acquire information to pass on.
Important lessons were learned. The approach was too directive. Teba Bank focused on what they thought people needed to know, not on what people actually needed. It had not done the market research to assess client preferences for the product and factors that could influence its adoption.

Equity Building Society (EBS) is in Kenya. For their directors, management and staff, market research has represented a crucial milestone in the growth, development and success of the institution. In 2000, EBS made its first deliberate attempt to gain an accurate client perspective of their institution and its products by implementing a market research programme. Undertaken in collaboration with MicroSave-Africa, this market research made it clear to Equity that its clients perceived EBS as charging exorbitant prices and attendant charges for their loans. This told Equity that it they should seek to re-price and repackage its loan products to counter and overcome the threat from SACCOs and other competitors.

From EBS’s perspective, the priority was to do something that would contain the clients’ negative perceptions of them, while giving management time to think through the whole process of product development. A first and short-term step was to carry out a quick product differentiation exercise on the various features of the loan products to address the needs of each market segment - small holder, micro-entrepreneurs and the employed. This led EBS to a strategy of reviewing interest rates and charges to make them more transparent. The marketing team was charged with carrying out changes and transforming Equity’s image in the market.

The team refined the savings and loan product menu that EBS presented to clients. EBS:

- Restated these terms in client friendly language.
- Printed brochures outlining the changes by product.
- Displayed bank tariffs in the banking halls.

The results of this initial product refinement were marked by an overwhelmingly positive client response towards Equity as an institution and towards its products and services.
Indeed, to test the effect of the market research, Equity decided not to market the new refinement measures aggressively, but decided instead to see what responses would ensue that could be attributed solely to the market research exercise. Soon after the completion of the market research exercise, the number of accounts that opened in a day jumped from an average of 20–30 to about 200.

In both these examples, market research provided opportunities for the institutions to make adjustments to their products and marketing campaigns that resulted in significant increases in numbers of clients and profitability of the institution. However, lest I leave you with the impression that market research is only for product refinements, let me note that both EBS and Teba Bank have used market research for a bigger product development agenda - the design of new products. Teba Bank is about to launch a funeral insurance product. More recently, Equity has used market research and MicroSave-Africa’s systematic approach to costing and pilot testing to develop two new products, including Jijenge, a contractual savings product that has attracted huge numbers of clients to the institution.

Second, let us turn to clients and institutions. The focus here is on systems and institutional changes that MFIs have made as they seek to institutionalise a client focus. Let me touch on two issues:

a. client database.
b. human resources: there needs to be a product or client champion within the institutions and
c. the capacity to manage, if not do, market research.

If an MFI wants to understand its clients, it would seem obvious that it would benefit from a good client database. It is surprising how few MFIs have one. Last October I visited MFIs in Mexico and Honduras. All were in the throes of trying to address their higher than desirable dropout levels. All wanted to implement one of the AIMS/SEEP Client Assessment Tools - the Exit survey.
The first requirement is a database that would allow them to identify who was in and who was out of the programme. None had the information, and by that I mean basic names and addresses, readily available in their MIS.

I recently met with another Mexican MFI, which has generated an enormous database about clients and non-clients, the latter being applicants who are denied loans and those who choose not to take loans. The information is entered into Palm Pilots by front line loan staff for anyone who enters the door. The data include demographic characteristics, asset ownership and cash flow.

This provides a wealth of information about market opportunities and helps the MFI to tailor its products to specific market segments. For example, a month before school fees are due, the database allows the MFI to assess which of its clients will need money and then market a seasonal product to that population to respond to that need. Seen from this perspective, targeting takes on a new meaning – it is not an exclusionary process but rather an indispensable business opportunity to help increase market share.

There are lots of ways to consider human resources. Let me share the experience of a small MFI in Honduras, which I feel has moved a long way towards being client-led. Part of its strategy has been to train some of its front line staff to do some market research. In addition, it has set in place a reporting system that is easy for the loan officers, generates credible findings, and encourages vertical information flows between senior management and front line staff. Two other things are worth mentioning here:

- The process took time as front line staff learned to accept client criticism not as a black mark, but as an opportunity to improve the delivery of services to their clients.
- The clients learned gradually that critiquing the MFI’s services and products was not going to lead to a denial of service, but was a way to bring about changes to lower their transaction costs and, in turn, lower MFI costs.
The costs of enhancing human resource capacities have not been very high but the benefits have been considerable. For this small MFI, many among the frontline staff now have a role beyond just making loans and collecting repayments. They know how to collect client information on a systematic basis; they conduct basic market research. Promotion to this new market research function is a reward for the better loan officers and is now part of the incentive system. One effect has been to lower staff turnover rates. Higher client retention rates have also meant that loan officer productivity rates have not been affected. For both clients and loan officers, this process has been empowering. Each has gained a voice in how the MFI does business.

Lastly we come to clients and markets. The key questions are what is your market niche and how to secure a solid share? Competition is everywhere and not limited to just the other MFIs competing for the same clients. Competitors also include the myriad of informal sources of credit, such informal financial institutions as partners, ROSCAs, supplier credit, family and friends. But from a client perspective, we need to take these competitors seriously. They seem to be here to stay no matter what inroads we think we have made with microfinance. In Bangladesh, one of the great meccas of MF, Stuart Rutherford, found that microfinance rarely exceeds more than 16% of a household’s debt portfolio. Among SEWA Bank clients in India, microfinance debt tends to be less than 45% of household debt and among MiBanco clients in Peru, the comparable ratio is less than 65%.

Attracting and retaining clients requires finely tuned marketing strategies that demonstrate the value of your products to the client. Ten days ago I was on a conference panel in Moscow with Kenan Crnkic, operations manager of EKI, an MFI in Bosnia Herzegovina. He is a hardcore believer in market research and client-led microfinance. For him, this business can only succeed if we understand the 4 P’s – not product, price, place and promotion but **people, people, people, and people**.

He shared with us the market research that EKI conducted to position itself in the market and to distinguish its ‘brand’. From market research on exiting clients, EKI learned that the staff’s perception of their products and their advantages differed significantly from that of their clients.
The staff assumed that the product attributes that mattered to clients were the interest rate and repayment period. Their market research on clients showed different results.

The programme attributes that clients viewed as important were the flexibility of the collateral requirements and the repayment period followed by loan amount. In the highly competitive market in which EKI operates, the need to distinguish oneself in the market is about more than just the product. This information was used with other data to help EKI position itself in the market, to define its image as well as restructure its products. The findings from the market research also remind us once again why market research is so valuable: the staff often get it wrong, they do not necessarily know what is valued by clients.

Before ending, I want to touch on two final issues. The first is the how and the second is cost. Turning to the first, what tools do we have? The good news is that the field has some market tools to understand our clients and to address new product development. We have two complementary tools kits that can guide an MFI through the market research steps of gathering client information, analysing it and helping to define the product design. They are the AIMS/SEEP Practitioner-led Client Assessment Tools developed by USAID and MicroSave-Africa’s Market Research for Microfinance qualitative tools.

Currently, Microfinance Opportunities and MicroSave-Africa are working together to combine these two tool kits in a training programme that combines a selection of the tools and looks at them in terms of different objectives – products, market opportunities or institutional change. In addition, we are developing a series of training materials on VCD. With 13 modules, we use visual tools that depict live training sessions to train MFI staff to implement a selection of tools.

As I close this session, I am sure some of you are thinking, can I afford to do this, does my scale and potential opportunities for growth warrant it?
The costs are:

1. Developing the market research skills within the organisation.
2. Doing the market research, whether using internal or external resources.

The first are sunk costs associated with building capacity. The second can vary but should not been seen in isolation from the gains that can flow. The implementation of the tools is obviously labour intensive, so the costs will vary. It is difficult to be specific but I can say that implementing a single tool is relatively quick. Our goal is to limit any product change initiative to no more than four tools. Collecting the information is only one cost. There is also the time spent on analysis and convincing senior staff that a change is warranted. One institution I met took a year to convince the Board to make modifications to an existing product. But, as the example from EBS suggests, if you get it right, the increase in revenues and profits can be substantial. The example from ODEF illustrates how once the staff is trained, market research can be an ongoing process of data collection and incremental change undertaken quickly and at a relatively low cost. Major changes, of course, require Board consultation and may require major changes to the MIS and other systems, which clearly are more weighty.

Conclusion:

To go back to my opening words, market research for microfinance makes good business sense. It should be done by everyone, whether they are entering a new geographical market, or have been around a while and want to increase their market share as the competition increases. As the example of EBS shows, the payoffs are good. As the example of TEBA Bank suggests, not doing the market research and getting it wrong can be expensive. As Kenan stressed, given current market conditions, market research is no longer a choice for many MFIs. It is necessary for survival.
PRACTICAL USE OF TECHNOLOGY IN DELIVERING MICRO-FINANCE SERVICES

Mr. Guillermo Rondon, Vice President, Business, Banco Ademi

Good afternoon.

I wish to thank, on behalf of the Board of Directors of the Ademi Bank, as well as myself the DFL Caribbean, especially Mr. Gerard Pemberton, for the invitation extended to us to attend this important event.

Globalisation has been basically fuelled by extraordinary technological progress in communications. Today, it is clear that the development is strictly related to technology. Fortunately, many Latin American and Caribbean countries enjoy high technological resources, in those related to equipment, as well as in the area of human resources that manage them.

To this effect, we have not brought anything new. We will limit ourselves to the success reached by the Ademi Bank, using some technological instruments, which have allowed us to grow our assets at an average rate of 30% in the last three years and to emphasise the main technological instruments that are available for micro-finance institutions.

- **Benefits of Automation**

Automation can help microfinance institutions (MFI’s) that offer products and services to reduce costs and improve the satisfaction of customers, in a more efficient manner. Efficiency is obtained when time, material and labour are reduced in the delivery of services.

Customer satisfaction will improve by the flexibility, speed and the commodities that are offered to the customer, through the automation process that allows the use of technology. In many countries, there already exist MFIs that have implemented a higher grade of automation in their management information systems, decision-making and delivery of services.
THE CASE OF ADEMI BANK

- The Information System

At present, Ademi Bank makes intensive use of technology. The three areas that its use is essential are:

(a) Management information system,
(b) Information analysis systems; and
(c) Making of decisions for the granting of credit and the delivery of services.

Management Information System

Ademi Bank management information system supplies, at any time, all types of information, data, voice and image as they relate to each customer of the bank.

Through this system, the credit stock, the productivity of personal credit, operations, liabilities, assets, and any information related to the basic information that the bank provides can be monitored. All this is done through a network that is located in each of the 29 offices owned by the bank throughout the country. This valuable managerial information system allows management at all levels to maintain strict control of the operations carried out each minute, as well as monitor the performance of its officers and business managers. The system will improve the productivity and the quality of service the customers receive.

Analysis and Decision-Making

For the analysis and making of decisions related to the granting of credit, the bank has direct access, via the Internet, to the database of the two credit bureaus in the country. Here, the bank makes use of computers and technology for the processing and analysis of financial information, business risk and guarantees supplied by the customers.
The telephone, fax and e-mail are tools that the bank uses extensively for the evaluation of risk, the follow-up process and credit recovery. These technological tools have allowed the bank to drastically reduce the levels of uncertainty and speed up the pace in the making of credit decisions, in spite of the massive credit programme that presently has 24,000 customers with credit that exceeds US$60 million. In this area, the use of technology has reduced the bank’s response time to customers by more than 50%. It is important to point out, that many organisations have a process for making the evaluation of credit requests more standardised. They may use “Credit Scoring”, which is a statistical model that eliminates the subjective opinion of the credit officer.

- Service Delivery

The Ademi Bank has not only been concerned about the automated management information systems and the analysis of decision-making, but has placed special interest in the automation of the delivery services. The Ademi Bank uses the debit card “Banco Ademi ATH” (Ademi Bank ATH), through which 70% of the customer receive their loan reimbursement and make monthly loan payments. This card is also used for the management of savings accounts for customers and employees of the bank. Each employee has a card with which they receive their salary and manage their personal savings account. The system has allowed the bank to save RD$30 million each year in terms of time, materials, flexibility and the reduction of risk.

The customer manages reimbursements to the savings account through his debit card, which allows the customer to maintain a savings account in the bank. This has allowed savings accounts of the bank to increase by 39% in the last year, when it exceeded the 21,004 accounts in December 2001 and grew to 29,258 accounts in December 2002. Savings deposits also surpassed the 2001 figure of RD$31.8 million and grew to RD$56.3 millions in 2002, an increase of a 77%. The resources gained through the savings account are of great importance to the bank, as they reduce the average cost of funds.
Ademi Bank is not allowed to manage current accounts to which loans are issued by cheques that customers change at other commercial banks. This process involves hours of waiting, risk, and numerous inconveniences for the customers, all of which have been removed with the automated reimbursement system. The bank has not generalised the reimbursement of all loans by cards due to the risk to the customers associated with handling large amounts of cash.

The technological advances implemented by the Ademi Bank are not the only ones that are available and can be introduced in the microfinance sector. Tools such as:

(a) intelligent cards
(b) delivery of services
(c) payments
(d) portable computers interconnected by the Internet, for the field officers
(e) interconnection between the bank and the commercial banks, for the issuing of larger loans, which will lead to the whole elimination of the generation of cheques on behalf of the bank

are some of the technological tools that will be implemented in the future and continue to enhance the efficient operations of the Ademi Bank. This is the only way to maintain the competitive capacity that the microfinance sector requires at present and in the future.

- **Competitiveness of Microfinance Institutions**

In the past, the traditional banks were not interested in penetrating the micro-credit market, due to the opportunity cost that these operations implied for them. Technology has permitted the sector to offer automatic loans to the micro-enterprise sector through personal credit cards. The operating cost is low given the volumes these banks manage. This obliges the MFIs to reduce their operating cost drastically to be able to compete. So, the automation of products and services is the route to follow.
Finally, with telecommunications, the Internet, audio and the automatic cashier systems, there are numerous doors that are open and allow one to enter a bank every day, 24 hours a day.

Thank you.
MOMS – THE NEXT GENERATION OF MICROFINANCE SOFTWARE

Mr. Prakash Dhanrajh, Vice President, MICROFIN and
Mr. Cesar Lopez, ACCION International

Thank you very much Mr. Chairman. Microfinance in the Caribbean will always be faced with challenges that are functions of operating in a relatively small market characterised by geographic fragmentation and relatively high administrative and overhead costs.

MOMS, the next generation of microfinance software, attempts to find solutions or to provide solutions to operating under those circumstances. This morning, Dr. Bourne described those challenges slightly differently, when he indicated that the challenges facing micro-credit and microfinance relate to minimising credit costs or transaction costs, managing credit risks and maximising outreach. Under normal circumstances, these could be insurmountable, however, if you are creative enough, there are ways in which you can overcome even the most difficult challenges.

MICROFIN, the company was developed on the understanding that keeping abreast of new thinking in microfinance and the application of cutting edge technology, could overcome those three challenges. The new thinking that we are speaking about refers to keeping abreast of developments in the international microfinance sector through networking, reading the vast amount of literature that exists on microfinance and attending, participating and arranging gatherings such as these. The topic that I will address, concerns applications and cutting edge technology to deliver a software solution that generates immense benefits to MICROFIN and, by extension, its clients.

MOMS, or MICROFIN’s Operating Management System, refer to a custom-designed and developed application based on the needs of MICROFIN. It is an integrated system that combines loan application, loan evaluation documentation and disbursement, loan monitoring, portfolio supervision and loan accounting. It is supported by a master database that allows the lending staff and management to cross-reference borrowers, guarantors, suppliers and clients by activity.
We just heard about market research geared mainly to developing new clients, but this is an attempt by MICROFIN to analyse the client data that exists on its present borrowers to determine what are their preferences, what similarities they might have, what differences may exist and to identify opportunities to maximise the services/benefits from those client interactions and hopefully to launch new products. In MICROFIN, we realise that to be successful there were a number of things that we had to get right and these had to ingrained as part of our business philosophy.

Our loan staff, we call them microfinance advisors (MFAs), needed to be highly productive, independent and autonomous. The company needed to have tight controls for overheads and at the same time operate very efficiently. We needed to put in place a management information system that would drive our loan process to minimise processing time and maximise effectiveness.

We also had to understand that expansion could not bring with it corresponding changes to our infrastructure. As Tomas indicated earlier, we need to do more with existing levels of resources. There should not be a duplication of administrative staff, accounting staff or human resources at branches. Each branch is a front office, customer focused and customer driven. Back office operations reside and are centralised in Trinidad, thereby preventing a duplication of very expensive and highly specialised human resources.

MOMS is all about the use of technology and in that regard it is based on and follows the loan cycle of our business. MOMS allows the MFAs, as well as his or her manager, to continuously follow the progress of the loan request. The first contact is recorded in the loan request segment. A diary entry is immediately generated and the contact is sent to the relevant MFA branch and to the MFA’s manager to ensure that adequate follow-up takes place. Eligibility is confirmed by the MFA and the enquiry is transferred from loan request to application for evaluation. Enquiries move seamlessly from stage to stage on the system. Loan
recommendation is the next stage and the terms and conditions are generated based on the evaluation and cash flows which would be done by the MFA as part of the evaluation.

The approval process is next and based on loan amounts and approval limits the client file is routed to the relevant manager, based on authorised approval limits. Loan documents are automatically generated based on the information collected from the client and the approved terms and conditions. This prevents situations where the legal documents or disbursement documents contain erroneous information. Data is entered once and checked and that information, once it is double-checked, runs right through the system.

Disbursement follows with the automatic generation of the client loan record, and this is where the loan accounting starts. The client’s loan record is available to the MFA and other persons authorised to ensure that loan monitoring and client feedback take place. Data such as the calculation of arrears, client payments made to date, client balances and payroll figures are available at the touch of a key.

Reports are generated and are available from the master database, allowing MICROFIN to properly analyse its portfolio, using one or a combination of parameters. This includes not only loan reports, but financial reports - which is no mean feat when one considers that loans are done in each country in the local currency. Access to the Internet will be facilitated either through use of the desktop computer or a palm pilot.

The system is designed to allow an authorised person to view any transaction at any time to determine its status, who is handling the client and how long it has taken for each stage along the way. This allows for continuous review by managers of loan decisions and to monitor the productivity and efficiency of loan staff.

Security and confidentiality. As a financial institution, confidentiality of client information is a major consideration and, in that regard, MOMS has an integrated user-level security system setup. Access over the Internet poses further challenges to data security and this is dealt with through the use of a virtual private network (VPN). The MOMS system is expected
to be completed by the programmers after testing and the delivery is carded for the end of August 2003. At that stage it will be fully operational on the desktop and with the passage of a further 2 months, it will be available on the palm pilot.

In his address, Dr. Bourne identified the fifth challenge to microfinance in the Caribbean as “access to information”. Access to information to enable more effective portfolio management, to have a greater impact on meeting customer needs and to facilitate the exploitation of market opportunities. We are very confident that MICROFIN, through the use of MOMS, will be able to achieve viability in the market where conventional wisdom says that it is virtually impossible. This in essence, is the power of technology. Cesar will now just spend a few minutes speaking on the palm pilot application.

As Prakash mentioned, ACCION and MICROFIN have been working to provide a technological solution to the realities of working in the Caribbean region. The size of the market is small this means that not all the countries in the region will have a market that can sustain a commercially viable institution. A regional institution is clearly the way to go. To achieve this, we have to get technology. We have to use communication and here the use of the palm pilot is really important.

The palm pilot will help the MFA to not only introduce the data that they need to make the decision but also to get other reports about delinquency, historical data on the client, historical information by sector and loan size, as well as information on policies and procedures. Credit scoring and financial and ratio analysis can also be done on the palm pilot. The benefits include a reduction in the paper work done on each client. Information can be transmitted by a modem directly to the organisation’s MIS system. This is important where you have small markets and remote rural areas.
The use of the palm pilot reduces the time required for evaluation because most of the ratios are in the system. You can also reduce operational risk because the palm pilot allows you to control the quality of the data entered in the system. It also allows management to assess the productivity of the MFA as palm pilot has information on the date and time that data was entered and the duration of the evaluation.

The technology is not a solution for institutions that do not have the right credit technology. It is only a tool and it cannot solve all the institution’s problems. The use of palm pilots in the Caribbean region will be very important for the commercialisation of microfinance.
THE CARIBBEAN EXPERIENCE AND CHALLENGES
MICROFINANCE EXPERIENCENCE IN HAITI

Ms. Martine Jean-Claude, General Manager, SOGESOL

Good afternoon Ladies and Gentlemen. I would like to thank MICROFIN, particularly Mr. Pemberton who insisted that Haiti be a part of the Roundtable this year. My presentation will start on a macro level with a brief overview of the Haitian economy, followed by a quick look at the Haitian banking sector, then at the microfinance industry in Haiti. On the micro level, I will introduce the SOGEBANK and its affiliated entities before going on to the main subject of my presentation, SOGESOL.

1. Haiti – An Overview

(a) The Economy

Haiti is the poorest country in western hemisphere and it is characterised by the following:

- per capita GDP of less than US$500
- total population of 8 million (mn) people
- an annual population growth of over 2.3%
- very low life expectancy of 54 years old
- infant mortality of 71 per thousand
- high rural poverty of over 80%
- adult illiteracy of 51%
- a young population with the median age being 20 years old.
- urbanisation rate of 35%.

The major consequences of these characteristics are high unemployment, outward migration – Haiti has over 2 million persons living abroad, and self-employment – accrued informalisation of the economy.
(b) The Banking System

The banking system in Haiti is made up of 13 banks. The 12 most important banks are:

- 2 branches of foreign banks – Citibank and Scotiabank which make up 8.5% of total deposits in the system;
- 2 state-owned banks which together hold 9.5% of total deposits; and
- 8 local private commercial banks which together hold 82% of total deposits with the largest 3 banks commanding over 64% of the market.

These 12 banks share a total deposit base of US$1 billion or about 25% of GDP of which more than 40% belongs to small depositors. So, basically, on the liability side, the microfinance sector is represented in the commercial banks portfolio, but they are not represented on the asset side. There are 768,000 accounts made up mostly of small depositors and when this is compared to a population of 8 million people, with 4 million being over 18 years old, it shows you how low the level of bancarisation is in Haiti. Loan portfolio is about $400 mn or about 10% of GDP. The system is characterised by low bancarisation, a large number of small depositors, risk aversion and high loan concentration.

(c) The Microfinance Industry

In 1995, interest rate liberalisation resulted in the commercial banks entering the microfinance industry. Before 1995, the banks could not charge more than 22% interest rate per year. When they liberalised the interest rate the banks were able to charge higher interest rates and thus they were able to serve the microfinance sector. This liberalization also led to an increased level of competition in the banking sector, aggressive network expansion, the introduction of new products, including microfinance products, and more favorable credit distribution, including penetration of the microfinance sector.
Despite the fact that there are 4 million persons in Haiti who are over 18 years old, the potential clients in the microfinance sector has been estimated at around 300,000 because not all persons involved in the informal sector are bankable. This data was collected in September 2001 from a survey done by DAI/FINNET. Co-operatives are still the largest group involved in the microfinance sector. Only 3 commercial banks were involved in the microfinance sector. However, lately, a growing number of banks - both state-owned and private - have been entering the market.

### The Micro Finance Industry

- **Estimated Potential Clients: Around 300,000**

**Industry Structure as of September 2001**

<table>
<thead>
<tr>
<th>Types of Institutions</th>
<th>Number of Institutions</th>
<th>Loan Portfolio US$ 000</th>
<th>Number of Loans</th>
<th>Average Loan in US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperatives</td>
<td>58</td>
<td>10,666</td>
<td>15,051</td>
<td>708</td>
</tr>
<tr>
<td>NGOs + Others</td>
<td>20</td>
<td>7,528</td>
<td>55,217</td>
<td>136</td>
</tr>
<tr>
<td>Banks</td>
<td>3</td>
<td>7,502</td>
<td>8,085</td>
<td>928</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>25,696</strong></td>
<td><strong>78,353</strong></td>
<td><strong>328</strong></td>
</tr>
</tbody>
</table>

*Survey conducted by DAI/FINNET

The recent trends that have been observed in the microfinance industry in Haiti are:

(a) rapid growth
(b) accrued competition – a lot of new actors entering the market
(c) industry fragmentation
(d) growing interest of commercial banks
(e) cooperatives and NGOs have become more interested in being professional and have therefore increased their efforts to adhere to international standards and norms

(f) formation of an association of microfinance institutions

(g) creation of a credit bureau to mitigate increased risk

(h) lack of regulation. However, it is hoped that the association will push the government to enter the sector and create norms and regulation that need to be followed.

2. **SOGEBANK Group**

The SOGEBANK Group includes SOGEBANK, which is the largest commercial bank in Haiti. It was created in 1986 when a group of business people bought the Royal Bank of Canada. It is currently the largest bank in Haiti’s financial system with 30 branches. It is the only provider of ATM services in Haiti, as well as services related to online transactions.

The other affiliates in the Group are:

- SOGEBEL, which specialises in loans for housing improvement and construction.

- SOGEFAC, which provides loans for various consumption goods.

- Foundation SOGEBANK, which is the philanthropic arm of the SOGEBANK Group.

- SOGECARTE, which is the credit specialist in the group and a member of the international Visa and MasterCard network. This affiliate has been operating since 1989.

- SOGESOL, which was created in August 2000 and specialises in microfinance
- SOGEXPRESS, which started operating in October 2002. It is the latest affiliate of the Group and it serves the needs of Haitians living abroad.

3. The SOGESOL Model

SOGESOL is an independent subsidiary of SOGEBANK. It has its own structure, headquarters, board of directors and network of branches. It also has compensation schemes based on performance, which is not the case for other entities within the Group except SOGEXPRESS. This allows for good staff motivation, commercial drive, accountability and capacity to attract foreign investors like Profund International which owns 20.5% and ACCION International which owns 19.5% of SOGESOL. Actually, Cesar Lopez is a member of the Board of SOGESOL. SOGEBANK holds 35% and the remaining 25% of the shares are distributed among local individual shareholders. We started operations in August 2000 and two years later we broke even in August 2002. Last year we became an affiliate of ACCION International network.

The mission statement of SOGESOL is to promote Haitian entrepreneurship by adapting traditional banking services to the needs of micro and small entrepreneurs. SOGESOL places a particular emphasis on customer satisfaction, while scrupulously respecting the efficiency and profitability standards necessary to ensure the sustainability of its services.

The relationship between SOGEBANK is as follows:

- We operate as a service company, we are not a financial institution
- We handle every aspect of the relationship with the client, except for the disbursement and reimbursement which is done by SOGEBANK through its network of branches
- We do not handle cash, this is done by SOGEBANK.
- The portfolio that we manage is booked in SOGEBANK’s balance sheet. So there is no need for licensing or to be regulated by the Central Bank.
- SOGEBANK also provides to SOGESOL a wide range of services and support such as human resources administration, marketing, legal, technology and infrastructure services.

Our revenues are calculated as follows: interest and commission revenues that we get from the portfolio minus the cost of funds that SOGEBANK charges us for the use of their money minus the transaction cost that SOGEBANK charges us for the use of their network and the contractual provision for loan loss of 3.5% of the loan portfolio.

The methodology of SOGESOL is the same as the methodology promoted by ACCION. Our clients are basically urban micro and small entrepreneurs with credit needs of between US$50 to US$10,000 and engaged in retail trade, production and services. We do not operate in rural areas. We offer working capital, business fixed assets (a product we just launched on a pilot basis) and we just started a savings programme for our clients. The savings are booked in SOGEBANK’s balance sheet. We only do individual loans based on character with the support of a co-signor. We also take non-traditional collateral, such as personal goods and inventory. The credit officer does as detailed evaluation of the client’s willingness and capacity to pay. The client starts with a minimum amount and works their way up to the US$10,000 through a succession of loans. There are intermediate ceilings between the US$50 and US$10,000.

We have a decentralised loan approval system, which allows for quick disbursements. Its strength and maybe sometimes a weakness is the close relationship between the client and the loan officer. There are penalties for delinquency for both the client and the loan officer.
The Organisational Structure

SOGESOL has a board of directors. We have an internal audit system which is one of the services provided by SOGEBANK. There is a Group internal audit and an external audit system. The General Manager is assisted by two managers. There is a Commercial Manager who is responsible for the network of branches, recoveries, training and home verification and a Financial Manager who is responsible for accounting, operations, internal control and technology.

The Structure of a Branch

The structure of a SOGESOL branch is very simple. There is a Branch Manager, Credit Officers and Administrative Officers. The Administrative Officers are responsible for entering the data on the client in the computer.
The entry of SOGEBANK in this sector was not an easy task and it was made possible by the work and perseverance of the Chairman of the Board of SOGESOL, Pierre-Marie BOISSON. He introduced the idea to SOGEBANK and pushed and championed it until it became a reality. The IDB was the institution that introduced Profund to SOGESOL in July 1998. In March 1999, the MIF gave a grant of US$300,000 to SOGESOL to start the business plan, which was prepared by Bannock Consulting in January 2000. ACCION International has been with us from the beginning not only as a shareholder but also as technical advisor since February 2000.

4. SOGESOL’S Performance

SOGESOL’s performance up to April 2003 is as follows:

- Significant growth in the portfolio and number of clients
Small deterioration in the portfolio at the end of 2002. However, we quickly took steps to correct this and we are now among the best in the industry in terms of portfolio at risk (>30 days). We are working towards achieving a 20% operating efficiency rate.

The portfolio has not grown as much in 2003 and this is mainly because of the exchange rate, which moved from 29.70 Gourdes to US$1 in September 2002 to 42.30 Gourdes in April 2003. This was due to rumours that the government was going to nationalise dollar deposits, resulting in capital flight in October.

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<thead>
<tr>
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<tbody>
<tr>
<td>Portfolio (US$ 000)</td>
<td>611</td>
<td>2,699</td>
<td>3,029</td>
</tr>
<tr>
<td>Number of clients</td>
<td>2,200</td>
<td>6,049</td>
<td>6,664</td>
</tr>
<tr>
<td>Average loan (US$)</td>
<td>278</td>
<td>446</td>
<td>454</td>
</tr>
<tr>
<td>Number of branches</td>
<td>2</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Number of loan officers</td>
<td>19</td>
<td>38</td>
<td>41</td>
</tr>
<tr>
<td>Clients per loan officers</td>
<td>116</td>
<td>159</td>
<td>163</td>
</tr>
<tr>
<td>Arrears (&gt; 1 day)</td>
<td>5.8%</td>
<td>6.7%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Portfolio at Risk (&gt; 30 days)</td>
<td>2.0%</td>
<td>4.1%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Portfolio at Risk (&gt; 90 days)</td>
<td>0.5%</td>
<td>2.3%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Number of loans disbursed</td>
<td>4,432</td>
<td>12,978</td>
<td>7,866</td>
</tr>
<tr>
<td>Amount of loans disbursed (US$ 000)</td>
<td>1,714</td>
<td>6,982</td>
<td>5,438</td>
</tr>
<tr>
<td>Operating Efficiency</td>
<td>216%</td>
<td>59%</td>
<td>43%</td>
</tr>
<tr>
<td>Exchange rate (Gourdes/1US$)</td>
<td>25.49</td>
<td>29.70</td>
<td>42.30</td>
</tr>
</tbody>
</table>

*April 2003
5. **SOGESOL – The Future**

**Short-Term**

We hope to achieve the following by the end of the fiscal year ending September 2003:

(a) Increase the number of branches from 6 to 8

(b) We hope to have 8,200 active clients, even though as Dr. Cohen was saying the drop-out rate is 30%. We are currently doing an analysis to determine the reasons for this. We have served over 9,000 clients and only 6,600 are currently active.

(c) Increase the active portfolio to US$4mn

(d) Achieve an operating efficiency of 35%.

(e) Return on Assets (ROA) of 4%

(f) Return on Equity (ROE) of 30%.

**Medium Term**

By the end of the fifth year (September 2005) we hope to have:

(a) 16 branches and agencies.

(b) 20,000 clients

(c) an active portfolio of US$15 mn.

(d) Operating efficiency, including the transaction cost that we pay to SOGEBANK for handling disbursement and reimbursement, of 20%

(e) ROA of 5%

(f) ROE of 40%.
6. **Key Opportunities**

SOGESOL has a lot of opportunities. The main ones are:

(a) **Introduction of new Microfinance Products**

   With the help of ACCION, we are hoping to introduce new products

   (i) financing of not only production fixed assets but also consumption fixed assets.

   (ii) lines of credit to clients who have a good credit history.

   (iii) housing.

(b) **Introduction of New Services**

   (i) credit and debit cards through SOGECARTE

   (ii) savings and loans based on remittances through SOGEXPRESS.

Since we are an ACCION affiliate we are able to learn quickly from the other affiliates and avoid the long delay associated with trial and error if we were operating alone and not as part of a network. We are in the process of being included in the MixMarket Internet site and also in the Micro Banking Bulletin. In July, ACCION is going to conduct our first CAMEL and that will eventually allow us, if the need ever arises, to attract foreign investors.

6. **The Challenges**

(a) **The Service Model**

We do not only have opportunities, there are challenges that we are going to face in the near future. One of the challenges or weaknesses of the service model is the dependence on the mother company.
However, we try to circumvent this with clear contract terms that have to be respected by both sides. It also helps that the Chairman of the Board of SOGESOL is a high level executive of SOGEBANK.

(b) **Human Resources**

There is a low level of staff turnover but we expect that this might change, as we get older. Highly competitive staff compensation is key to attract and keep competent human resources. Through good leadership, we will make sure that the opinions of the credit officers and branch managers are included in the decision-making process.

(c) **Competition**

Increased competition from commercial banks is another challenge and to circumvent this problem it is important to have excellent customer service, to know one’s clients and to have a large product offering.

(d) **Regulation**

As long as there is no regulation, there is the risk of having adverse regulation. So, the first thing to do is to create the association to make sure that we speak in one voice. This will allow us to influence the authorities as to the kind of regulation needed for the growth of the microfinance industry. Co-operation with the authorities, especially the central bank, is therefore the key. The more that the industry respects international standards and norms, the easier it will be to adapt to the regulations introduced by the government or the central bank.

Thank you for your attention.
EXPERIENCE OF MICROFIN IN THE OECS:  
THE NEED TO EXPAND BEYOND BUSINESS LOANS

Mr. Mark Havers, Regional Manager - MICROFIN

My topic this afternoon is MICROFIN’s experience in the OECS. For those of you who aren’t familiar with MICROFIN, the company’s largest microfinance operations are in Trinidad and Tobago and operations will also be coming, in the not too distant future, to Suriname and Guyana. The part of the world that I have been responsible for is the Eastern Caribbean and more specifically, the Organisation of Eastern Caribbean States (OECS) area which has about 0.5 million persons across six sovereign states and some colonies. So we have lots of countries but not many people. The product that we are offering in MICROFIN is business loans, individual lending methodology, working capital and assets. It is those products developed and honed in Trinidad, which we have been implementing in the OECS.

How have we been getting on? We started in Grenada in January of 2003 and things are going pretty well. We have a steady flow of new loans, a very low level of delinquency and we are in the process of recruiting new staff. Sadly, things have not been going so well in St. Lucia although we opened there in November 2002. Business, by contrast, is slow, we are finding it difficult to identify creditworthy clients who want to borrow, we have some delinquency in the portfolio and we have already shed staff already. Obviously, we have some challenges across our two islands and a rich experience to think about.

Grenada

What’s driving our business in Grenada is a question of interest to a lot of us. There seem to be a number of factors.

(a) First of all the staff. We have a great staff team in Grenada with the right attitude and the right skills. One of the team members is here, Florence Bartholomew.
(b) The other factor is the state of the economy there, which is much healthier and not reliant, like many of the islands and certainly St. Lucia, on tourism and/or bananas. Tourism – difficult, temporarily we hope. Bananas – long-term decline in the face of price competition from Central and South America. Proximity to Trinidad and Tobago - recently characterised by the IDB as the engine room of the Anglophone Caribbean. So, being next to the engine room has its benefits. A very healthy construction sector buoyed by people who migrated to the United Kingdom in the 1960s coming back with their hard-earned money. That is certainly keeping the economy ticking at the moment. And a general sense of optimism and progress.

(c) One interesting and final factor there that seems to be helping us, and again, much more so than in St. Lucia, is the attitude of the banks. I’ll whisper this in case I am offending anyone or in case it gets out. There seems to be an attitude problem in the banks in Grenada so that Florence and her colleagues are actually able to make inroads to clients who just shouldn’t be interested in MICROFIN. But they like the customer service that we offer, the flexibility and some of the product features. That has been encouraging for us. We are pushing forward in Grenada but the rest of the OECS is a concern for us.

St. Lucia

Our key challenges are how do we make things better in St. Lucia and where do we go next within the OECS.

(a) The current state of the economy in St. Lucia is a major concern. To give you a little background, one of the managers of a foreign-owned bank told me that he had recently told his Board that if they weren’t in St. Lucia already, he didn’t think they ought to be now.
(b) It’s not just the economy, there are issues about the enabling environment that we are struggling with and about the micro and small entrepreneurs that we are working with and seeking to provide financial services to.

(c) Things have been tough in the economy but we weren’t ready for the European Union’s actions in the microfinance market, which are only just beginning but undoubtedly going to cause all kinds of difficulties. In St. Lucia, in particular, this is money related to the crisis in the banana industry that is being brought in a way that I personally characterise as bizarre. The scheme in St. Lucia is basically going to be if you borrow $100, we give you a $100 grant to go with it. That is going to cause a lot of difficulty in the market that we are operating in. It is already causing some confusion and unrealistic expectations and, in my view, that is certainly not going to help the market.

(d) Some general issues around bureaucracy, permits, changing rules and attitudes of people that we are working with. Probably no worse that anywhere else to be honest. Laws which are not necessarily helpful but much more serious weaknesses are the very slow legal processes and astounding costs, I am talking about absolute terms not proportionate but absolute US dollar or sterling terms.

(e) There is this abiding difficulty which I think is an inevitable feature of small states, is just how much of the national income is consumed by the public sector. It is a difficult problem to address, especially in the case of St. Lucia which has only 160,000 people paying to support a whole variety of foreign ministries, trade ministries, all the machinery of government. It’s tough.

Where are the Micro-entrepreneurs? This is a question that we are asking ourselves. We are prospecting but we are not finding as many people who want to borrow. There is definitely, to some extent, a focus on survival. This is something identified by an early piece of market research and planning work in the Eastern Caribbean.
People are happy to survive particularly the way they see the economy now. They are thinking: ‘Look if I am just here in two year’s time, that is good enough for me. I am not going to take any added risks of trying to grow as well.’ People are actually scared of loans. We thought initially that they weren’t. We were obviously talking to the buoyant and the bullish. Poor people, particularly, as elsewhere in the world, are very scared of loans and what trouble it might get them into.

The other thing is that people do have remittances and they are significant, although it is very difficult to get reliable statistics. People in extreme situations with their business can get hold of money from relatives. They may get on a regular basis or, as in the case of a taxi driver who crashes his taxi, he calls his brother in Toronto, send me US$1,000, I need to fix the taxi.

We do seem to have an emphasis on low risk strategies, some fear of expansion and a common practice, which is a result of being in a small economy, people diversify as a business strategy. You can do one thing well, be very good at it and have a successful business but you probably have just about taken the whole market in your island. Moving to other islands is more complicated than doing a different business in the same island.

There is a very strong urge to invest in real estate and anecdotal evidence suggests that a lot of businesses hold all or very large proportions of their assets in land and buildings and as a result they are constantly in a cash crisis. This is a problem compared to elsewhere where it is much less common for companies, other than property companies, to own land. But it seems to be a common issue for people to have their assets tied up in their businesses.

The Challenges

What are we going to try and do about this situation that we have found ourselves in?

(a) The technology. We have already heard about how that is really going to help us and we are hoping to see MOMS as soon as possible.
(b) Obviously, we have to get more clients in order to improve our income flow. We definitely need to learn from Monique and other people who have made progress in this field and become good at doing market research because in the OECS we need to get beyond doing business loans.

(c) Having done that, we need to develop the products. I will just mention here that there are already some big consumer finance providers in the islands but they are mainly retailers themselves and Courts is the biggest example.

(d) We will probably have to go into advertising, which is something that we have generally sought to avoid up till now mainly for reasons of cost and the quality of the aspiring borrower that it attracts.

(e) The other challenge is getting the right staff. It can be difficult to get the right people but they are out there, we have found them. Salary expectations are very high in the Eastern Caribbean and that can be an issue but we have to work around that. The assessment process, fortunately, is a real area of strength for MICROFIN because people can be so desperate for a job that they will take any job. They may have no intention of staying and as soon as the job they really want comes along, then they will go. So you can get someone who seems great for a year but then you find that they actually wanted to be trained as a certified accountant.

(f) Difficult work. The loan officer’s work is on the streets, the weather is hot, jolly nice if you have on a swimming costume on the beach but not so nice if you are plodding around from business to business trying to identify suitable borrowers. Where applicable, you need to be able to speak the language. Although we are Anglophone islands, large proportions of the population, particularly the older population, speak patios by preference and in some islands a few of them speak only patios.

So that is our experience in the OECS so far. Thank you very much.
**ROUNDTABLE DISCUSSION**

**Market Research and Meeting the Unserved Needs in the Caribbean**

Chairman – Mr. Gerard Pemberton, President, MICROFIN

**Chairman:** We are going to have the roundtable by joining the two group discussions, the one on *Market Research* from this morning and the one that is on the agenda which deals with *Meeting Unserved Needs in the Caribbean* and anything that is not covered by one and two.

**Dr. Chin:** At IPED, we are convinced that the customer is important and we are attempting to create that customer friendly atmosphere. We have done some research on the transaction costs, including the transaction time and, hopefully learning from that, we have had training programmes on customer relationship with both our senior management and the junior staff. In order to increase our portfolio, we have gone geographic in terms of going into the hinterland and it has been quite successful. It is amazing, you have a promotional meeting and there are 100 persons and you go to every village and the village only has about 400-500 people and 100 people turnout. Usually, we do initial interviews with about 20 persons.

We are trying to develop a broad intervention plan together with the stakeholders because we are only part of this intervention. I believe personally in technology as I thought that technology was the solution to everything. Then I thought it was management but now I think that networking with all the stakeholders is very important if we are going to succeed in this development game. In addition to going geographic, we have gone into those areas that have been identified as areas where there is financial assistance. For example, the bauxite operations are closing down and there is some European funding available.
In addition to that, the government probably loses US$20 mn every year in one community by having to provide infrastructure services and so on. So they see the opportunity of causing the enterprises to develop as reducing their cost. They are willing to do everything. One of the things that they are doing is providing funding that will contribute 25% of the capital of the potential entrepreneur. This is potentially very dangerous as a lot of them are start-ups and they need a lot of counselling and handholding. We will be managing that and we are trying to be creative about it by saying that we will charge them an interest rate that is 75% of our standard and that IPED will keep 50% of this amount and the other 25% we will keep for a community development fund. I think that this idea has been partially accepted.

**Chairman:** I think that the contrast between St Lucia and Grenada is quite interesting and we might benefit from some discussion there.

**Charmaine:** I do accept that at this point in time that the banana industry for the long haul, as Mark said, is in decline and will decline even further and that everything in the tourism industry, every sector, even the service sectors related to the industry blame 9/11 for what is happening to the tourism sector. It means that we need to revisit who we give our loans to in St. Lucia certainly. It means that we need to revisit whether it is only to the business sector. I believe that the advertising aspect is one of the ways that we may have to go.

I believe that there is an education process that has to take place as to who and what will drive the process. Tied in with the advertising there needs to be some sort of educational and informational component. I also think that we need to go after other sectors within the community. The aspect of the fear for those who don’t want to borrow has to do with education. We are confined now to just the business loans but there are other loans out there for some consumer items that won’t disappear. Low cost housing is one area that one can look at and I think that Mark has that in mind as well, the low-cost, start-a-home concept. It is the macro sector that is constrained at this point time and therefore it is not driving the micro sector.
Basil: I would like to revisit the question that I raised this morning. What can we do to stimulate the export sector to drive the micro-enterprise sector? From what Mark Havers said, the strategy would be to look at market research but if there is nothing there, the research will tell us that there is nothing there. So that brings us back to the point. Where do you go and what do you do? I think of a visit that I made to St. Lucia where I visited the institution that drives the banana industry and the body language that I was getting was: ‘Who told you that we have a problem?’ I still don’t understand it, as the world knows that there is a problem but still you are getting that sort of response.

I wanted to use that example to introduce what we do at the Caribbean Business Enterprise Trust (CBET) because a couple of people asked me that today. Basically, what we are doing is trying to identify what I call ‘sunrise industries’ - non-traditional industries which link Caribbean brand and supply to global niche markets which means that you are talking about export industries. We have about six business plans which, when they are funded and the businesses are established, will do exactly what we saying should be done - create export businesses that will drive the micro-enterprise sector. I think that this is the way to go.

I would like to thank Gerry for inviting me here and I look forward to a partnership between CBET and the micro-enterprise sector for the reasons just established.

Chairman: The problem happens also at the small and medium enterprise level where we have huge amounts of money. For example, the private equity funds in the region now share among them US$63 mn. MICROFIN already has US$10 mn raised to do microfinance. The problem really, as I see it, is that you don’t have entrepreneurs. I say that, but then we go back in Caribbean history 300 years ago and we know that Jamaica and the islands were full of entrepreneurs. So Basil, between you and Elizabeth Littlefield, what can we do to stimulate entrepreneurship or are we wasting time?
Basil: I think the problem is with this US$60mn. It is not really an entrepreneurship problem. It's a problem that we do not fund start-ups. Ask any of the individual venture capitalists or investment bankers around the region and that is the first thing that you hear. So, if I have a project that is potentially great but it is a start-up project, nobody is going to do it among the traditional individuals.

One of our business plans was examined by a respected institution for two months and then came back and said it's not a problem of money Basil but we don't want to deal with the micro-enterprise level. That is really where the problem is.

I have personally started looking outside of the region, with some success. Up to yesterday I was in Trinidad talking to an investment banker and two weeks ago I was in St. Kitts talking to someone out of Jamaica and the United States. They seem to have the approach - let's try and package this idea and try to convert this idea, this small business, into the commercial reality that reflects its potential.

As far as your question goes Gerry, where are the entrepreneurs? Once you have a good idea and a good business plan, what you need is a business champion who will take that and move with it. If that person is not available in the Caribbean, they are available somewhere in the world. It might be a Caribbean person resident abroad. What you need to do is to make it known to the world that you need these people and bring them back. If you take Singapore, for example, that is exactly how they developed and I don't know why we should ignore the successful stories in history.

Chairman: Why do we get the entrepreneurs in Grenada, the north of Haiti, Guyana of all places where theoretically they should not even exist? Why do we have them in those places but not in St. Lucia and other places?
Florence: I may be wrong but I would say that Grenadians are adventurous, enterprising and probably they take more risk. There are a lot of young people that have started their own business. For some, things were not too good but they persevered and things have turned out good. I cannot speak for St. Lucia, Guyana and the others but from what I have seen in Grenada in the last three months, they have what we call ‘guts’. There are a lot of them who have started businesses that are not traditional types of business. For example there are people who make plantain chips who do well. I think whatever it takes to give you an income, so that you can exist and take care of your family, they will do. Other people, if they start something and it doesn’t go good, they forget it and say ‘let me go look for a job’.

Elizabeth: As I said before, I don’t know much about the Caribbean so it is hard for me answer the question as to why there are entrepreneurs in one country versus another. I would like to go back to something that Mark said that sent shivers down my spine, which is that even if there are entrepreneurs aplenty around here, if the EU is coming in offering that kind of programme, where you are lending $100 and giving a grant of $100, you are not going to have any entrepreneurs anymore.

So, if I may ask you all a question. Are there enough funds for the institutions that are struggling to survive? Are there too much funds? Has the donor presence in the region been destructive or constructive? Can we get a discussion going around that because it would be interesting to hear from you how this has impacted the region and then I will come back and make some comments.

Brenda: I would like to make a comment with regard to donor funding. St. Lucia historically has had the banana industry as the backbone of the economy and that has been funded and subsidised and funded and subsidised to the nth degree. So the whole concept of getting a loan that you actually have to repay, and its not some government or EU freeness, is a complete paradigm shift, I think, for St. Lucians on the whole.
To go back to what Basil was saying, I noted some questions as we were going along and it is not necessarily a question of finance. There are people that have ideas but issues such as management, accounting, marketing, human resources, all of those venture capital support network areas are non-existent. So you may have people with good ideas but they really don’t have the ability to take them to even a micro-enterprise level for them to look for financing. I think it is almost a chicken and egg situation.

I don’t believe that there aren’t any entrepreneurs in some areas and also it’s a cultural thing that St. Lucians generally are afraid of debt. Courts has probably introduced people to debt but its consumerism. The whole concept of value-added productive debt is really the route that we should be trying to get into in this economy not just consumerism because it just does not get us anywhere.

**Peter:** Most of my experience has been in South East Asia and there is a tremendous amount of entrepreneurship. I just came from Sierra Leone and there is also huge demand and little supply. So, as Mark mentioned, I think it is important that you venture there with trial and error to review the market and see what type of demand there is in the sector. Monique mentioned that research has to be done and I think that is the first stop. If you are in the start-up phase, you have to start with the existing client base. Start where it is easy.

You have to build capacity and set up your system, so if you go somewhere in the start-up phase and say let’s start from scratch plus, on top of that, we start up entrepreneurs or would-be entrepreneurs, who we then train and then give a loan. I think it is really stretching it and that would be very difficult. I think the first step is to really do a thorough study of the market and come in with not only the plain vanilla type of loans, but also other types of loans and see whether, on the basis of that, you can make a serious business plan as to how to cater to that market.
Anthony: I just want to play devil’s advocate this afternoon and put three questions on the table. The first, when I listen to the comment that there are no entrepreneurs in the region, I am wondering whether or not we, the practitioners have not stereotyped an entrepreneur. The guys in every island in this region around a cricket ground that put crushed ice in a bucket, goes home and makes a syrup and sells a sno-cone in the hot sun is an entrepreneur. Why have we been unable to recognise entrepreneurship and say that they do not exist in some countries?

Secondly, when we as the providers of credit look at microfinance institutions and we start talking about viability, have we forced MFIs out of the mode of risk taking and into the similar modus operandi of a commercial bank, without the backing of operations that commercial banks have, and the whole security scenario that commercial banks use that are really not practical or applicable to microfinance operations?

My third question. Given the default rates that exist in MFIs, were they caused by deficiencies in the ability to analyse or were they caused by failure to follow and collect and, if so, why?

Brenda: I will take the last question, which I thought was interesting. With regard to Sogesol and defaults being docked on the loans officers - I would like to know how that operates as I think that could be a very good incentive to make sure that you follow-up, etc. I am intrigued as to how that works, the morale effects of docking the loan officer’s salary and so on.

Martine: For the branch managers and the credit officers, there is a fixed salary and a variable salary. The variable salary is based on a positive incentive for the number of active clients, the number of new clients and the per thousand of Gourds per active portfolio. The penalty is the deduction of the number of delinquent clients and the per thousand of delinquent portfolio. The difference is what they get and this is the variable salary. For a while we had the positive side the same way but the penalty part was only the delinquency per client.
In November 2002, we changed that because we realised that a credit officer that had two delinquent clients with a total portfolio of 200,000 gourds was being penalised the same as a credit officer that had 10 delinquent clients with a total portfolio of 10,000 gourds. The cost for the institution was obviously not the same. We changed that and so we have penalties based on the number of clients and per thousand gourds so that we can take both into account. I think that played a role in decreasing the delinquency rate.

**Chairman:** Let me ask Cesar to comment and Tomas to speak to Guillermo about the topic we are discussing because I know that Banco Ademi has a lot to offer as they helped to design MICROFIN’s incentive system.

**Cesar:** A question that came to mind, is commercial microfinance possible in the region given the small size of the markets? If we are take out the Dominican Republic and probably Jamaica, is there enough market there to get a commercial and sustainable institution? There are many problems and the alternative is to go regional but if we go regional we have to make big investments in technology and technical staff and so there will be some entry barriers and in the mean time we will get only one or two players.

Going to the question about incentives, they are crucial for most MFIs. To get a penalty based on the quality of the portfolio is also very important to give the right incentive to the credit officer and for the institution. That is why the incentive programme that we are working on with Sogesol and most of the ACCION institutions is based on number of clients, total portfolio growth and the delinquency.
**Debra:** We at Fund Aid do provide funding for start-up loans and what we are finding increasingly difficult over the few years is accessing donor funds for us to continue on lending to these start-up entrepreneurs. They are out there, it is a very high-risk area that we have been absorbing for years. However, we are being increasingly pressured to shy away from these start-up loans, which I feel is detrimental as a whole. There are entrepreneurs that can develop into small and medium sized businesses.

What we have done within recent times to try and alleviate this is to try and retain our good clients to try and strengthen the portfolio. As was mentioned earlier, we are finding it difficult to access the funding to continue in our efforts in terms of the entrepreneurs. I don’t know if anyone has any ideas as to what we should be focusing on? Our level of start-up loans over the last few years has gone from about 40% to about 20%. This is good to some extent but it does not auger well for those budding entrepreneurs that we have not yet tapped into. We don’t want to reach a stage where we won’t be able to provide them with the financing that they need to start their small sno-cone business or doubles vending or anything at that level. If there are any ideas that the roundtable can offer, I would really appreciate it.

**Trevor:** I wanted to make an intervention on two issues that have been going around the table. The first is the experience in Grenada, the success of it as opposed to the St. Lucian case and I wondered how much of it is related to the relative stage of development in the economies. St. Lucia is significantly more developed than Grenada is and you know the old adage, necessity is the mother of invention. Maybe in Grenada people have been forced to become more entrepreneurial because of the lack of other avenues. I recall one speaker at a conference saying that the university system is really a contributor to the lack of entrepreneurship in the Caribbean because we are producing graduates who are looking for jobs, who are geared towards working in a business rather than going to develop a business. How much of it is related to the options available to St. Lucians for jobs within the more formal sectors of the economy vis-à-vis Grenada?
The other point I wanted to touch on was the question of donor involvement in the region and how that impacts on microfinance and its development. We have touched on the Europeans and they have really sloshed a lot of money around in the system in recent times. That seems however to be rapidly coming to an end and you can see them talking a lot about microfinance being more market driven and less donor driven. In the near future, I suspect you will see a lot less funds sloshing around from the EU and a greater focus towards market-led microfinance industry in the Eastern Caribbean.

The other thing I wanted to mention was looking at microfinance as targeting the poor or developing enterprises that could grow into bigger contributing sectors in the economy. How much are we looking at it as an intervention in poverty alleviation and how much are we looking at as enterprise development? I think if we look at it from those different angles, we have different perspectives and we may have different outcomes and ways of doing what we do. I wanted to put that on the table and see what the consensus is around the table.

**Kevin:** I would like to go back to two of the questions that Anthony posed as I think they are very salient questions. One of them was are there micro-entrepreneurs and the other was about default rates. In terms of are there micro-entrepreneurs, I think the answer has got to be yes. It’s a question of what we define as a micro-entrepreneur. We know that the informal economy is about 30-40% equivalent of GDP from around the region. What might not be there is your missing middle, your export producing SME and that is a completely different animal. I think that there are historical structural reasons for why we don’t have that type of entrepreneur in the small islands in this region.

For both points, micro-entrepreneurs and default rate issue, I think that we are in danger of being like the development planners from the 1970’s. We want this thing – microfinance - to be the mother of all solutions. As donors and governments, we are not clear as to what we want from it and what it can do. We want it to both solving the social problems we heard about, we want it to solve the growth problems. We talk about providing credit but then we need business development services as well.
I think that the reality is we have got to be a lot more focused as to what microfinance can do. It is about getting back to what Elizabeth was talking about this morning. It is about joining up financial systems period. That’s all we are doing with it and after that, it is up to the entrepreneurs to take advantage or not as other conditions may dictate. We are not coming up with a whole menu of solutions to growth here, we are coming up with one key element but this as far as it goes.

In terms of the market, I think that it is a matter of finding the market but we can’t make the market for enterprise. Just as we are urging governments not to be providers of microfinance but enablers, similarly, for all of us here, all we can do is enable. We can enable micro-enterprise but we can’t actually create it. So I think a little bit of humility on the one hand and focus on the other can go a long way in this.

**Terrence:** I think the mission is very simple, you are out there to make money and I think sometimes we get confused about trying to do all kinds of idyllic things but at the end of the day if you are not making money, we are all wasting time. I wonder how much of the problems that we face are not due to an organisational failure of not really having made the right assessment of the demand? And how much of the notion as to how we feel we should approach the market influences the organisation that we create and the systems that subsist around that? I think sometimes we look to find excuses for the failures and we really don’t look at ourselves. I think that is one of the fundamental issues that tends to escape our attention.

The other thing is the quality of the data that we are using to arrive at the business model. We spend a lot of time talking about the technology and how we deliver but what about what do the people need in terms of financial support. We know we must deliver it effectively but we are spending too much time looking at the delivery platform and not enough time looking at the customer and the customer’s needs.
If commercial banks in the region are in fact not delivering then this is a massive opportunity for the MFIs because you have identified an exploitable weakness and these commercial banks have a massive customer base. In terms of your business strategy, obviously one of the things that you do is to go after these customers, plain and simple. You can exploit the advantage. The other thing you will notice from the statistics that are available for each territory is that some commercial banks are doing very well in Grenada and some are not doing very well in St. Lucia. That is part of the economic reality of life.

We need to be focused. We need to look at ourselves and we also need to look at the fact that we are changing a culture. The region tends to operate in a fairly laid-back environment in which the customer comes to us, we don’t go to the customer. We are asking microfinance advisors to approach this job differently. This is going to take time and a lot of attention. How many of those mixed signals are the function of a management and their failure to recognise the problem and deal with it effectively?

Guillermo: One of the ways to look for higher productivity levels in Ademi is making sure that the credit officers have a base salary but more important than the base salary is the incentive plan. The incentive plan calls for each credit officer to have at least 200 clients, a total portfolio of $500,000 and arrears of less than 4%. The portfolio-at-risk for more than one day at Ademi is around 6%. In order to estimate the incentive plan you don’t take into account the arrears on the portfolio-at-risk for more than one day but you take the arrears on the portfolio-at-risk for more than 30 days and that has to be less than 4%.

Elizabeth: Terry and Kevin hit on several of the points that I was going to make so I will be quicker. I want to come back to the question that was raised earlier as to whether the insistence on sustainability is pushing microfinance to be as ruthless as the banks. We need to remember that sustainability is not an end in and of itself but a means to an end. Without being sustainable and breaking even, institutions will never be able to grow and reach more clients.
Think about this for a second. This morning I mentioned three South African MFIs and I don’t want to pick on them but think about the importance of sustainability in this context. It is somewhat hypothetical but say the three of them are absorbing about $1 mn each year in donor subsidy and they have about 1,000 clients each. So, that is about 3,000 clients taking $1 mn year, after year, after year. You would have to believe that the financial service that those 3,000 persons receive is so transformative to their lives that it is worth donor subsidies being spent on that small number of people.

In my own personal view, for an institution that is going to remain small and always reliant on donor subsidy, I think those donors should spend that money on the education of girls or HIV/AIDS. So it is not really about whether sustainability is leading or following. It is about is this the best use for valuable and scare donor subsidies. I think for an institution that is not clearly aiming to be self-sufficient, it is not.

The second and related point - I was shocked to hear that commercial microfinance is not possible in the very small countries. I have never seen a country where there weren’t microfinance clients. People talk about post-conflict being a difficult environment for microfinance but I was just in Afghanistan and that is one big microfinance market. As Tomas said earlier, you don’t have to be big to be profitable. There is a point at which there is no necessary relationship between size and profitability.

If the interest rates in the informal sector are 1% per day, it seems that there could be a lot of scope to increase interest rates to cover the costs. So at the end of the day, it’s really all about the interest rate that you can afford to charge and what the alternatives are for people.

The last point, which may sound like heresy to some of the more financially focused members of the microfinance community, I think that start-ups are a great idea. If you have access to donor funds, the donor should be focusing on the riskier end of the market and allowing other institutions with more commercial funds to be focusing on higher up.
Funding start-ups is a good way to absorb donor money. It’s worthy and as long as the business development services can be separated from the actual funding of the start-ups, I think there could be something to it. I would be interested to hear what your experience has been, how many of the start-ups have succeeded, what are the repayment rates and then you can value the service for the amount of subsidy required to offer the service.

**Phyllis:** To get back to the serious business of what CIDA and UNDP are currently engaged in, which is a cost-sharing situation - and I am not going to call the names of the countries because it will cause more discussion and I am not giving an evaluation of where we are at because it’s a pilot. What we have been looking at is the poor. We are trying to develop sustainable situations. We are looking at the loan portfolios to make sure delinquency is kept down to manageable proportions. We have done a market survey because we found ourselves in a similar position of asking where is this market? We found that there is a market and we have to target it.

We have to get different types of loan officers - not the ones who sit behind their desks. They have to go out into the community and they have to explain how the interest rate is calculated to the clients because they feel that it is too high. They must know why you are doing what you are doing and you must get behind them to repay. I don’t believe in taking ethnocentric statements of cultural this and that *en masse* because we are not homogenous. You have to know the people that you are working with. The client has to become very important. If we are thinking about making a profit, we are going to be looking at a different type of client; but if we are thinking of alleviating poverty and looking at the high levels of unemployment among women and youths, you will look for different things. As a social worker who is just the field representative for this project here in the Caribbean and Monica is the Advisor from UNDP, I would say that we need to do things differently.

Donor money can be used and used well. There is a role for everyone and we cannot exclude certain people from the market. I don’t know so much about the profit making levels because I do not think we are in the business of making profit, but we are trying to pilot something that hopefully will make a profit too.
So, until we get to the end of this project, which will be in a few years’ time, I cannot speak anymore because we have not evaluated it as much as we could. I take all these things on board to let you know that not all donors are dumping money and actually the experts say that a major role for donors is finding a partner in the field, which is what we have done. We are not doing it ourselves, we have partners in the islands doing it.

**Monica:** As Phyllis mentioned, I am part of the UNDP-CIDA Microstart Microfinance OECS project. We are operating in Grenada, St. Vincent and St. Kitts. We are thinking about a fourth country but we have not yet decided where.

I wanted to touch on one of the three questions - why are there no entrepreneurs in the region? I think that there are entrepreneurial ideas and it goes back to what Charmaine was saying - it is a matter of education. These people need to be educated. Our market research has shown that people have ideas but they don’t know what to do with them. They don’t even know about these microfinance programmes. They don’t know that their needs could be met at least to some degree. I know that they are difficult to find but they are there.

While we are going into the rural areas of these pilot countries, it is convenient for us to approach communities that have benefited from prior UNDP poverty eradication and skills training programmes. It’s a case where they have been trained in specific skills and some of them have started their own business and some are thinking about starting up. So these communities are ripe for this kind of intervention.

The other comment I wanted to make is on the question on the default rate. I think it is failure to collect in our case based on the partners that we are working with, specifically, those in Grenada and St. Vincent. Two of our three MFIs are credit unions and there seems to be some degree of tardiness in terms of field-based monitoring and supervision of clients and loans. There is this tendency to just sit down in office and have clients come in and borrow and pay and that is certainly not working.
Based on Elizabeth’s presentation this morning, I wanted to ask her about the response and attitudes of the credit unions in Eastern Europe to microfinance as we have been having a tough time in dealing with credit unions here in this region.

Chairman: Just one comment for the record. It takes you two hours to drive around Barbados, maybe an hour to drive around Grenada and half an hour to drive around St. Kitts and maybe three-quarter hour to drive around St. Vincent. So how can you say that you can’t find entrepreneurs?

Mark: Monica raised a lot of interesting points that I would love to respond to but I will not because I think there is a bigger question that I would really like those of us who are Caribbean based to think about. The history of microfinance in the Caribbean has been micro-enterprise finance and we have been challenged by the international speakers here today to think about other microfinance products which are not just about enterprise but which meet other needs, such as consumption needs and crisis needs and we have ignored that challenge so far. So, I would like to ask others involved in Caribbean microfinance what their view is. Are we going to carry on ignoring those challenges? Are we going to stay with just doing micro-enterprise finance? Or are we going to broaden the scope of the type of products that we offer?

Tomas: That was an interesting question that Tony asked, whether we are focusing too much on self-sufficiency. That’s why I really like Mrs. Cohen’s presentation because we really have to worry about improving the welfare of the micro-entrepreneur. In Latin America, microfinance started with the NGOs, they were closer to the market, they could see the needs of their clientele and have a risk perception that the bankers did not have. Nowadays, we are seeing more joint ventures where bankers are going into the sector, but the vision was there first from the NGOs.

I am probably one of those who says no to start-ups but I say no from a financial intermediary perspective because a financial intermediary has to protect the savers and the people who put their deposits in the institution. By definition, start-ups are high-risk enterprises in which we have to have other mechanisms to see if that start-up can become a good enterprise.
This has to be done through other means and that is where the venture capital industry comes into the picture. I think that in the last 25 years, we have a pretty good idea of what works and doesn’t work in microfinance, so the industry is a success story after many failures, experiments, pilots and lessons learnt. We know that it is possible, profitable and we know which projects are good and bad. The venture capital industry has not developed yet and they are going to be able to take on the start-ups and that I think is the challenge for the future.

Chairman: We are around the table and ask you to provide a statement of an issue or a serious question that you have.

Anthony: I needed to come back to two issues. When I spoke about sustainability, I was playing devil’s advocate because I think the mechanisms have to change. In developing the microfinance sector we have taken bankers who are accustomed to having a backdrop of security. We have put them into the microfinance sector and they have adopted that approach, that is not microfinance lending. Mark Havers does microfinance lending, you take your risk and you get up and follow. There is a lady in Belize running a credit union every Friday at 4.00 p.m. she has a fellow on a bicycle outside the door of the factory or at the door of wherever the person is employed to collect her payment.

The other matter is credit unions. They are special animals that have escaped the purview of the regulators and supervisors until now. They have large savings and they are lending to their members. You become a member on specific guidelines. We learnt this because we have provided resources to credit unions and to facilitate them in lending our money they had to change some of their rules. What is happening now, because of the strength of the credit unions and the large amount of deposit resources that they are holding, they are now increasingly coming under the control and supervision of all of the central banks. This will have a major impact on lending in a microfinance mode in the credit unions.
McDonald: I note a major exception in the discussion of the cultural relevance of microfinance in the Eastern Caribbean. I am saying this out of the experience that we have had with some projects, which had a small rural microfinance component. In the Eastern Caribbean the credit unions have come out of a particular socio-cultural setting, which was mainly to address consumption lending. Those experiments turned out to be successful because they were relevant to the cultural setting at the time. I think we coming along with this microfinance model and I am not sure that we are reading the socio-cultural factors right. We have talked about using the Grameen Bank model and we realised that it would not work in the Caribbean. We need to start thinking about what will work in the region at this stage of our history and how we can make it work for the Caribbean people.

Chairman: I can say that Sogesol, MICROFIN and Banco Ademi are not built on models that came out of textbooks. A lot of what takes place in these institutions is fashioned from experience.

Julian: I believe that the future of MFIs lies in improving productivity and efficiency. In keeping with comments made by Prakash and Cesar, I believe that this does not go hand-in-hand with the concept that MFIs should focus on poverty alleviation and poor people. Our clients at MICROFIN are not necessarily poor, they may not be able to access financing from commercial banks but I don’t classify them as poor people. They are people who have good business knowledge in the area that they are operating in and their business is sustainable. If we focus on these clients it will help to create a better understanding of the direction that MFIs should be heading.

Vanessa: I think based on all that was said today, knowing people is very important. Remaining focused on what our objectives are and working innovatively will definitely take MFIs far into the future.
**Charmaine:** We have to move into the future with microfinance. We have to recognise certain things, the islands are not all at the same socio-economic and historical levels. While we can learn from other situations, let us not be constrained by being comparative. What obtains in one may not work in the other because of varied levels of development. I am still convinced that we need to broaden the original base of whom we lend to and how we lend and do business. So much of what has come out today tells me that while we are doing the right things, particularly in St. Lucia, I believe we need to do it differently. We need to sensitise the public and need to take on board some of things that can be of benefit to us.

**Weyinmi:** I think from my perspective working for DFID, we focus on poverty reduction, we look for interventions that will reduce poverty and that’s why we are interested in microfinance. I know that a lot of people here talked about that we are here to make money. That is important if you are supporting an enterprise. What we would like to see is the effect an enterprise can have on generating sustainable livelihoods for other people through employment and other activities.

**Martine:** I was very interested by the fact that a lot of people mentioned the support for start-ups. I think it is very important to separate microfinance institutions from an institution that provides assistance to start-ups. One of the things that we probably will be thinking of when Sogesol becomes very profitable is to create an incubator unit that will help start-ups and also provide some training. Eventually these people will graduate to become clients of Sogesol. I would like to conclude that we will not be able to generate sustainable development in the economy if there are no SMEs geared towards export.

**Monica:** I think we should look at the existing situation and apply the microfinance techniques to the situations that exist, adapt it as much as possible to the benefit of the target beneficiaries and not try to superimpose any model because it will not work.
Peter: I think you need to look at where you are now and imagine where you could be in the future and create a vision for microfinance sector development, eventually to an inclusive financial sector. I understand it is important to see what the market is about and so in developing the strategy for the microfinance sector, we need a real study of the market as to whether it is possible to have a sustainable microfinance sector and how you can address the market.

When you look at other countries, leaders that actually shaped the microfinance sector, they did not go into the most difficult areas of the market or try to find the riskiest clients. They went where the product and the client base was the easiest. They built local capacity and systems and after some time they took on more risk because their capacity has grown. It is important to note this and it’s a dilemma as there is a tendency to say let’s go to the most vulnerable and the most risky ones as a donor programme. The huge risk, when you do that, is that you hamper development.

In the start-up phase of any sector there is the tendency to believe that poor and low-income people are not bankable. So you have to prove that they are. If you have programmes that go for this kind of client, it will only exacerbate the public’s perception that these people are not bankable.

Elizabeth: I am all for diversity but I think that there are enough different views among government, practitioners and donors here that it is almost like different religions. We need a clear vision as to what we are aiming at. I am hearing poverty alleviation, women’s empowerment, enterprise development, inclusive financial systems. As long as every player has a different view of this we are going to have a very different tolerance for cost and subsidy and different target clients. It would be nice to have a more coherent view as only then can you go to the donors and tell them what you want and then it becomes, as Peter said, a market-led process rather than a donor-driven process.
I would love to have more discussion about a broader range of financial services that may be valuable to poor households in the region and a discussion about other delivery mechanisms besides the donor-funded NGO mechanism, credit unions, post offices, etc.

Monique: I am very impressed that clients have got as much play as they have and what I hear is that you focused so much on the supply side of the industry that suddenly people are awakening to the demand side. Suddenly the debate seems to have opened that we have options about who we are going to serve, with what products and in what way.

Brenda: My assessment of what I am hearing is microfinance is a commercial business, it is not a charity or poverty alleviation. One cap does not fit all. We need to understand the various markets and we need to be very aggressive.

Trevor: My issue was along the same lines. Basically, clarity of purpose whether we are about poverty alleviation or developing commercially viable micro-enterprises. The extension of activities into other spheres like financing consumption, etc., is that really an option given the plethora of credit unions and other types of institutions that operate at that micro level doing these things and conceivably could do it more efficiently given their ownership structure?

Phyllis: I think that we have to rely on different providers for different products. There is room for everyone and we have to develop a Caribbean product. I also believe that we have to press governments more to create the enabling environment, not only the laws but also public education and the education in schools for young people to understand that there is life outside of school and that you don’t have to be employed by someone. We cannot do it alone so you need partnerships.

Leslie: Firstly, I want to go back to new business start-ups because I am in that mode of trying to identify them. In Guyana, there is a programme, which has empirically identified the successes of entrepreneurs and they currently run a training programme from that.
Secondly, I run a parallel organisation, the Guyana Youth Business Trust, similar to the Barbados Youth Business Trust. We have a small portfolio of 100 but they use the methodology of assigning a mentor to each client, so maybe that can work. Thirdly, in terms of venture capital, I am trying to develop a model which is about to be implemented as a pilot, where we are going to take part of the loan which we will call venture capital. We will then share in the profits as the returns will be much higher and that will balance the increased risk.

**Tomas:** Clients that are satisfied and staff that are motivated can create viable institutions that can operate despite difficult macroeconomic conditions.

**Guillermo:** As we all know, micro-enterprises represent a high percentage of the GDP of our countries and what each MFI has to do to reach out to the sector is to adopt the policies and practices that fit the characteristics of each country in which we operate.

**Prakash:** We need to understand that the expectations of Caribbean borrowers fall into two categories, those with realistic expectations – real entrepreneurs. We need to find these people, do business with them and meet all their needs. The other category of borrowers, unfortunately, we are unable to work with them.

**Cesar:** It is very important that all players in this industry in the region can focus on their roles. The providers have to be efficient, know their market and get a good quality portfolio. The government has to be an enabler, put together the framework for the private sector to compete and reduce the interest rate. The donors have to give money with the right incentives, so that the institution can be built and not give to 10 million projects in the island when there are only 5,000 potential clients. This will only reduce the ability of the institutions that are working there.

**Kevin:** There are huge challenges to sustainable microfinance in the Eastern Caribbean. We need to find and serve the market. Technology and market research is key. Market research is particularly important in terms of segmenting, targeting and reconstructing the market into business units that microfinance organisations can make money from.
Debra: How do we, as microfinance institutions, become more efficient in the delivery of our existing products and services while at the same time seek to expand the products and services and tailor them to meet the needs of existing and potential clients?

Basil: Where entrepreneurs exist, I would like to see donor agencies and microfinance institutions work together to satisfy the holistic needs of the entrepreneurs. Very often one finds that pockets of assistance are given and because everything that is required is not provided, it frustrates the attempt at success for the entrepreneur.

Jonathan: I think Miss Littlefield provided food for thought for me with her diagram from this morning. What has not been addressed is the issue of graduation. If you have someone at the bottom, how we get them up to the next level and eventually to somewhere up there to MICROFIN. I think that issue of graduation and monitoring of clients to know when they can leave the NGO or government subsidised programmes is a very important issue to look at.

Florence: Paying attention to our client’s needs is very important and from my experience the clients have said that the banks don’t make them feel important. Therefore you need to go to the clients, talk with them and make them feel important, as without the clients you don’t have a business. We can learn from them. Find out what their issues and needs are and use that to build the organisation.

Jean: I have two points. I feel that entrepreneurs exist in the region but it varies from country to country. They get frustrated when they try to go through the commercial bank system. In most cases they need guidance so they can know which institution they can go to depending on their needs, the type of project and the size of loan they require. The other point, I think that market research is needed to generate, stimulate and identify new clients and new business activities.

Chairman: We have been trying to shape the discussion that we will have tomorrow. What I see are four broad areas for discussion:
1. Clarity - of vision, purpose, range of service and products, finding and serving needs and graduation.

2. Roles and Options.

3. The Environment – the enabling environment, macro effects and causes.

4. Partnerships, Alliances and Mergers.

**Anthony:** I want to suggest that the macro-economy was the engine pushing MFI's in the past. Within the OECS and generally in the Caribbean, the macros are in trouble. The micro sector now has to be the pull. Do not let us give up on it. Let us work it out and see how best we can use micro-enterprises to position our macro-economy for the future.
Background

CGAP was created in 1995 when most of the principal donors and microfinance practitioners in the industry awakened to the fact that a new worldwide industry was being created and it might be useful to have a focal point as a centre of learning and best practices and to help set standards in the industry. There are now 29 member donors of CGAP including most of the G7, the United Nations agencies, the multilateral organisations and regional development banks. The Caribbean Development Bank is one of the few development banks that is not yet a CGAP member, but the World Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, African Development Bank and Asian Development Bank are all current member donars.

CGAP is really a mix between a trade association, a think tank, a resource centre and an advisory body. Simply put, we have four types of clients and four types of services we provide to those clients:

(a) financial service providers – microfinance institutions (MFIs);
(b) our member donors;
(c) governments and central banks; and
(d) the microfinance industry at large – service providers, auditors, information systems specialists, and rating agencies.
To each of these client groups we then provide four basic types of services. They are:

(a) developing and disseminating technical manuals and research work;
(b) providing strategic or technical advice;
(c) training; and
(d) incubating innovation and providing funding to do so.

**The Strategy**

The four themes that are driving CGAP’s strategy forward are:

(a) improving the technology and information architecture for the microfinance industry;
(b) developing diverse institutions;
(c) building an enabling policy framework; and
(d) broadening and diversifying the types of clients reached by financial services.

I will briefly touch on each of these areas of activity and offer one or two highlights that might be of particular use or relevance to you.

1. **Improving the Information Architecture**

Firstly, the theme of improving the information architecture. As we said yesterday, reliable, comparable and high quality information about the financial performance of MFIs is a pre-condition to create a sustainable, robust and ever growing industry. Right now the quality of the information on the whole in the industry is very poor. CGAP has a number of items that we are working on in this area and I will touch on three of them briefly.
1.1 **The Microfinance Information Exchange**

The Microfinance Information Exchange (MIX) was created by CGAP, which has now spun it off as an independent organisation with four shareholders besides CGAP. Effectively, the idea was to create a one-stop shop for financial information on MFIs. Right now, it has full financial data on 140 MFIs, as well as information on investors, donors and microfinance networks. The idea was to have MFIs reporting data at different levels of disclosure and to encourage higher and higher levels of transparency. For example the institution would get:

(a) one diamond (*) in the system if they report basic financial data;
(b) 2 diamonds if they report more financial information; and
(c) a maximum of 5 diamonds if they provided audited financial statements and a full rating report.

The dream at the outset of this was to have a place that donors would be able to manage their portfolios of microfinance information and that MFIs could use as a central place to report to their donors. And many donors and MFIs are now beginning to do just that. If you are an MFI and have not yet reported your data on this website, it will save you a lot of time and energy in the long run and we would love to have your organisation listed on the website.

1.2 **Funding for MFI Ratings, Evaluations and Assessments**

The second thing that may be relevant to many of you is a fund that we created last year to partially finance ratings, evaluations and assessments of MFIs.
The purpose of this was not only to encourage microfinance managers to undergo the process of a credit rating or an evaluation, it being a very useful exercise to go through, but also to build the capacity of raters and evaluators in the industry and, more importantly, to improve the availability of financial information on MFIs.

Since last year we have funded 100 ratings and assessments of different MFIs. You can see the geographic breakdown in Figure 1. A total of 13 rating and evaluation agencies are pre-qualified to provide the service. I know it seems like a big number. Most people know about MicroRate but there are quite a few others that are performing the services, e.g. Standard and Poor’s, Moody’s and Duff and Phelps have all pre-qualified. More importantly, 90% of the data collected from the ratings has been first-time public disclosure. We think that this is a major contribution to the transparency of financial information in the industry. Any MFI with 2,000 clients and two years of history is eligible to apply for this and the application turn-around time is about 5 days. The Fund is an efficient and quick source of money with the cap being $8,000 for the first rating or 80% of the cost. The second rating goes down to 60% and the third rating to 40% of the cost.

1.3 Information Technology

The third area in this segment of building information architecture that could be of use to you is the work we have been doing on information technology – management information systems. The first big effort in this area (which is still on-going) was consumer reports on software packages that are being marketed to and used by MFIs. Most MFI managers tend to take the software that is being marketed locally although it may not be the most relevant to their type of institution. The consumer reports, available at the website, are full and quite deep consumer reports on the software, including feedback from users of these packages.
We are in the process of creating a fund that will provide funding for MFIs to hire consultants that we know to be good, user-friendly consultants in information systems technology to carry out diagnostics of their IT needs. We often find that the technical people can’t speak the same language as the microfinance people and sometimes MFIs end up with packages that they can’t use once the consultant has gone home. This fund will be up and running in a couple of months and again, you are welcome to contact us if you are interested in using it.

We are also doing case studies on IT innovations that have been applied to microfinance. Too often IT innovations are seen as the ‘silver bullet’ that will solve all problems and more often than not, frankly, they have been more costly than they have been valuable. There has been lots of experience with cell phone technology, palm pilots and smartcards, which have been neat ideas, but they have not been the big boost to efficiency and productivity that managers anticipated. The case studies will look at IT innovations that did not work, as well as those that worked.

2. **Institutional and Other Mechanisms to Reach the Poor**

The second big area that CGAP is working on is investing in different kinds of institutional and other mechanisms to reach poor people with financial services and different kinds of distribution systems. I will mention only two areas. The first area is investigating new and existing models of financial institutions for instance as credit unions, post offices and virtual systems such as cell phone networks. The second area is MFI networks.

We are working with different types of institutions delivering financial services to the poor. In a number of cases this involves advisory services to commercial and state banks that are interested in expanding into low-end retail markets: microfinance.
We are also working with credit unions and coops on internal control and audit, for example, or on client outreach measurements. Credit unions are a huge, huge factor in the world and no one really knows if they are reaching poor clients or not. So we think it’s time that we figured out who credit unions are reaching, because, perhaps, they are worthy of more donor support than they have received in the past.

The other big area is perhaps of interest to those of you that are involved in some of the microfinance networks such as ACCION International, FINCA and Women’s World Banking. We realise that there are a lot of networks doing microfinance but it is very hard for donors to differentiate amongst them. In some cases there are more differences between them than similarities. For example, there is Interdisciplinare Projekt Consult (IPC), Shore Bank, CIDR, WWB, DID, ACCION, FFH, etc. If those organisations are to be held to the same standards of accountability and then to be really funded well and thoroughly by donors, as I believe many of them should be, we need a way to differentiate amongst them. Recognising this, CGAP is developing a typology of these networks and a note on their differentiating features that will then lead into a full evaluation framework so that we can evaluate and compare them.

2.1 Training Programmes for Managers

Although we do not have any programmes in the Caribbean itself, except in Haiti, CGAP believes that financial management training and consultancies for microfinance should be locally provided rather than provided through international consultants. As a result, we work with 40 local institutions in countries throughout the world to build a local market for high-quality training and consultancy. CGAP provides the training of trainers, training materials and on-going monitoring, and local partners deliver the series of seven different, week-long courses in financial management in their local markets for a profit. Most of the training is done in Asia, Africa and Eastern Europe. However, in the region, we have partnered with the Ford Foundation to provide these training services in Latin America. We felt that IDB has a rich enough presence here in
Latin America, and so CGAP focussed elsewhere. That said, we do have a partnership in Haiti with DAI to offer the CGAP courses in French.

3. **Policy Environment**

The third main area that CGAP is working in is the policy environment and legal and regulatory framework. Clearly, these are critical areas for microfinance in most of the world and certainly in the Caribbean as well. One of the main resources is the Consensus Guidelines developed in partnership with our 29 member donors and approximately 100 experts in central banks, MFIs and academia throughout the world. This is a document that all these organisations stand behind as being the right way to approach regulation and supervision of microfinance. It is not about a recipe or a formula for microfinance but more of an approach that governments should take.

We also provide country specific policy consultations to central banks and ministries. On the website, you will soon find the Regulation and Supervision Resource Centre which outlines the regulatory and supervisory environment in about 30 different countries throughout the world and we hope to extend that to more countries as we go along.

4. **Broadening Types of Clients Reached**

The fourth area that we are working on is broadening the type of client that benefits from microfinance services. Who are these entrepreneurs and where are they? Yes, the man with sno-cones on the side of the cricket field is a qualified client in our eyes, however, how can we broaden the type of client that microfinance currently reaches, including finding ways to reach the truly destitute and hungry with some kind of service. Probably not credit, clearly, but maybe grants or other kinds of support systems that get that person up onto the ladder, hopefully, to be able to develop the capacity to generate income and thus benefit from the ability to borrow money. It’s not only about broadening the type of clients that we are reaching by microfinance but also the type of services – savings, insurance, pensions and other transfer payments.
We are also doing some work on microfinance for post-conflict populations which, thankfully, is not an issue for this region. For better or worse, we now have an opportunity to work in Afghanistan to bring microfinance to that population. Our aim is to get donors co-ordinated in building financial systems in Afghanistan that serve the poor right from the start, with donors co-ordinating and following best practises.

So, that is a truncated view of some of the things that CGAP is up to that may be of interest or relevance to some of you. I would be delighted to talk individually to any of you as to how CGAP can be of specific help to your organisation. I invite you to look at the Microfinance Gateway which is on CGAP’s website www.cgap.org. There you will find probably more information than you will need about microfinance, including different resource centres and talk sites. It’s really a rich site, so I encourage you to take a look.

Thank you.
INTERNATIONAL AND BILATERAL SUPPORT IN THE CARIBBEAN – OVERVIEW AND ISSUES

Kevin Quinlan, Private Sector Advisor, DFID

Good morning folks. It is a pleasure to be here and I would like to say thank you very much to MICROFIN and CDB for this opportunity. At this stage a lot of what I will be saying will be echoing what has come up between yesterday and today and hopefully to some extent I will begin to draw some of it together.

Overview

Let me start with the rationale for donor support - why should donors support microfinance in this part of the world? Then the key question is, what is the market for microfinance in the Eastern Caribbean and then I will look at some of the areas of an agenda for international support.

The Rationale for Donor Support

The rationale is fairly obvious, it’s poverty reduction. DFID, CIDA, USAID, CDB, all of us are in the business of poverty reduction and wealth creation. Microfinance has been a key element in that elsewhere and the question is what role can it play in the Caribbean? Is there a market failure so far in the Caribbean in microfinance? I think that we are fairly clear that there is, but can donors helpfully address the market failure and what role can we genuinely play? As an old marketing professor of mine put it ‘is there a gap in the market, more importantly, is there a market in that gap?’

Let me try and unpack what I mean by that. A “gap in the market” is pretty obvious: is there unmet demand for sustainable microfinance. There is plenty of unsustainable microfinance around but is there a gap for sustainable microfinance?
On the supply side, is the current supply of microfinance adequate? Is there a “market in the gap” means is there a good reason for the gap in microfinance? Are there structural reasons why we have a gap in the market for sustainable microfinance? Is that a gap that can be served profitably? Does anybody want to, without huge amounts of subsidy and what is the donor’s role in all of that?

Okay, let’s first look at the unmet demand for microfinance. We talked about a number of these points yesterday. There is a case that there is not an unmet demand for microfinance in the Eastern Caribbean. The ‘no case’ issues have been outlined by Mark Wenner in his paper for the IADB. Essentially, the thesis was that this is a middle income region; there is a high level of savings; there is more opportunity for self-financing; there are remittances; and this is a fairly stable part of the world where you don’t have the tension that is evident in places like Africa and Latin America which have created the conditions for microfinance to thrive.

We also have a ‘white collar’ orientation in this part of the world, where people are more interested in working in the public service, working in large industry but there are not so many entrepreneurs or there isn’t the same entrepreneurial spirit. We talked about some of these points yesterday. An issue that I think is clear in some of the economies, which have transited from dependence on bananas, is that even though the opportunities in the banana industry have gone down, there is still a significant pool of labour, which commands quite a high price, and the reservation wage rates are still high. Therefore, it is still quite a high-cost economy and a high labour rate economy even though you have a large pool of unemployed persons.

An important reason why there is not unmet demand for microfinance is that there are significant safety nets in the Eastern Caribbean. I think that is one of the achievements of the Eastern Caribbean. Since independence the governments have managed to put in place substantial safety nets which you don’t have elsewhere, thus reducing the pressure for microfinance and the need for microenterprise. At the same time, you have got mixed government and donor objectives. We talked about this yesterday, you have got a mixture of social, commercial and other conflicting objectives.
The case for yes, there is unmet demand for microfinance is that growth is stalled in this part of the world and this is particularly evident in the last two to three years. Governments are too big. We have a government in Jamaica that is spending 65% of its revenues on debt service and when you add another 25-30% for salaries, there is really little left. In this part of the world, we are very aware of the crisis with very high levels of government debt as a percentage of GDP. I think the implication for all of this is, the size of government is going to be reduced in this part of the world. Governments are going to shed people. Some of the commentators maintain that this will lead to more people needing to go into self-employment and micro-enterprise.

The size of the SME sector. Dr. Bourne mentioned yesterday, some of the statistics - the micro and small enterprise sector provides up to 40% of total employment, 45% of GDP in some territories for which there is data available. In addition the informal sector – unrecorded in GDP figures - is massive. For example, in Jamaica, an IDB study from last year looked at a total figure of 43% of GDP. So there is a huge informal economy out there which, in many ways, is not on the policy-makers’ radar but presumably is a huge market - served or unserved - for microfinance.

The final point in relation to the ‘yes case’ which was mentioned yesterday is that in many ways we are in a new situation where we cannot be too optimistic at the moment about macroeconomic-led growth. There is a case for microfinance and micro-enterprise playing a role in improving the competitiveness of this part of the world through reducing labour rigidity, lowering the cost base of the operations of firms through outsourcing and clearly, if that sort of system is going to develop, microfinance will have a role to play in that. The final point, in relation to some of these challenges is that there are potentially, new markets for microfinance, in areas such as, intermediating remittances.

Let’s have a look at the supply of microfinance. Is it adequate? The ‘yes case’ is, yes. Credit unions are there and the level of penetration by credit unions is enormous. The World Council of Credit Unions’ data from last year suggests that the median level of penetration is 61% in the Eastern Caribbean, which is a phenomenal level of penetration.
Another argument is that commercial banks will be driven to seek new niches, industry consolidation will help to lower their transaction costs and will put them in a better position to have a platform to go down market.

We have had situations in the Eastern Caribbean where the fiscal frameworks under which governments have had to operate have not been as tight as they need to be and the Eastern Caribbean Central Bank and other players are helping to bring about a change in that situation. One of the consequences of that will be that governments will not be able to borrow from domestic markets to the extent that they have been and one would hope that they won’t crowd out the private sector in the way that they have been up to now.

A final more pessimistic reason for saying that the supply of microfinance is adequate is that it is impossible to alter the incentives for politicians and donors to distort markets, that really there is nothing that we can do about it, so let’s just forget about it and leave it alone. I think that we would hope that this is not the ultimate scenario.

What is the case that the supply of microfinance is not adequate, the ‘no case’ assessment? Credit unions have weak incentives to lend to MSEs and, personally, at the moment, I believe that. You have credit unions here that have very large membership from the professional classes. They are largely lending for motor vehicles and secured assets. Why should they risk the fortunes of their members by going to the much higher risk MSE lending market? Similarly, banks have weak incentives for market development. The market structure is dominated by a small number of banks and we heard yesterday from Mark Havers about the experience in one of the banks in St. Lucia and they don’t seem inclined to go down market. Government borrowing crowding out MSEs is another factor that I have touched on already. Many banks are making good money from lending to governments, why move into the much more risky business of MSE lending?
In terms of it being impossible to alter incentives and government’s continuing to distort markets, the reality is that many of the national development funds are broke and that would suggest that the situation of distorting markets on that scale is something that can’t continue. I would like to believe that. I hope its true. Similarly, I would like to believe that government and donor behaviour change is possible and we look a little later as to how this can be achieved.

The tentative conclusion, I guess, is yes. There is a gap in the market. I say, ‘I guess’ because I think that we had some doubts about that yesterday and I think that we all have some doubts in the absence of clear information. We are saying that there is significant unmet demand but that it is fragmented. Further, that there is market failure and this is due to three main areas – incentive structures for existing operators, be it credit unions or commercial banks which are not conducive to them tackling the market; we have enabling environment constraints and donors and politicians distorting markets. These all contribute to market failure and the gap in the market.

The big question, then, is there a market in that gap? Are there profitable opportunities for commercial microfinance organisations? Again, I will put together some of the arguments of the ‘no’ and the ‘yes’ case to draw together some of the arguments which were being advanced yesterday.

The ‘no case’ is the density and scale challenges in this part of the world, lots of small islands, low population densities, apart from Barbados, high transaction costs related to that, you have a delinquency culture related to the past distortions, an enabling environment with some problems – particularly in relation to secured transactions, a paucity of market data which is raising the barrier to entry and certainly raising the risk profile for any new entrants, be they commercial or non-government organisations.
The ‘yes case’ is that breakthrough models are possible through greater emphasis on market research. This was the point which Dr. Cohen was mentioning yesterday, that we need to do more work on this through segmentation, through identifying in these fragmented, scattered markets, the segments that we can tackle and then re-aggregating them into segments that can be profitably targeted. To work on product development, we talked about IT and reducing costs and credit bureaus. In the case of credit bureaus, we did not talk about them but an example was given in relation to Trinidad where the commercial banks are finally getting together to work on a credit bureau. One would hope that this would have a demonstration effect in the Eastern Caribbean.

International support to enable sustainable market development has to be the donor’s and international player’s paradigm. The first issue is in relation to information failure, which we have at two levels. There is market information failure and we talked about the need for this. I would advocate more technical assistance for research and development in this area and that is something that Mark has just spoken about. We also have information failure at the policy level in relation to issues like how is it possible to serve both the social objectives of providing finance to poor people and how can it also be used as a lever to greater enterprise development. So, I think we need some clear policy thinking in relation to this area. What is clear from Elizabeth’s presentation is that quite a bit of thinking is available elsewhere and we have a platform of international resources through organisations such as CGAP, Microfinance Opportunities and MicroSave. We can therefore take and tailor lessons from elsewhere to help up to address this.

Enabling environment advocacy - what can we do to advocate for a better enabling environment? The first point is not to do any harm in terms of market distortion. Second point, we need to develop a shared vision with governments in terms of what microfinance can and cannot do. This the point about being clear about the objectives. There is work to be done in terms of a secure transaction framework, both in terms of attitudes to payment and delinquency, bureaucracy, restrictive practices in the legal profession and the very high costs of enforcing collateralised lending, in relation to bailiffs doing their jobs and more sophisticated solutions, such as credit bureaus which avoids some of these problems.
There is also this point, which is high on donors’ agenda in the Eastern Caribbean, the issue of technical assistance to governments to develop tighter fiscal frameworks so that they don’t borrow excessively and crowd-out the private sector.

What can be done in terms of supply development? There is a role for international support in terms of supporting breakthrough models and best practices, especially in relation to market research and product development. There is also a role for public capital leveraging private capital. I think the work of MIF in supporting MICROFIN to leverage money from bond markets is a good example. Research and support for downscaling - is there some kind of research which donors, international and regional agencies can do to bring the credit unions more into this market and to help commercial banks to downscale? Again, this is something that Elizabeth spoke of CGAP doing on an international level.

Finally, improved donor co-ordination. There are a number of challenges to this. In this part of the world donors operate in different cities. They have in some cases different mandates or philosophies ranging from a growth orientated way of tackling poverty to one that is keen on protecting the social outcomes, which have been gained so far in the region. As we spoke about yesterday, where we have these different mandates and objectives it is very hard to have consensus. So we need to have that shared vision first and foremost and there is good experience in relation to Uganda developing that.

Donor coordination meetings and a website for donor information - before I came out this morning, I read the report of last year’s meeting and the same steps were advocated. I think progress in relation to those areas has been slow and it is incumbent on us all to demonstrate leadership in this area. But, perhaps, in particular, the CDB has a role to play in this area, especially the Private Sector Department. I think that the Private Sector Strategy of the CDB has a lot of very solid analysis as to how financial markets can be developed in terms of serving poor people.
I would like to make a call on the CDB to take a role in leading this harmonisation and co-ordination effort. If that is going to work, it is imperative that we get the EU on board also. If the big players are not involved in co-ordination, then really, you are not going anywhere.

Thank you very much.
MICROFINANCE IN THE CARIBBEAN – CDB’S PERSPECTIVE

Anthony Maughn, Division Chief, Private Sector Division, Caribbean Development Bank

What I thought I would do this morning is not go back on the path of discussing what we have done here yesterday and today, but look more at what we have done and where we propose to go. The Private Sector Development Division is new and as Mr. Brunton quite rightly said, it can be a beacon for CDB in interfacing with the private sector in general and in particular, with micro, small and medium enterprises.

1. CDB’s Micro and Small Enterprise Initiatives

Let us look at what CDB has done in the past. CDB’s actions in the past have focussed a lot on the provision of technical assistance (TA) through the Caribbean Technological Consultancy Services (CTCS) Network, particularly to micro-entrepreneurs. We have done targeted lending to the micro and small enterprise sector through the development finance institutions. We have found and installed grant resources in the development finance institutions to give them the capacity to deliver programmes to the micro and small enterprise sector and also for their own institutional strengthening.

In 1990, we established a Small-Scale Enterprise programme which was funded with USD5 million, targeted at microfinance institutions with a codicil that the funds those institutions would get would be 60% loan and 40% grant to help them develop the capacity to deliver. So we have done targeted TA, we have lent through NGO’ and, in particular, we did a loan in 1990 to Women in Development, a small MFI in Barbados and we developed a programme for the Eastern Caribbean Organisation of Development Foundations (ECODev). We have done some analysis of microfinance institutions and, more recently, we established the microfinance guarantee programme which is aimed at facilitating microfinance institutions in obtaining resources from commercial banks.
I thought we would look at CDB’s review of the microfinance and small enterprise sector which was done in 2001 and we asked the consultant to look at the period 1993 to 1999 again, bearing in mind that we had done our first intervention in 1990. The findings are instructive, if only because I have heard some of them repeated yesterday around the table. The recommendations coming out suggested that we should do the following:

(a) investigate the demand for microfinance by persons over 30 years old and under;

(b) develop a public awareness campaign in partnership with DFIs and other institutions and that this should be funded from grant resources;

(c) provide training to the development banks in institutional supervision to help them help the microfinance institutions;

(d) examine the reasons for slow disbursements other than inadequate security;

(e) encourage the Borrowing Member Countries (BMCs) to design and implement fiscal incentives to encourage the growth of the micro and small enterprise sector; and

(f) encourage the governments of the BMCs to establish seed capital funds, which would encourage young persons to get involved in business.

So we are three years along and we are still speaking the same language. We ask ourselves in each territory whether or not any of these recommendations have been implemented.

2. Growth Factors for the Microfinance Sector

When we look at the microfinance sector, what are the growth factors? From my perspective, you need micro-entrepreneurs, micro-entrepreneurs, micro-entrepreneurs.

You must also have what you need to work with. You must have the following:

(a) resources that are both financial and human;
(b) an appropriate and level playing field, wherever they operate, there must be no discrimination across the boundaries;
(c) microfinance institutions that are both sustainable and viable – there must be efficiency within their operations;
(d) market awareness – they must know or at least have the capacity to go and look for business;
(e) good governance; and
(f) a facilitative macroeconomic environment.

If we put up the growth factors, then we should go on the other side of the table and put up the impediments to growth. These are:

(a) over-emphasis on asset based lending;
(b) limited or difficult access to credit for micro-entrepreneurs;
(c) inadequate assessment of risk by the MFIs;
(d) lack of an appropriate regulatory framework; and
(e) lack of good and effective governance.

Let’s go further. The MFIs have a limited range of financial services. All they do most of the time is loans. There is underdevelopment of the human capital, limited access to information of appropriate depth, quality and timeliness to facilitate the decision-making by management of the operation. There must be continued access to capital on facilitative terms and conditions for use. That I heard yesterday, particularly where the donor community is concerned and we fall into that group.

3. **The Way Forward**

So what is the way forward? The way forward is something that we agonised about in CDB for sometime and we developed what has now become the private sector development strategy, which has 3 pillars.
The first of which will be for us to catalyse larger investment capital flows. We must support business and product development and, as importantly, create an enabling and supportive policy environment. We must work together to do that. This has caused policy changes and this change is designed to bring focus to our private sector interventions so that we can contribute to addressing the imperatives of poverty reduction, employment generation and enterprise competitiveness.

Our focus will be on the development of an integrated approach to micro and small enterprise development. There are 4 pillars to that and for this session this morning, this is the one I believe is of greatest interest to us. We are going to look at the possibility of equity investments where we will give consideration to participating in financial intermediaries. However, that participation will only occur if it improves the capacity of the financial intermediary to raise resources, if it influences the establishment of special operations targeted at the micro, small and medium scale sector and if, through our presence, we improve the governance of the institution.

What about financing? What we propose to do is provide resources to those MFIs that we consider acceptable using financial, fiduciary, governance and operational criteria. We are going to provide resources for them to onlend to micro-enterprises. We will focus on the following:

(a) development and provision of programmes that are aimed at improving the skills of the nationals in the BMCs. We are going beyond the financial institution.

(b) providing finance for technical assistance and advisory services to the enterprises.

(c) enhancing the capacity of the microfinance institutions to develop and deliver appropriate training and business advisory services.

(d) cooperation with supervising institutions in the development of appropriate regulatory frameworks for microfinance institutions.

(e) improving access to financial resources and to do so both directly and indirectly. On the direct side, we will provide resources with appropriate guidelines to
financial institutions and on the indirect side, we will provide guarantees to cover the exposures to the enterprises by both the commercial FIs themselves and indirectly through their lending.

(f) examining the possibility of financing or guaranteeing established portfolios that have been targeted at microfinance institutions through the commercial banking sector.

(g) streamlining the appraisal process and bringing some efficiency to that process, if in doing so we are able to lower transaction costs without compromising the integrity of the process of appraisal.

I spoke about guarantees, I will not belabour it, but we already have a microfinance guarantee programme in position.

So, in conclusion, let me say that CDB will focus on the development of an integrated approach to microfinance. We know that we can’t do it ourselves and we know that we can’t tackle all the bases that impact on microfinance, but what we will do is work in a coordinating way to facilitate its development. All of us must recognise the role of the micro, small and medium enterprise sector in the economic growth of this region.

The focus is on lending, governance, training and capacity building. Recognising this we must do the following:

- improve access to credit.
- improve the role, function and sustainability of these institutions
- assist in the development and implementation of business and financial models
- improve the availability of financial resources by providing more funds through acceptable MFIs
- facilitate improvement in the regulatory framework.
- develop a suite of best practices for both MFIs and the enterprises that they serve.
facilitate the development of appropriate rating criteria and agencies for both the DFIs and the MFIs. We heard reference to that from Kevin this morning as to what is being proposed in Trinidad and Tobago.

- we will facilitate and assist in the co-ordination of the effort within the donor framework. Again, Kevin we are with you and we are working with you on that.

- broaden and deepen the work of the CTCS Network, by and through the centralisation. We are going to put the Network where it can be most effective.

We are at the crossroads, let us work together, with and through each other, for the betterment of the micro-enterprises in the region. They need us now more than ever.
MEETING THE KEY CHALLENGES FOR MFIS THROUGH SELF-DEVELOPMENT AND PARTNERED GROWTH

Mark Havers, MICROFIN

Good morning everyone. I am going to speak briefly on the topic. First of all I am going to talk about what are the key challenges for MFIs, particularly in the Anglophone Caribbean and then about how some of these challenges can be addressed.

1. The Challenges

1.1 Technology

The first area of challenge is technology, establishing the information and control systems that will be viable and cost effective in the size of markets that we are working in and ideally then can work across different islands and can be acceptable in different jurisdictions recognising the demands of the regulators and so on.

1.2 Human Resources

The second challenge is in the area of human resources. Getting the right kind of staff with the appropriate educational level given the demands that we are making on them, with the right attitude – not a ‘desk based’ attitude but a ‘getting out there’ attitude and getting people at the right age in relation to the task. Having recruited the staff, there is the task of developing them. There are certainly a lot of challenges in the area of staff development and issues around the types of training available.
1.3 Products and Methodologies

We talked a lot about the challenges of products and methodologies yesterday and there are a lot of financial institutions in the market but not much product innovation, especially product innovation for the disadvantaged groups that we are talking about.

1.4 Marketing

There is also the challenge of marketing and promoting the products once we have actually developed them, getting them out and making the market aware of them in a cost effective manner.

2. Meeting the Challenges

How can these challenges be met by the MFIs and which of them can be met by the MFI’s.

2.1 The Multi-Island Approach

I think that first of all, one of the key ways that microfinance is going to be delivered in the Caribbean is by taking a multi-island or multi-state approach, working across borders and across seas, so that overheads, costs and infrastructure can be shared across markets.

2.2 Learning from Other MFI Experiences

Also actively learning from the microfinance experience elsewhere, not reinventing the wheel. This is hard because a lot of the experience elsewhere just is not relevant for us.
So the challenge is to scan all that experience from elsewhere and then try to be very analytical and say which bits really do apply to the Caribbean context. I think that those are some of the principal areas of meeting challenges where the Caribbean MFIs themselves can take steps.

2.3 Long term Commitment and Support

There is definitely a need for long-term commitment and support from other agencies to help the MFIs meet the special challenges that we have in the Region. The area I see this in is staff training. Again, we see on the CGAP chart that there are all sort of reasons for this, but the training provision is not there in the Caribbean and so we need to do something to make training available for ourselves, training which is relevant to our context. Some international courses for the whole world will be relevant to us, in other areas we will need something more specialised.

2.4 Exposure to what is happening elsewhere.

I think that at the moment the microfinance sector in the Anglophone Caribbean is quite inward looking. There has been some definite taking of major lessons but I think that there is more that we can do and perhaps we need to be helped in finding out again what is happening elsewhere and more importantly, help in interpreting it for our context.

2.5 IT support.

Making the IT work is a seriously expensive business. MICROFIN, for example, has spent and is continuing to spend a lot of money on getting the MOMS system working.
It will be a great thing when it’s there but, again, it is going to take a long time to pay it off. This is where partners, especially partners who know what the experience is elsewhere and can give intelligent and relevant practical support, can be of real benefit.

2.6 Initial Subsidy

Last, and by no means least, this is something that has come home to roost in the smaller economies as times have gotten tougher in the last couple of years. There is probably a need for some initial subsidy for operating costs, undoubtedly on a planned and reducing basis. This will help companies or providers get through initial loss periods as they work towards the tough challenge of operating at a viable level.

That is my very brief overview of the key challenges that we face and which ones we can meet ourselves but, more particularly, the Anglophone Caribbean MFIs may need some partnered long-term commitment and support.
Question – In your presentation on CGAP you mentioned the focus on the supervisory and regulatory environment. Does that mean that the body of research will expand into developing models that deal with risk management and prudential issues, asset and liability management, interest rate gapping, managing foreign exchange risk and all of those modern tools of management that come into play when you seek to expand your range of products, market outreach and you develop a micro-enterprise that becomes much more sophisticated and therefore undertakes and gets into a direction of much more complexity?

Elizabeth – Actually, work on policy frameworks and the enabling environment examines and makes recommendations on both prudential and non-prudential supervision. With central bank supervisors, one of the main needs is for training on how to approach supervising. MFIs that take deposits—they are very different animals than most banks. CGAP is working on a loan portfolio due diligence tool for supervisors, for example.

The work that you are mentioning, if I understood you correctly, is more at the management level of microfinance institutions: tools and technical work for MFIs themselves.

The suite of tools and technical services — a huge range of them — have been produced. Ranging from how to contract an audit, how you do terms of reference for an auditor, to liquidity management, asset and liability management, to any number of things mainly related to the financial management of microfinance institutions. So there is a suite of technical tools, handbooks, a suite of software, as well as training courses on these topics.

Question – Is there a one-stop-shop were you go and get all that data?
Elizabeth – Yes, I can send you a box of these handbooks or a couple boxes, or you can download the information from the CGAP website.

Participant’s Comment – My point was really that the development of competitive and efficient micro-enterprise is not simply training the regulators to do a better job. But, equally important, is providing the tools within which the people who operate, structure and create these businesses can also do a better job, quickly and effectively, so that they don’t have to go through a long, tedious, learning curve and make a lot of mistakes at the time that the enterprise gets created.

Elizabeth – Just a clarifying comment, when we talk about policy environment in the context of the Caribbean, we are probably speaking less about actual prudential regulation and supervision of MFIs. It’s certainly our belief, as I mentioned yesterday, that microfinance institutions that are not taking savings from the public probably don’t need to be supervised, or at least don’t need prudential supervision. So, when we are talking about the policy environment, we are talking about things like interest rate caps or minimum capital requirements, which may thwart the development of the industry as a whole in the Caribbean. Regulation and supervision may relate mainly to credit unions or organisations that are entrusted with poor people’s savings.

Chairman – With all the best intentions, I think that some damage was done to the development of microfinance in this region by the provision of unstructured grant resources to a number of NGO type institutions like the NDFs in the Eastern Caribbean and it prevented those institutions from building up the financial integrity needed to be sustainable. I will give you an example. When CDB was putting together the microfinance guarantee programme, we got Damian von Stauffenburg from MicroRate to look at all the MFIs in the region.

Damian indicated that possibly only two at the time were at a commercial level of performance that could even access a guarantee and that was MICROFIN (although it was just being formed) and IPED in Guyana. All the rest, every single one, MicroRate indicated, could not reach any level of financial performance or viability that would allow them to access a guarantee.
It speaks therefore to the importance of institutions like CGAP that could influence how donors approach their support for the microfinance industry as whole.

That to me is more significant than say the provision of financial resources. I am not sure if the problem of microfinance in the region has anything to do with the availability of financial resources or more to do with the accessibility of micro-entrepreneurs to those resources. I am not sure that donors have to be concerned about putting large amounts of financial resources into the institutions but more on supporting the institutional development of the microfinance industry as a whole. In essence, we need donors who would do a lot of the things which CGAP is currently doing, not necessarily in this region, quite unfortunately, and not IDB because although IDB has Latin America and the Caribbean, it is really Latin America not the Caribbean.

Leslie – In the case of IPED and MICROFIN, you might say the situation was demand driven, where individual private sector businessmen got together and said yes, we see a market and a need. They actually went to the donor agencies and said we need donor capital to start. For example, at IPED we started with the equivalent of US$0.25 mn and this was matched and because of that there was an incentive to perform. In the case of the NDF’s, perhaps, it was government who said we need this kind of organisation and they got people together and therefore there is not that motivation to perform.

Chairman – In the case of IPED, I know that your Chairman was the driving force, in the case of MICROFIN - although Gerry, modestly, will not agree - he was the driving force. To what extent will successful microfinance institutions or any type of institution of that nature which require very innovative approaches to solving problems, really depend on one or two individuals who are the driving force and stick with it. In that sense, donors can do what they want but unless you have one or two individuals who are prepared to follow through, you may not be successful in building up an effective microfinance institution.
Leslie – Absolutely, I just want to share my Chairman’s attitude. In the very first year that we made a profit, I am going into new areas and he is demanding that within one year we should break-even operationally and I am telling him that I will do it within three months because that is the culture that he brings.

Gerry – Just a correction. MICROFIN was never able to impress the donors. Really and truly. And the only donation, so to speak, that we got had to do with the Eastern Caribbean. One wasn’t a donation, but a business partnership with DFID and it’s only yesterday that we signed an agreement with CDB for another kind of partnership that involves funds but that is restricted entirely to the Eastern Caribbean. We refused grants from MIF and Don Terry, the head of MIF, congratulated us and said that was the best thing that we ever did. If we had taken grants, I don’t think that we would have struggled as much. I don’t think that Prakash would have been as highly motivated as he was. We went through pain and there was some blood on the ground as our Chairman will tell you, but I am very glad and for the record, I would like to say that I am happy that we did not take the grants.

There is a case for grant funding in the Eastern Caribbean. I think we were lucky because of people like CGAP, who provided us with access to huge amounts of information and the Consultant that DFID brought for us, who gave us a tremendous amount of advice. Prakash went to the Dominican Republic and Pedro Jimenez was an architect. I think that we were able to benefit from a wide range of information and to me that was the most valuable point, far more valuable than any grant that we could have gotten. Therefore, I would strongly recommend that CDB immediately join CGAP.

Elizabeth - Just a comment to underscore what you just said. People often ask us if we had to choose one single most important success factor in making a microfinance institution successful and sustainable, what would it be? I personally would say it is management and management vision. We know it’s hard to make an institution sustainable when it is reaching very poor people, when the loan size is very small, when the population is not dense enough, etc.
But, what we have found is that when a manager or a leader is absolutely hell-bent and convinced about making something operational, profitable and sustainable, they get there. They just do. They get there regardless of how densely populated the area is, how poor the clients are, they get there. Sometimes they get there very quickly as you just said. Whereas, the managers of the microfinance institutions that, deep in their heart of hearts, in their private moments and behind closed doors, secretly assume that the donors will always be there to bail them out, never get sustainable and independent, ever. So it is really all about commitment, conviction and vision and it works.

I wanted to respond to the comment about CGAP’s work in the region. It is true that CGAP has not done a lot directly in the region and that we have done less in Latin America than we have in the rest of the world, mainly because of the strong presence of the IDB. However, you do have two CGAP member donors, DFID and UNCDF, who have some of the strongest, most highly qualified technical teams in microfinance and both organisations are very present in the region.

Chairman – I would like to thank the panelists who gave very stimulating presentations and members of the roundtable for their participation in the discussion.
ROUNDTABLE DISCUSSION
THE WAY FORWARD FOR MICROFINANCE IN THE CARIBBEAN

Chairman – Gerard Pemberton

Chairman – Good Morning. You should have a sheet, which says Group Discussion, which sets out the following 4 topics:

(a) **Clarity** – Purpose of Microfinance, Vision, Characteristics of market served, Range of services and Products

(b) **Roles and Options** – Finding and serving needs, graduation criteria and options, Training, Supporting ‘start-ups’ and Characteristics of an effective MFI.

(c) **The Environment** – Role of Government, Role of Donors and the General Population.

(d) **Partnerships, Alliances and Mergers** – Among countries, Among Caribbean Entities, with bilateral and international agencies and CDB leadership.
Summary

Group 1 – Chairman: Peter Kooi

We had a very fruitful discussion. I am pleased to tell you that there is consensus on all of this. When it comes to Clarity, we think that the first priority is to shape a vision of who to serve, how and why. We also felt that the vision should be homegrown. It does not mean that no lessons can be learnt from elsewhere, but the vision should be home grown. Then we went to point 4 - Partnerships, Alliances and Mergers. Here we said that as the highest priority, this vision is not an individual’s vision or the vision of a particular group, but is a shared vision and as a result you involve everyone around the table who could be regarded as a stakeholder in microfinance. We discussed whether this should be the shared vision of a country or a region and based on the discussion, we decided that this is a topic that the stakeholders around the table should discuss among themselves.

When it comes to the Environment, we all felt that both the government and donors are enablers of the development of the microfinance sector and they should not be implementors. That does not mean that as a donor or a government you cannot support implementors to do the work but they should not retail themselves. Secondly, they should the vision that was shared as part of a partnership.

The last topic is Roles and Options. We felt that when it comes to the microfinance industry itself, the key priority is to focus on sustainability. In that respect, we also felt that special attention should be given to the establishment of benchmarks, performance criteria and transparency.

We had one comment on the CDB. We wondered, given the size of the market, whether it could play the role of service provider to the industry in the training area.
Group 2 – Chairman: Mark Havers

We took a slightly different approach and actually focussed our efforts on trying to come up with a purpose and vision for microfinance. The purpose of microfinance is to provide sustainable access to financial services for people who are unable, otherwise, to get them. As such, it is one of many tools, which can reduce poverty. The vision that we developed was one of having a rich and varied market of different providers offering a range of products to those people who are not currently served and doing so on a commercially viable basis. We struggled with a vision for the provider and we came up with an innovative, successful and sustainable financial institution offering a wide range of fairly priced microfinance products to a diverse customer base. I should emphasise that this is our vision for the market and we did not mean, necessarily that each institution would offer a wide range of products. So there would be ‘horses for courses’, some institutions would concentrate on a particular product, others might offer a particular range, some might concentrate on a particular client group.

Group 3 – Chairman: Dr. Lashley

We got stuck on the purpose and vision of microfinance as well. We also felt that institutional plurality is something that we would like to see in the market. Looking at the purpose of microfinance, I think that the overriding issue here was developmental - looking at poverty alleviation, wealth creation and serving the ‘unbankable’. As a side note to that, we wanted to also point out that microfinance was not just micro-credit. In terms of institutional plurality, Mr. Quinlan raised this earlier, the issue of looking for co-ordination and moving from co-ordination to harmonisation. The group finally agreed that perhaps co-ordination is good and we don’t all need the same perspective in serving different segments of the market.

In terms of clarity of vision, we did not think that there was much clarity of vision because we were wondering which perspective we were looking from, was it the microfinance institution, the donor, the government or the individual entrepreneur. However, we thought that this was good, different agendas can aid in serving different segments of the market.
Dr. Springer said that we also needed to include networks and linkages among all elements of the economy in terms of how do we increase overall demand in the economy. This topic came up yesterday morning. The same issue, looking at different perspectives, comes back to the characteristics of the market served.

Going back to Ms Littlefield’s pyramid, I think that shows there are different segments of the market to be served by different institutions and they need different types of donors, but they all need to have the same goal, the donor and the microfinance provider, despite which segment in that pyramid is being served. We also spoke about the destitute and agreed that they did not need microfinance but other support services. We need to introduce some dynamism into the issue, as we need to look at graduation, how we can take people from that level and raise them sustainably up each step of that pyramid.

We also looked at this issue when we looked at roles and options, in terms of graduation criteria and options. Looking at the pyramid, we are talking about issues at the bottom, how do we get people from being destitute to being able to use grants well. We need training and education and in that element, we will need subsidisation due to the externality of education, moving from grants to soft loans to commercial loans. However, we also noted that this will need ‘means testing’ and we all know that this can be very difficult, especially when loan officers cannot even collect money.

In terms of finding and serving needs, we looked at how it ties in with the purpose of the donor and the microfinance institution. We felt market research was very important. This is a service that we provide at the University of the West Indies.

In supporting ‘start-ups’, we felt that we definitely felt that we need to support them because who else will? In the Caribbean, the commercial banks are risk averse, they are geared towards larger enterprises. There is a lack of risk taking even among institutions that have the word ‘enterprise’, ‘venture’ etc. within their agreement. So, we think that ‘start-ups’ need to be supported and there is an unserved market there.
Under the characteristics of an effective microfinance institution, we said that training of staff, monitoring of clients, profitability and efficiency are all-important. We need to reduce staff turnover, retain core staff and more importantly, we need proactive staff and also staff who are willing to go into the field. Another important characteristic, which we have not spoken much about, is charging a realistic interest rate. The problem associated with government trying to keep interest rates low and their view that the poor should not be charged high interest rates was also discussed. We agreed that it’s the availability of finance and not the cost of finance that’s important.

The Environment. Under the role of donors we felt that they needed to find the correct institution in terms of what they were doing, responding to the needs of the relevant population. The co-ordination and not necessarily harmonisation is important here. Government has a role in highlighting the importance of microfinance, entrepreneurship and providing clear policy guidelines on what microfinance is and what they expect microfinance to do for their population. Here they can send a clear message to donors and MFIs. Government can also assist with raising the level of awareness of the importance of entrepreneurship among the population in general and making the population see that it is a viable option. Here in Barbados the government is doing that with their various entrepreneurial schemes. A review of their effectiveness is currently being done.

Group 4 – Chairman: Charmaine Gardener

We saw, similarly, that the way forward for microfinance in the Caribbean has to be some sort of redefinition. It exists, it’s going to be there for a while, so we need to redefine it. Someone said earlier that microfinance must be more home grown. We probably need to create a vision that is more in keeping with the characteristics of the market that it is intending to serve.

Roles and options. We feel that market research is important, as without it we can’t develop the products for the market that we want to serve. There is need for training, education and sensitisation across the board for donor agencies and the clients.
This is where we see that some of the grant funding can go. We also have look at the education and training of the clients that we are going to serve. Some of them may never have dealt with a financial institution. We have to know the customer and our business, as this is what is going to make us efficient. The institution must be operated like a business and we must be customer service orientated and we must be extremely focused.

**Partnerships, Alliances and Mergers** In terms of the role of CDB, we felt that CDB should take a really serious lead role in the whole process because of who and what they are, where they are at and also in terms of some of the bilateral and multilateral agreements that exist within the organisation. CDB reaches across all the borders of the region and they can provide credibility and transparency to the process. We see them as providing value-added and maybe they need to take additional roles in terms of harmonisation and standardisation. CDB could be a clearinghouse for the donors in the region and a link to the microfinance institutions. We also felt that there needs to be a supportive role from the other financial institutions in the region such as ECCB, the central banks and development banks.

Our comments on the final issue. The year 2005 has been designated the year of microfinance and the very fact that we are all sitting here today and asking ourselves questions about what we are doing and what is microfinance, indicates that there is obviously a need for the rest of the region and the world to be educated in the matters of microfinance. We feel that it must be a year of education, information and sensitisation throughout the region for clients, donors, banking institutions and persons working in the microfinance process across the region. Among other things, it must be a year of information giving.

**Chairman’s Summary** – Ten issues have come out and we all seem to agree on the following:

1. Need for Market Research and for centering our activities on market research
2. Need for a vision – whether it is shared, new or reformulated
3. Sustainability – in its different forms and incarnations
4. Focus on people
5. Central leadership role for CDB
6. Education
7. Information – dynamic sensitisation of all the stakeholders, including the next generation of stakeholders.
8. Integrity of the microfinance institution and respect for the individual – confidentiality of client information.
9. Institutions that have an uncontrollable delinquency level should not benefit from donor funds.
10. Financing start-ups should be done separately from other things.

There must be some issues on which we disagree whether partly or greatly and I am going to ask you to let us list them. There was disagreement on the following:

1. The vision for microfinance – should there be a vision for the region as a whole, sub-regions or countries?
2. The role of the existing financial institutions such as commercial banks and credit unions and the potential partnerships that might be created to use them to provide financial services.
3. Should microfinance institutions, like the NDFs with huge delinquency rates, be allowed to get on-going funds from donor agencies?

Phyllis - Actually your question is one of our case studies now because we have decided that they must keep their delinquency level at a particular level, say under 6%. Most of the members of the roundtable agreed with this statement.

Dr. Lashley – I disagree because of my eclectic approach. I think it depends on the donor’s aims and what they expect for what they are doing. I agree that delinquency is bad and that it is something that we need to address. However, I think that working with an institution can eventually lead to sustainability if they work hard at it. I don’t think that they should be cut-off.
Phyllis – If in your contribution agreement, sustainability is a requirement for the MFI and if you are continuously providing technical assistance to help them do the right thing, there comes a point when you have to stop.

Trevor - You have mentioned some big ‘ifs’ such as if sustainability is an objective. However, if your objective is to intervene and alleviate poverty, then it does not matter what the delinquency level is.

Phyllis – Even if the objective is the alleviation of poverty, you still want to create sustainable situations, sustainable livelihoods, you still want people to move and become bankable; and you want the institutions to be good providers of all of those things. So, if you start with that premise, you have to look at all these things so that when you are audited you have to provide results-based management information on your achievements.

Chairman – Let us hear the donor’s perspective.

DFID – I agree that NDFs and the like should not be given continuous amounts of money, but I am of the view that what we think in this room isn’t particularly important because what is important is what the politicians think. Politicians giving out free credit before an election is still quite attractive. So it’s their incentive structures that we have got to try and shift and the incentive structures of some donors who like a quiet life by appeasing the politician who wants to win the next election. From DFID’s point of view, if you want to serve lower segments of the population, maybe grants instruments are the best way of doing it. However, the noble purpose of helping lower sections of the population should not be done at the expense of jeopardising financial markets, which is what we have seen.
CDB – I think we are caught in the trap. Should we mandate a financial institution to be a financial institution or to be a social institution, fulfilling the role of government’s social institutions. More often than not, we tend to mix up the two. A financial institution is a financial institution. If it needs to do social work then government or someone should provide the resources, clear of the portfolio, to do the social work like training, etc.

Charmaine – There should be clear distinctions. A microfinance institution in the real world is one that is there to make a profit and do certain things. In the case of St. Lucia, we have the Poverty Reduction Fund and other types of funds that are financed by the government. The people take the money, they are supposed to pay it back but the political will does not come into play to say, yes, you must repay the loan. This situation is maybe one of the cause and effects of MICROFIN not doing as well as it should. If we are dealing with the real world, microfinance institutions have to be well-run like any other business.

Monique – I want to address the question of poverty alleviation. I think we should be a little realistic about what microfinance can do for the poor. It’s not a magic bullet and it’s not going to get people out of poverty. That is the generally accepted truth about it and we shouldn’t believe that it would. There are a lot of other things that you need to support for poverty alleviation, whether it’s education, health infrastructure or removing people from slums. Microfinance is an important instrument that can make a difference.

At the bottom line, what microfinance does from an impact point of view is it raises incomes, helps people to accumulate assets and manage risks. When you are poor, your life is one of being reactive. You are always looking behind you to cover your current costs. You are always looking at how to make a go of things. Microfinance power gives people a little discretionary money that allows them to make decisions and look forward.

Elizabeth – I wanted to say that from my perspective, I have huge respect for the incredible challenges that all of you have in trying to do commercial and sustainable microfinance in this region. There is nothing more difficult than trying to do sustainable microfinance in an area that has been plagued with programmes that have bad repayment rates.
When people learn that they don’t have to pay back micro-credit, they don’t pay back anybody for a long time. So, it’s really just to take my hat off to the challenge and to recognise that those government programmes that we are talking about here, with these high delinquency rates, really do go pretty close to poisoning the waters for those of you that follow who are trying to do microfinance. I think that it seems as if it’s a huge challenge for all of you to follow what seems to have been pretty irresponsible government programmes.

**Brenda** – This triangle has been fascinating me since I have been here. The way I see it is at the bottom part of the triangle we should be looking at donors and governments, then the next part - the MFIs and then finally ending up in the commercial bank arena. There seems to be a bit of confusion that this MFI section is coming down to the subsidised poverty programmes. These programmes should say this is a grant for you to come out of destitute poverty, which we don’t expect you to pay back. If you can, then it’s great. When we get to the MFI, we are looking at another part of the triangle, which has to be repaid for it to be sustainable. You don’t confuse credit and grants and I think that’s where the confusion lies.

**Dr. Lashley** – I am also talking about different types of MFIs as you go up the scale. An integrated MFI providing training services for poor people who have the ability to be entrepreneurial but don’t have the business understanding. So, moving up the scale, you see an MFI that is providing pure financial services.

On another note, I was not saying that default was good but that the general statement about just cutting them off and not understanding the aims of the institution is a bit harsh. I agree with the situation that they are dealing with at CIDA. I know about that. But the general statement of just cutting them off because of the ratios, I have a problem with that as it depends on the aims of the institution and the aims of the donor.

**Trevor** – I have seen delinquency levels climb in institutions from very low to high in a relatively short space of time and sometimes there is very little that the institution could do to guard against that if they are not going to cause a major dislocation within the economy in which they operate.
There are a lot of factors that lead to delinquency, it may not always be inefficiency within the institution and I think that just cutting off the institution without looking at all the factors that may have led to the problem is disastrous and dangerous and it is something that we should not do.

**Chairman** – One of the problems with unsustainability is you always have to watch to see where that money is going because if there is a loss, it's not always because of the clients and that is something that you need to pay close attention to.

**Prakash** – The one debatable issue which I think we have skirted around, but we have not had any consensus, on is whether from the point of view from the roles of the donors and the MFIs, we need to look closely at developing strategies and approaches for dealing separately with start-ups as opposed to existing as opposed to support services. We just spoke about grants as opposed to credits and therein lies one of the solutions.

**Peter** – There are many excellent microfinance banks that give loans for start-ups for very strategic reasons and not social reasons. I do not think that one should exclude that from the market and make it a special category.

**Terrence** – In the case of the Youth Business Trusts, there is a system of mentorship and there is high proportion of start-ups. In fact, there is conscious policy of looking at start-ups among the youth.

**Jean** – I am not sure for the start-ups that you mean separate ways of financing or different institutions.

**Elizabeth** – I agree that start-ups can be financed by the same institutions that are funding ongoing businesses. The difference is that start-ups need much heavier and more expensive investments in business development services and other kinds of support systems, the cost of which can’t be borne by the MFI because they will never become sustainable.
To me, the debate is not about whether to fund or not fund start-ups in the same institution, but is there scope for providing grant money directly for the business development and other support services through another organisation that would accompany that start-up financing.

**Melrose** – I think that’s where the partnership between institutions comes in as this can play a major role. Where you have an institution that has a high emphasis on training and technical assistance with the required funding and human resources to provide the training, they could partner with the financial institution to give the start-up that boost to get going.

**Elizabeth** – I can certainly see that an organisation that is funded by grants, in perpetuity, that does not need to be sustainable, does not need to collect fees, that just does business support to start-ups. I would not expect those organisations to be sustainable. The funding part that goes to the start-ups needs to be sustainable. Maybe it’s a case of recognising the need for two different kind of organisations, one that’s going to be commercial and one that’s never going to be commercial.

**Debra** – I have heard everyone’s views and basically we get involved with both aspects, start-ups and existing businesses. We don’t want to become wholly and solely dependent on donor funding. However, at the same time donor institutions need to look at a particular type of funding tailored for start-up loans. It is a high-risk area that we have absorbed to a great degree. It needs to be looked at separately because of its social impact. Part of what we do at FUNDAID is to uplift people to that sustainable level.

**Peter** – A good MFI will have their own risk management procedures. I can think of many cases where a start-up is less risky than an expansion. Let me give you another example. I don’t think that you do this here much, but in many MFIs they do group loans. A group goes for credit and it often happens that they allow a start-up because they know the member of the group. In essence, it all has to do with risk management. In the case of the group, it’s up to members in the group to manage their risk. While in the case of individual loans, it’s the responsibility of the MFI to assess the risk. So, it is not about start-ups being in a separate category but risk management and the benchmark performance indicators that you need as an institution.
Chairman - When you talk about risk management it involves not avoiding risk but how to share it.

Kevin – I agree with Peter, its about risk management and I also agree with you that one solution for the MFI to manage the risk is to externalise it, to get the donor to underwrite the risk. Any sensible donor will in turn ask the MFI, what are you doing to manage the risk, so that I don’t have to actually underwrite the risk. So, ultimately, it’s about risk management.

Terrence – There are different types of start-ups that require different types of financing, consultancy, structuring and product innovations. It would be a disaster if, in this forum, we try to prescribe how to deal with all of those things. At the end of the day, if you are running an institution, you have to determine, based on your institution’s vision, risk tolerance, market penetration, strength, and what you want to do. If, as part of your business, you want to handle start-ups, make sure you have the resources, capital and capability to do the job.

Chairman – Commercial banks and credit unions.

Terrence - It all depends on which side of the coin that you operate. If you are a commercial bank that is looking for an expanded source of revenue, you will make a determination that a microfinancing unit serves your purposes best and Cesar outlined several options. If you decide to partner with another institution, you will want to make ensure that their services are appropriately priced so that you will get a proper return for what you are offering. However, if the institution is a threat, what you have is a competitive situation.

In my view, as the microfinance business improves and matures as people are moved up the scale what you are going to do is compete vigorously with the lower end of the consumer banking market. All consumer banks are looking to find a way to segment their portfolios and markets and redefine all the elements. So it all depends on the institution’s perspective, its long-term vision and its strategic plans.
In terms of credit unions, the way they are currently structured where they need to significantly transform their current operations to more efficiently administer their existing book of business. I would think that if you want to bring them into the play in terms of using their current facilities, a significant upgrade is required to be able to provide you with a service or to get them involved directly in the business. At the present time they are hard pressed to deal with what they have.

**Chairman** – I am going to ask a few members of the roundtable for some closing remarks.

**Elizabeth** – It seems to me that it’s worth exploring linkages between the commercial banks and the credit unions. I would also urge that if there is a group brought together with the stakeholders to come up with the vision, that some time be spent on things like common standards of performance benchmarks for donors and MFIs.

**Peter** - I learned a lot in these days and with respect to consensus and debatable issues, I really think that it is important to come towards a shared vision with all stakeholders or potential stakeholders and to map out where you are now and to see where you want to go and develop some general strategy as to how to get there. I think that shared vision and that general strategy could help to co-ordinate the process.

**Anthony** – I have found this forum to be very educational. It has brought out a lot of the underlying issues. I would like to suggest to all of us in whatever environment we happen to be in the future, where this is concerned, not to forget what was discussed in the last day and a half but to make sure that we bring closure to some of the outstanding issues as we go forward.

**Chairman** – The CDB will be putting this all together and they will be circulating it to the four Chairpersons. Once we have agreement on the text, it will then be published by CDB, MIF and MICROFIN and through CGAP, and probably put on their website, so that in this way we disseminate the information. Any comments Martine?
Martine – I think that we should look at microfinance as any other business venture that we are undertaking. It is nothing more or less and it just happens that we are doing some good socially while we are doing it. Joining a network is a great way to quickly cut the trial and error period. At Sogesol, we are going to quickly move past different questions about microfinance, where we want to go and quickly get into being a business working normally like SogeBank. This was done because we were able to learn quickly from experiences of others and I think that joining a network is very important in order to go fast in order not to have a long trial and error period.
VOTE OF THANKS

Mr. Terrence Martins, Deputy Chairman, MICROFIN

First of all we need to thank all of you for being here. We need to thank the presenters and to endorse the very active role that you all have played. We want to suggest that along with the theme of Continuous Improvement that this is just a beginning not an end. Development of the industry needs to be actively pursued. We need to understand what we are doing and develop performance standards and credibility.

I need to thank the sponsors, CDB and MIF for making this event possible. I need particularly to thank CDB and their staff for hosting us in these facilities. I think they did a wonderful job and I think they have already started to play a leadership role, which we appreciate. I need to thank President Bourne for his most inspiring address. He really kicked these proceedings off in the right direction and we really wish to endorse what he has said and to really thank him most sincerely for his support. You may have seen a number of ladies quietly moving around. They are both representatives of CDB and MICROFIN. Claudia, Andria, Sushma and Thea - thank you very much, we really appreciated all your help.

Finally, those of you who have to travel, I hope that you have an incident free flight. I hope that you enjoyed the proceedings, the social interaction, and certainly there was a lot of animated discussion and it appears that the people in the MICROFIN business have the capacity to fete.

Thank you very much.
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