

Report for the Inter-American Development
Bank

Microfinance in the Caribbean:
Experience & Best Practices

Submitted May 24th 2002

Prepared for the IADB's Studies on Poverty Reduction and
Social Protection

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TABLE OF CONTENTS

1. INTRODUCTION.....	1
1.1 BACKGROUND OF THE STUDY	2
2. COUNTRY BACKGROUNDS.....	6
2.1 BARBADOS.....	6
2.2 DOMINICA.....	8
3. LITERATURE REVIEW: EXPERIENCES AND BEST PRACTICE.....	10
3.1 EXPERIENCES & BEST PRACTICE: LESSONS FOR THE CARIBBEAN FROM THE LITERATURE.....	14
4. ANALYSIS OF BARBADOS SAMPLE	16
4.1 THE MICROFINANCE ENVIRONMENT IN BARBADOS	16
4.2 BARBADOS YOUTH BUSINESS TRUST (BYBT).....	17
4.2.1 <i>Background</i>	17
4.2.2 <i>Credit Technology</i>	19
4.2.3 <i>General Requirements and Regulations</i>	19
4.2.4 <i>Analysis of BYBT Business Clients- Full Sample</i>	20
4.2.5 <i>Analysis of BYBT Business Clients- Surveyed Sample</i>	23
4.2.6 <i>Client Case Studies</i>	28
4.2.7 <i>Summary</i>	32
4.3 PINELANDS ENTERPRISE FACILITATION SERVICES (PEFS)	34
4.3.1 <i>Background</i>	34
4.3.2 <i>Credit Technology, General Requirements & Regulations</i>	36
4.3.3 <i>Analysis of Sample</i>	36
4.3.4 <i>Client Case Studies</i>	41
4.3.5 <i>Summary</i>	43
5. ANALYSIS OF DOMINICA SAMPLE.....	45
5.1 BACKGROUND OF THE NDFD	45
5.2 FINANCIALS	48
5.3 CREDIT TECHNOLOGY.....	52
5.4 MAIN ENVIRONMENTAL AND INSTITUTIONAL ISSUES ARISING.....	52
5.5 CLIENT INTERVIEWS	54
5.6 CASE STUDIES.....	57
5.7 SUMMARY.....	60
6. IDENTIFICATION OF MAIN EXPERIENCES & RECOMMENDATIONS FOR BEST PRACTICE.....	62
7. MAIN POLICY IMPLICATIONS.....	64
8. APPENDICES.....	67
9. BIBLIOGRAPHY	68

TABLE OF TABLES

TABLE 1:	POLARISED PERSPECTIVES IN MICROFINANCE	11
TABLE 2:	FINANCIAL INFORMATION 2001- BYBT	18
TABLE 3:	FULL SAMPLE: HIGHEST LEVEL OF EDUCATION AMONG BYBT CLIENTS	21
TABLE 4:	CLIENT SATISFACTION WITH BYBT- PERCENTAGE OF RESPONDENTS.....	27
TABLE 5:	FINANCIAL INFORMATION 2002- PEFS.....	35
TABLE 6:	FULL SAMPLE: HIGHEST LEVEL OF EDUCATION AMONG PEFS CLIENTS.....	37
TABLE 7:	CLIENT SATISFACTION WITH PEFS- PERCENTAGE OF RESPONDENTS	41
TABLE 8:	CHARACTERISTICS OF LOANS DISBURSED (2000)	45
TABLE 9:	SUMMARY OF LOANS DISBURSED BY SIZE IN 2000	47
TABLE 10:	SECTORAL DISTRIBUTION OF LOANS BY NUMBER OF LOANS, NUMBER OF JOBS, AND VALUE ..	48
TABLE 11:	MAIN INFORMATION FOR THE NDFD (DECEMBER, 1999)	49
TABLE 12:	NDFD FINANCIAL STATISTICS, CONSOLIDATED FUNDS- 1999 AND 2000 (US\$)	50
TABLE 13:	KEY INDICATORS AS OF MARCH 2002.....	51
TABLE 14:	CHANGES IN MAIN BUSINESS VARIABLES (2000-2002).....	56
TABLE 15:	CLIENT SATISFACTION WITH NDFD- PERCENTAGE OF RESPONDENTS	57

Executive Summary: Microcredit: Experiences and Best Practice

Background

Since the early 1970s, with the formation of the Grameen Bank in Bangladesh by the eminent Mohammed Yunus, the microfinance movement has spread throughout the developing and developed world as a weapon in the fight against poverty. However, success of the Grameen model has not been followed by success in different economic and social settings. These failures have been due to several factors including a lack of appreciation of context (social, cultural and economic), and divergent missions between donors, MFIs and the poor. In some case the poor are excluded altogether as MFIs 'scale-up' operations to reach more 'bankable' clients.

The aim of the current study is to assess the main contextual issues in the Caribbean that relate to microfinance and entrepreneurial development, as well as drawing on experiences by MFIs and clients to identify best practice for the English-speaking Caribbean as an largely homogenous region.

Objectives and Research Questions

The central objectives of the research were to establish the main experiences of microfinance institutions (MFIs), and their clients, in the Caribbean islands of Barbados and Dominica. Implicit in these objectives was an attempt to identify what procedures were working and which were not in order to offer recommendations for the restructuring of the MFI sector in the Caribbean, and the creation of new, efficient MFIs.

In attempting to establish these best practices, a number of research questions were addressed, including:

- What are the reasons/characteristics that have led to the success or failure of the selected MFIs?
- How successful are these MFIs in terms of their *exit rate*¹?
- What steps need to be taken to ensure an increase in productivity of microcredit and the income of microentrepreneurs and their employees?

Countries and Databases Used

The study initially selected three Caribbean countries to study, Barbados, Dominica, and the twin island state of Trinidad and Tobago. However, due to a desire to protect proprietary knowledge, the Trinidad and Tobago MFI declined to participate during the data gathering phase of the research. The study therefore concentrates on three MFIs, two in Barbados (Barbados Youth Business Trust and Pinelands Enterprise Facilitation Services), and one in Dominica (National Development Foundation of Dominica).

The MFIs included in the study had the following characteristics:

1. Barbados Youth Business Trust (BYBT) is a private sector initiative that provides loans to both start-up and existing businesses operated by youth². BYBT provides

¹ The *exit rate* represents the amount of MFI clients to become clients of commercial banks.

² Youth is defined here as persons between the ages of 18 and 35.

two types of loans, 1) loans less than US\$2,500 that require no collateral or other support, and 2) loans up to US\$12,500, which require the entrepreneur to produce a business plan and undertake to be guided by a mentor. Unlike many MFIs in the region it does not always require collateral on its loans and instead operates a system of both character-based and asset-based lending. Between 1997 and 2000 BYBT had disbursed 87 loans, of which, by July 1999, 15 had already been repaid. The Trust is dependent on charitable donations for its survival.

2. Pinelands Enterprise Facilitation Services (PEFS) is a division of the Pinelands Creative Workshop (PCW) that operates as a provider of both finance and support services to microentrepreneurs. PEFS mission is to provide an alternative and innovative approach to financing microentrepreneurs. PEFS outstanding loan portfolio (all clients, not just microentrepreneurs) is approximately US\$124,000 owed by just over 100 clients. The average loan size is less than US\$1,500. With restructuring since January 2000, PEFS has managed to achieve a healthy repayment rate of 88%. Overall, women comprise over 70% of PEFS clients.
3. The National Development Foundation of Dominica (NDFD) is one of many National Development Foundations set up in the Caribbean in the 1980s with funding from USAID to provide credit and training to small entrepreneurs. Von Stauffenberg (2000) has noted that of all the institutions in his study, NDFD's management was the most entrepreneurial in their approach to microfinancing. Despite this approach however, NDFD is losing money and suffering severe liquidity constraints. This is mainly due to the fact that the interest rate is too low to even cover operating expenses, and that the Dominican finance market is heavily saturated, constraining the development of NDFD. Since USAID's support halted in the mid-1990s, NDFD's main source of funds is from the European Investment Bank (EIB), Caribbean Development Bank (CDB) and the International Fund for Agricultural Development (IFAD).

The main databases used in the study were from the MFIs' files. Other data used included the primary data gathered through a series of questionnaires and case studies.

Methodology

The study operated on two levels. The first level included the MFI where organisational characteristics were assessed as well as the characteristics of the staff. The second level included a study of the clients of the MFIs, utilising background information from the MFI, a survey of the clients themselves, and a series of short case studies to provide a more practical image of the beneficiaries of microfinance.

In relation to the proposed aims and issues to be addressed, the following data was gathered:

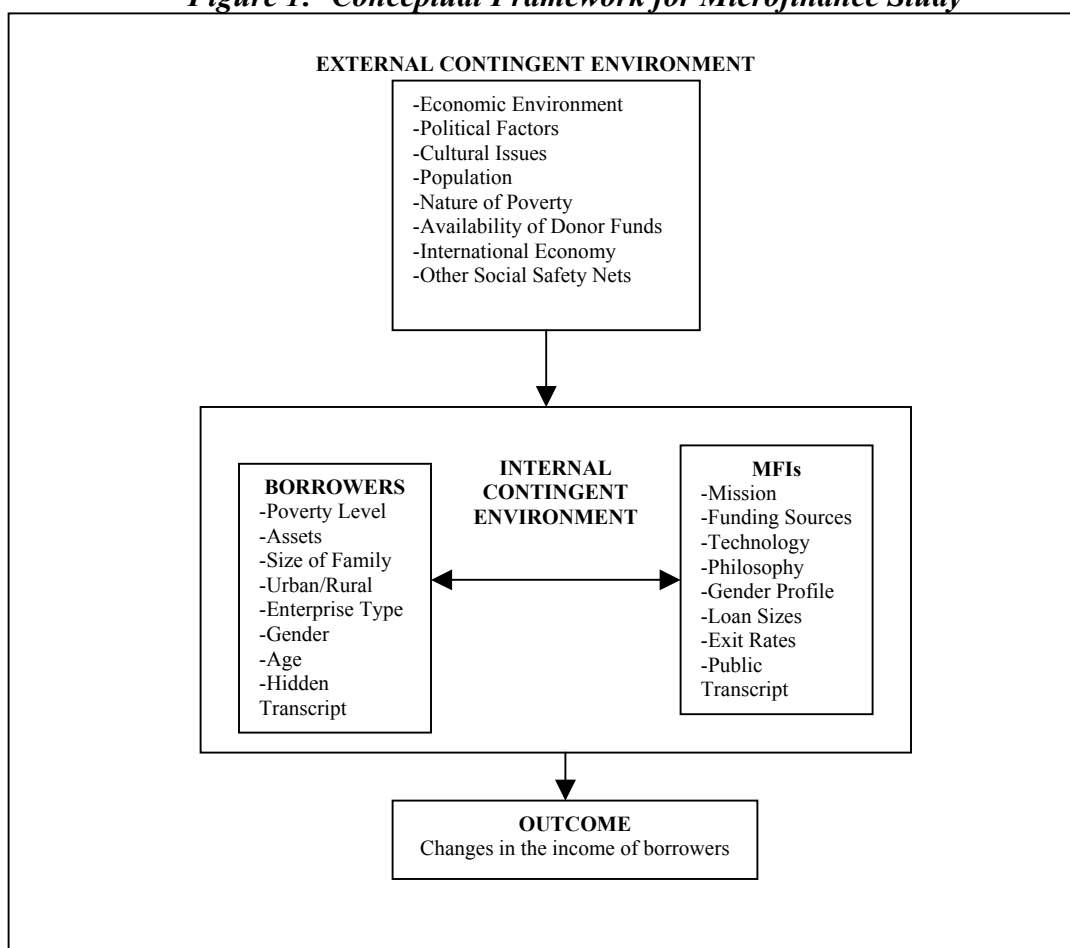
- Institutional data: sources of funding, types of services, credit technology, interest rates charged, average loan size, legal framework of institution, and clientele profile
- Client background: life histories of a selection of clients- current clients and *exits*. The specific information to be gathered from the clients includes- assets, income, location, gender, age, enterprise type and how these have changed over time.

Conceptual Framework

The study endeavoured to establish a holistic picture of the main issues in each of the selected countries, in addition to this, an understanding of the internal environment within which these institutions operate was also important. The internal contingent environment of clients, successful and otherwise, were also established. The issues investigated not only included the strict financial environment, but also such areas as culture, history and locality, as these will have important implications for the operation of these microcredit institutions. This was critical to the study in order to be appreciative of the various current debates in the microfinance literature.

The conceptual framework used is shown below in Figure 1. It draws on previous works used to investigate and understand the interaction of the different contingent environments on small businesses decision-making and demand for services (Lashley, 2001; Dunham & Healy, 1996; Dunham, 1997). Through such a framework, where understanding is provided of both the internal and external environment for the different bodies (MFIs and MFI's Borrowers), a greater appreciation of the interaction between and within these bodies was facilitated.

Figure 1: Conceptual Framework for Microfinance Study



The methods employed here involved description of the various elements of the internal and external contingent environments shown in Figure 1. In addition, an analysis of their

interaction was undertaken. This was facilitated explicitly through the following elements:

1. ***Institutional Analysis:*** Information gathered included, most importantly, background on clients, legal form of the institution, credit technology, funding sources, and average loan sizes as a percentage of GDP (proxy for client's poverty level).
2. ***Case Histories of Clients:*** were conducted in cooperation with the partner institutions. There was the issue of depth of information required- whether shallow understanding of a large number of clients is considered important or a deep understanding of a few clients is important. From the requirements of the study it appeared that it was important to assess the increases in the income of borrowers, their *exit rate* and their credit history, in addition to their economic characteristics. Therefore it was important to survey a sufficient sample of clients as well as to analyse the information held by the participating MFIs. To address the issues in more depth, detailed case studies of a selection of clients were also undertaken, conducted in accordance with procedures in Lashley (2001) and Yin (1989). This process involved the use of pre-coded questionnaires of a sample of borrowers and semi-structures interviews and case analysis of a selection of representative clients. Due to the time constraints of the project, memory recall was relied upon to provide sufficient historical data. Ideally a longitudinal study would be preferred.
3. ***Comparative Analysis across countries and institutions*** was also conducted to provide an understanding of how different characteristics of the MFIs in the study operate under different cultural and economic circumstances. This information is presented in Section 6: Identification of Main Experiences.

Main Findings

In addressing the objectives of the research, several important findings emerged:

- 1) **Failures lie at several levels.** Firstly, the lack of a suitable regulatory framework is severely hampering the growth and success of this selection of MFIs. Secondly, a concentration on small enterprises rather than microenterprises is retarding the poverty alleviation potential of these MFIs. A lack of human capital and organisational structure is not allowing MFIs to exploit the full potential of microfinance. Fourthly, there is a severe lack of information dissemination where enterprises are suffering a lack of information on markets and a lack of access to finance but are not utilising the services that are available. Lastly, cultural elements have permeated the microfinance system in the Caribbean where some clients are viewing loans as handouts rather than as loans, leading to poor repayment records.
- 2) **The exit rate does not appear to be a major indicator of success** as MFI clients have previous loans and accounts and may simply be using the microfinance system to exploit sometimes-lower interest rates as well as 'softer' loan terms. The crowding-out effect is frequently seen with subsidised loan packages. This leads to an important issue, that targeting and identification of clients needs to be more vigorous and conducive to the mission of donors and MFIs. In addition, satisfaction with the loan packages by these MFIs has led to a form of loyalty where clients prefer to stay with the institution rather than approach commercial banks. In addition, the exit rate may not be a suitable measure in the Caribbean due to a more mature

financial sector where many MFI clients are seen to have an established relationship with a commercial financial institution prior to joining the MFI. It may also be inappropriate as most loans are too small, not micro, businesses- indicating a more bankable segment of the population.

- 3) **The credit history of clients is difficult to establish** due to lack of organisational capacity in terms of monitoring of client's progress, and a near complete dearth of any form of means-testing. Most information on client's progress was assessed from the survey of clients rather than from the MFI itself. The lack of an extensive credit rating agency is hampering the sustainability of MFIs, where clients are aware that default with one institution will not result in refusal from another.
- 4) **The role that the characteristics of the institutions play in determining success or failure is minor**, related mainly to staffing problems and occasionally a failure to follow the mission of the MFI and the wishes of donors. Success or failure lies mostly external to the organisations and is closely related to the regulatory framework, a lack of information dissemination, and size. Although institutional capacity within the MFI will undoubtedly need to be improved- such improvement will need to be paralleled in the external environment.
- 5) **Gathering information** on the MFIs was in itself difficult in some respects to a protective culture that appears to pervade in the Caribbean. However, successful strides are being made in raising the awareness of the benefits of co-operation and networking among MFIs, especially when they serve different strata of the population. Time constraints on gathering data are further exacerbated by staffing constraints at the MFIs- making the period long and arduous.
- 6) **Several surveys of MFI clients** were made, demonstrating a general level of satisfaction with the services of these MFIs. Surveys of non-clients however revealed a lack of knowledge of the existence of such institutions, or when they were aware, there was an apprehension to participate due to previous difficulties with such institutions.

The main experiences from the survey indicate that loans are not micro-loans, and that the majority of the MFIs are utilising assets-based lending, rather than the original MFI approach of character-based lending. More importantly, the clients are not poor, especially as assets and income are significantly above what one would consider the poverty line.

In addition to this there is a clear lack of institutional capacity within the MFIs, where staffing levels are insufficient to be able to screen, monitor, and develop the client base of the institution.

There is also a lack of networking between support organisations, a trend seen among their clients as well, which could perhaps be remedied by a greater dissemination of information about the availability of these support services.

Although one of the MFIs utilises the services of mentors to guide their clients, there is a need to improve the selection process of mentors if their input is going to be effective. In addition to this, the institutions will need to try and avoid scaling-up away from the clients there were originally hoping to serve.

In terms of the recommendations for best practice that have emerged from the study to date, it can be seen that the effect of the institutions on their clients has been positive, according to the responses of the clients. Although two negative issues arise, the fact that the loans are not micro-loans and that clients are not what, by international standards, can be considered poor, there are some positive lessons that can be taken from the study. These lessons include:

- The mix of character-based and asset-based lending utilised by one of the institutions can assist in successfully screening out potential defaulters as well as provide the truly constrained with an opportunity to access finance and avoid falling into poverty
- The community-based program established by PEFS, with a concentration on character-based lending, accessibility, and respect, can successfully improve the human development of their clients in terms of both self-worth and financially
- Simplified application procedures need to be used more extensively as clients perceive the process as arduous elsewhere
- Programs need to be more integrated in offering business training that is relevant to the microentrepreneur, while allowing them to bear some of the cost of training will assist them in making sure the training is relevant
- If the programs are seeking to alleviate poverty, they will need to be cognisant of the character of poverty, which in the Caribbean is female, young and rural. As there is little concentration in the Barbados sample on specifically women or the rural, this will need to be remedied
- Graduation to the commercial banking sector is needed, therefore loan officers will need to constantly assess their clients to determine when they are ready. To retain them in a program when they are creditworthy will preclude opportunities for other not-so-creditworthy clients
- There is a need to disseminate to clients the opportunities available for training, grants and loans from other organisations so as to allow the client to develop in a variety of ways
- Overall, as demonstrated by PEFS, the development of social capital is extremely important for the success of both client and institution. The manner in which this can be achieved is however difficult to determine

Although these experiences and best practices are important to recognise, it is also important to determine what direction the policy-makers want to take. Policy-makers will need to outline the main goals and rationale for microfinance, whether it is poverty-alleviation or self-sufficiency for the institutions. These issues are the ones that will determine the type of best practice to be adopted, as if the goal is self-sufficiency, community-based lending is untenable, and the size of loans will undoubtedly increase as MFIs scale-up their operations to reach clients far above the poverty line, as seen in other Caribbean islands.

Policy Implications

In analysing the main policy implication of the current project, the issues important to the Caribbean will need to be addressed explicitly before the future direction of microfinance can be determined.

Most importantly, the mission of microfinance will need to be explicitly defined. There appears to be a divergence of views related to whether microfinance should be directed towards becoming self-sufficient or whether the primary objective should be to alleviate/reduce poverty. Implicit in a mission of self-sufficiency is that the resources should be directed towards enhancing entrepreneurship and consequently the profitability of microenterprises. However, this appears at odds with the original motivation of microfinance, which was as a weapon in the fight against poverty. If the Caribbean nations are seeking to alleviate poverty, the goal of self-sufficiency must take a back seat to encouraging a greater depth of outreach to the poor. Such an approach will need to be cognisant of several factors, including:

- Who are the poor?
- What are the main needs of the poor?
- How do we ensure that the poor benefit?

In answering these questions policy-makers will need to realise that the poor are not a homogenous group, and because of this their needs will be different. In this vein the poor can be classified into three grouping: (1) the very poor or indigent; (2) the poor; and (3) the marginally poor. Obviously these groups will have different needs, therefore, to ensure that all these groups benefit, perhaps a tiered approach will be needed, one where different MFIs cater to different segments of the poor.

In order for such an approach to succeed, Caribbean states will need to provide sufficient institutional capacity to enable MFIs to successfully means-test the different segments of the population to ensure that the correct segment of the poor benefit from the services available. Unfortunately, due to the lack of efficient means-testing and credit rating in the Caribbean, MFI clients who are members of the non-poor benefiting from low-interest loans and crowding out those persons that are in real need.

Another method of ensuring this crowding-out effect does not occur is the utilisation of higher interest rates so that those who have access to other sources of finance at a lower interest rate will not utilise the microfinance network. However, in the Caribbean this appears to present an ethical problem to microfinance providers and their donors. This ethical problem stems from a belief that it is 'wrong' to profit from the poor, and that the poor cannot afford market interest rates. However, it needs to be appreciated that the 'cost' of credit is not so much the problem as the availability of credit for the poor.

Until these broad issues are addressed adequately, the MFI movement in the Caribbean will continue to flounder without any real direction. If the poverty issue is to be addressed successfully it will need to be recognised that once these issues are addressed, a specific understanding of the poor is needed. It is known that the main characteristics of poverty in the Caribbean are rural, female, and young, with a strong link to low educational achievement. Therefore, if these characteristics are to be addressed, MFIs

will need to increase accessibility for rural populations, adopt explicit programs for the youth and females, and establish human resource development programs either internal to the MFI or in conjunction with other able organisations. However, and in relation to the tiered approach mentioned earlier, the very poor will have different educational needs to the marginal poor, so an approach that is appreciative of this will need to be adopted. This is especially in relation to programs that provide minimalist microfinance service to marginally poor microentrepreneurs, and integrated programs that provide both microfinance and human resource development services to the poor and very poor.

In relation to the very poor, an important characteristic that policy-makers will need to be cognisant of is that the very poor have been characterised as:

- Very risk averse (not entrepreneurial) and therefore more likely to be employed rather than self-employed
- Likely to be excluded from microcredit due to selection bias (self de-selection, excluded in group initiatives)
- Lack collateral
- Include mainly the youth and females

Due to these characteristics the very poor would probably benefit more from human resource development that can increase their employability rather than approaches that increase their entrepreneurial ability. This approach to the very poor is not to preclude their opportunities to undertake entrepreneurial activities, just as recognition that their opportunities are constrained by their poverty status.

As can be seen there are several implications emerging from the current study. From experience and recent observations by the Project Team, the problems experienced and potential solutions for the Caribbean can be categorised as follows:

- **Small size:** to alleviate this problem one of the potential paths is regional co-ordination to achieve economies of scale perhaps through the use of an apex institution in conjunction with community banks.
- **Inefficient MFIs:** need to train managers and staff to increase efficiency and increase the number of loans per loan officer to reduce costs
- **Lack of Savings-led Strategies:** need to reform the financial environment to take advantage the benefits of savings-led approaches- source of cheap capital and the provision of a natural client pool
- **Bias towards small enterprises:** need a change in mind-set to realise the poverty alleviation and employment generation potential of microenterprises
- **Heavy reliance on subsidies/government intervention:** shift towards the creation of efficient NGOs where hard budget constraints can maintain efficiency if subsidies still utilised, or the formation of trans-regional apex MFIs to achieve economies of scale and potential self-sufficiency

In summation, Caribbean MFIs, governments and policy-makers will need to decide explicitly what direction they intend to follow. If the decision is that poverty alleviation

is the primary goal, then steps need to be taken to ensure success. These steps include, firstly, ensuring that the poor benefit, secondly, that the support offered is relevant in terms of their needs and characteristics, and finally, constant review to ensure the systems continue to operate to the benefit of the target population to avoid scaling-up.

Future Research Issues

The research has risen many issues that will need to be addressed. Firstly, as mentioned above, a clear understanding of the ‘poor’ is needed, including an appreciation that the ‘poor’ is not a homogeneous group. The identification of the target group is needed, therefore systems will need to be established to ensure this.

Following on from this, the different finance needs of these groups will also need to be investigated to ensure that services are in sufficient demand to ensure the cost of provision is met with benefits in the economic **and** social sphere.

In addition to these poverty-related issues, it will also be important for practitioners to understand the institutional needs of either a tiered and/or apex approach to microfinance in the Caribbean if the system is to be restructured to provide a more productive use for donor monies.

Until these issues are addressed adequately, the MFI movement in the Caribbean will continue to flounder without any real direction.

ABBREVIATIONS

AID Bank	Agricultural, Industrial and Development Bank of Dominica
BYBT	Barbados Youth Business Trust
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CHF	Dominican Cooperative Housing Fund
DREP	Dominica Rural Enterprise Project
EIB	European Investment Bank
FundAccess	Agency for Microenterprise Development
ICDF	International Cooperation and Development Fund
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
NDFD	National Development Foundation of Dominica
OAS	Organisation of American States
OECS	Organisation of Eastern Caribbean States
PCW	Pinelands Creative Workshop
PEFS	Pinelands Enterprise Facilitation Services
USAID	United States Agency for International Development
UWI	University of the West Indies
WTO	World Trade Organisation
YES	Youth Entrepreneurship Scheme

1. Introduction

The following study was funded to identify experiences and best practices by microfinance institutions (MFIs) in the Caribbean, utilising data gathered in Barbados and Dominica.

Since the early 1970s, with the formation of the Grameen Bank in Bangladesh by the eminent Mohammed Yunus, the microfinance movement has spread throughout the developing and developed world as a weapon in the fight against poverty. However, success of the Grameen model has not been followed by success in different economic and social settings. These failures have been due to several factors including a lack of appreciation of context (social, cultural and economic), and divergent missions between donors, MFIs and the poor. In some case the poor are excluded altogether as MFIs 'scale-up' operations to reach more 'bankable' clients.

The aim of the current study is to assess the main contextual issues in the Caribbean that relate to microfinance and entrepreneurial development, drawing on experiences by MFIs and clients to identify best practice for the English-speaking Caribbean as a largely homogenous region.

These aims are met through country studies, assessing the main political, economic and social features relevant to the delivery of microfinance, organisational studies of MFIs and surveys of clients.

These methodological approaches are used as the small states of the Caribbean cannot arbitrarily adopt microfinance approaches that have proved successful in other nations as these successes have occurred under different contextual environments. The Caribbean region is constrained in its execution of sustainable microfinance for several reasons, related mainly to size (and the inability to achieve economies of scale in mission delivery), culture and its effect on repayment rates and use of support services, and a lack of a coherent policy to compensate for the market failure in the financing of microentrepreneurs. In addition to this, human resource capacity is inadequate for effective delivery.

These market failures will need to be ameliorated on three levels, the governmental level, the financial sector level and the individual MFI level. Governments will need to facilitate the dissemination of information to enterprises as well as instigate a regulatory environment that is conducive to the execution of sustainable microfinance. This concept of sustainability is not necessarily in terms of self-sufficiency. Sustainability in this sense will need to relate to the efficient use of donor funds as it is difficult in the small economies of the Caribbean to achieve the economies of scale necessary for self-sufficiency in microfinance. In this sense the economic costs and social benefits of microfinance need to be balanced, in the image of Yunus (1998) where the social value of the provision of such services are considered as worth the economic costs. Even the Grameen Bank is not self-sufficient.

Study and understanding of the MFI sector in the Caribbean is greatly needed. The current study is of great relevance to development in general and in particular to the Caribbean. The importance to the Caribbean, as opposed to other regions is the inherent problem of size, retarding attempts to achieve economies of scale in the supply of

microfinance services. The Caribbean countries will need to take an alternative approach to the provision of microfinance to the poor due to the specific contingent circumstances these nation states find themselves involved in. In addition to this, the study is important to the region due to the dearth of research on MFIs in the Caribbean region, with most studies using examples from Asia and Latin America.

A different approach needs to be facilitated in the Caribbean. MFIs in the Caribbean are suffering from a lack of outreach, a lack of self-sufficiency, and inefficiencies at the level of the institution. Due to these problems, the poverty alleviation and employment generation effects of these institutions are not being fully realised. If these organisations can be restructured in light of the restructuring within the Caribbean economies in general, as well as with an appreciation for the needs and characteristics of the poor, these organisations can contribute substantially to the development of these small nation states. This can be achieved through studies of this type that can assist in building the institutional capacity of these MFIs, with the mission to increase the quality of the labour force and take advantage of the employment effects of microenterprise development. This is especially true in light of the observation by von Stauffenberg (2000) that there is a lack of an adequate institutional framework in the Caribbean and the recognition that there is a real need to analyse what is working and apply it in context to achieve success.

Overall there are several important issues that are important to the Caribbean and that can be ameliorated by the development of an efficient and constructive MFI sector. These issues include:

- The lack of human capital among the youth
- High unemployment among the youth
- High levels of poverty
- Gender differentials in the labour market
- Seasonality in the Caribbean (due to reliance on tourism and agriculture) which can severely disrupt the income stream of the poor.

1.1 Background of the Study

This study has been funded by the IADB to meet the terms of reference as outline in Box 1. The study selected four (4) MFIs in three (3) Caribbean countries (Barbados, Trinidad and Tobago, and Dominica). However, due to a desire by the Trinidadian MFI, to protect its proprietary knowledge and processes, they declined to participate at the last minute while in the data gathering phase of the research. This was despite very positive initial responses by a number of its senior and executive staff. The following study therefore concentrates on meeting the requirements of the IADB, as shown in Box 1, by concentrating on three MFIs and their clients (two institutions in Barbados and one in Dominica).

Box 1: Requirements of the IADB

1. Identify the reasons behind the success and failure of a selection of microfinance institutions (MFIs). This will be in order to garner lessons for the creation of new institutions that can increase productivity and the income of microentrepreneurs and their employees
2. The exit rate will be one of the indicators of the micro-finance institution: the percentage of users to become clients of commercial banks
3. Detailed analysis of the economic characteristics and credit history of debtors over time. Only a selected number of institutions need be considered. Availability of time periods from individual debtors will be a key element in the selection of institutions
4. Project is to examine the characteristics of the institutions- will the goal of identifying characteristics that appear to have a relation to the degree of success
5. Institutions should be described using the following variables:
 - Sources of funding
 - Types of services offered
 - Credit technology
 - Interest rates charged to clients
 - Long-term sustainability as a financial institution: capital return rate, social return rate
 - Legal framework of the institution
6. Some surveys of the beneficiaries must be conducted
7. Sample of experiences to analyse: not less than 2 institutions and 2 different countries. Proposals that include cases in the English-speaking Caribbean will be especially considered

In addressing these terms of reference, several important points need to be noted:

- 1) Failures lie at several levels. Firstly, the lack of a suitable regulatory framework is severely hampering the growth and success of this selection of MFIs. Secondly, a concentration on small enterprises rather than microenterprises is retarding the poverty alleviation potential of these MFIs. A lack of human capital and organisational structure is not allowing MFIs to exploit the full potential of microfinance. Fourthly, there is a severe lack of information dissemination where microenterprises are suffering a lack of information on markets and a lack of access to finance but are not utilising the services that are available. Lastly, cultural elements have permeated the microfinance system in the Caribbean where clients are viewing loans as handouts rather than as loans, leading to poor repayment records. This is a view enhanced by excessive government involvement where MFIs are pressured to make funds “attractive” (cheap) to poor clients.
- 2) The exit rate does not appear to be a major indicator of success as MFI clients have previous loans and accounts with commercial banks and may simply be using the microfinance system to exploit sometimes-lower interest rates as well as ‘softer’ loan

terms. The crowding-out effect is frequently seen with subsidised loan packages. This leads to an important issue, that targeting and identification of clients needs to be more vigorous and conducive to the mission of donors and MFIs. In addition, satisfaction with the loan packages by these MFIs has led to a form of loyalty where clients prefer to stay with the institution rather than approach commercial banks. In addition, the exit rate may not be a suitable measure in the Caribbean due to a maturer financial sector where many MFI clients are seen to have an established relationship with a commercial financial institution prior to joining the MFI. It may also be inappropriate as most loans are to small, not micro, businesses- indicating a more “bankable” segment of the population where MFIs are scaling-up and meeting competition from commercial banks scaling-down.

- 3) The credit history of clients is difficult to establish due to lack of organisational capacity in terms of monitoring of client’s progress. This is especially relevant in terms of a lack of use of technology in client monitoring. Most information on client’s progress was assessed from the survey of clients and archive files from the MFI itself. In addition, the lack of an extensive credit rating agency is hampering the sustainability of MFIs, where clients are aware that default with one institution will not result in refusal from another.
- 4) The role that the characteristics of the institutions play in determining success or failure is minor, related mainly to staffing problems and occasionally a failure to follow the mission of the MFI and the wishes of donors. Success or failure lies mostly external to the organisations and is closely related to the regulatory framework, a lack of information dissemination, and size. Although institutional capacity within the MFI will undoubtedly need to be improved- such improvement will need to be paralleled in the external environment, where MFIs are permitted to charge higher interest rates and encouraged to increase their depth of outreach.
- 5) Gathering information on the MFIs was in itself difficult in some respects due to a protective culture that appears to pervade in the Caribbean. However, successful strides are being made in raising the awareness of the benefits of co-operation and networking among MFIs, especially when they serve different strata of the population. Time constraints on gathering data are further exacerbated by staffing constraints- making the period long and arduous.
- 6) Several surveys of MFI clients were made, demonstrating a general level of satisfaction with the services of these MFIs. Surveys of non-clients however revealed a lack of knowledge of the existence of such institutions, or when they were aware, there was an apprehension to participate due to previous difficulties with such institutions.
- 7) Gathering data in two such different countries (size, infrastructure, and institutional capacity) and such different institutions proved difficult due to time and distance constraints, especially in relation to the rural nature of the Dominican sample.

The rest of this report is structured as follows. In the next section, brief country profiles are given for Barbados and Dominica. Following this the literature review covers the main issues to emerge from the global microfinance literature as well as the few studies that have involved the Caribbean.

Sections 4 and 5 will deal with the individual countries, Barbados and Dominica respectively. Following this, Section 6 provides an evaluation of the complete sample, highlighting the main experiences of all the MFIs included in the study, and makes recommendations for best practice. This is followed by Section 8, which reviews the main policy implications of the study.

Overall the MFIs to be included in the study have the following characteristics:

- 1) Barbados Youth Business Trust (BYBT) is a private sector initiative that provides loans to both start-up and existing businesses. BYBT provides two types of loans, 1) loans less than US\$2,500 that require no collateral, and 2) loans up to US\$12,500, which require the entrepreneur to produce a business plan and undertake to be guided by a mentor. Unlike many MFIs in the region it does not require collateral on any of its loans. Between 1997 and 2000 BYBT had disbursed 87 loans, which, by July 1999, 15 had already been repaid. The Trust is dependent on charitable donations for its survival.
- 2) Pinelands Enterprise Facilitation Services (PEFS) is a division of the Pinelands Creative Workshop (PCW) that operates as a provider of both finance and support services to microentrepreneurs. PEFS mission is to provide an alternative and innovative approach to financing microentrepreneurs. PEFS outstanding loan portfolio (all clients not just microentrepreneurs) is approximately US\$124,000 owed by just over 100 clients. The average loan size is less than US\$1,500. With restructuring, since January 2000, PEFS has managed to achieve a healthy repayment rate of 88%. Women comprise over 70% of PEFS clients.
- 3) The National Development Foundation of Dominica (NDFD) is one of many National Development Foundations set up in the Caribbean in the 1980s with funding from USAID to provide credit and training to small entrepreneurs. Von Stauffenberg (2000) has noted that of all the institutions in his study, that NDFD's management was the most entrepreneurial in their approach to microfinancing. Despite this approach however, NDFD is losing money and suffering severe liquidity constraints. This is mainly due to the fact that the interest rate is too low to even cover operating expenses, and the Dominican finance market is heavily saturated, constraining the development of NDFD. Since USAID's support halted in the mid-1990s, NDFD's main source of funds is from the European Investment Bank (EIB), Caribbean Development Bank (CDB) and the International Fund for Agricultural Development (IFAD), among others.

2. Country Backgrounds

The following section will highlight the main characteristics of the economies being studied (Barbados and Dominica). The main poverty data for the two countries is shown in the Appendix, Table A1.

2.1 Barbados

Location and Population

Barbados is the easternmost island of the Caribbean, located at 13 degrees north and 59 degrees west. It is a small, relatively flat and very densely populated country with an estimated 276,900 people living on only 416 km² of land. Census data for 1990 shows that a little over 40% of the total population was aged under 25 years.

Government

The form of government is a constitutional monarchy with a bicameral Parliament. There is no local government, but a Social Partnership involving the government, the private sector, and the trade union movement co-operates on national, social and economic issues. The Governor-General, Sir Clifford Husbands, acts as Head of State on behalf of the monarchy and shares executive powers with the Prime Minister, the Right Honourable Owen Arthur, and his Cabinet, the Leader of the Opposition, the Privy Council, and the Director of Public Prosecutions. The ruling party is the Barbados Labour Party (BLP), and the Democratic Labour Party (DLP) forms the opposition. Elections were last held in 1999, and are next due to be held by 2004. The political landscape has been mostly stable since independence from the United Kingdom in 1966.

Economy

The real gross domestic product (1974 prices) for the year 2000 was US\$ 494.1 million. Estimated per capita income for the same year was US\$ 9,714.26. Services were the greatest contributor of GDP to the economy, consisting primarily of the offshore financial sector and tourism industry. Sugar cane production however still plays an important role in the economy.

Employment

The labour force participation rate for 1998 was 67.7%. Government services employed the greatest number of people, while 14,300 persons were categorised as own-account workers (ILO, 2002^a), a rough proxy for the number of microenterprises in the island.

Unemployment

The provisional figure for rate of unemployment at the end of the third quarter of 2001 was 10.3%, with 8.8% for males and 12.0% for females. This was a slight increase from the previous rate of 9.3% at the end of the last quarter of 2000.

Education and Health

Primary school enrolment in 2000 was 29,658, and secondary enrolment for the same year was 21,426. In 1997, the pupil-teacher ratio was 22 at the primary level and 17 at the secondary level. The infant mortality rate for 1999 was 10 per thousand live births.

In the same year, figures for life expectancy stood at 73.8 years for males and 78.8 years for females.

The Business Environment

The net inflow of foreign direct investment was US\$ 17.4 million in 1999. The import/export ratio for the same year was US\$ -748.9 million, and net international transfers (private and official) were US\$ 70.1 million. Inflation at the end of 2000 was 2.4%, and had risen to as much as 3.6% by the end of the third quarter of 2001.

Industrial Location and Enterprise Size

The majority of industrial parks are located in suburban districts. Most businesses in Barbados tend to be small or micro-sized.

Unionisation

The Barbados Workers Union (BWU) was the largest trade union with a membership of approximately 15,000 in 1996, followed by the National Union of Public Workers (NUPW) with an estimated 6000 members. Unions have recently complained of the difficulty in representing workers as their membership numbers are decreasing and the members are not easily mobilised.

Poverty and Human Development

Barbados ranks third in the developing world with a Human Development Index of 0.864. In spite of a high annual per capita poverty line of US\$ 2,751.00, (US\$229.25 per month) there is a low incidence of poverty. Poverty is most prevalent in the rural parishes and the number of poor households headed by females is almost twice the number headed by males.

Access to International Donor Funding

Barbados is no longer eligible for certain types of World Bank funding due to its high per capita income. However it is often able to secure funding due to its reputation for creditworthiness.

2.2 *Dominica*

Location and Population

Dominica is the largest and most northerly of the Windward Islands. It is located south of Guadeloupe and north of Martinique at 15 degrees north and 61 degrees west. Volcanic peaks to a height of 1,524 metres dominate the country, which has an area of 750 km². Population was estimated at 75,530 in 1998, of which 5,280 were own account workers (ILO, 2002^b), a rough proxy for the number of microenterprises in the island.

Government

Dominica is a republic with a unicameral Parliament. The structure of government is a constitutional and legal local government system. The Head of State, who is the President, His Excellency Vernon L. Shaw, shares executive powers with the Prime Minister, the Right Honourable Pierre Charles, and the Cabinet. The ruling party is the Dominica Labour Party (DLP), which forms the government in coalition with the Dominica Freedom Party (DFP). The United Workers Party (UWP) forms the opposition. Elections were last held in 2000, and are next due to be held by 2005. Following civil disruption in the late 1970s and almost complete decimation by Hurricanes in 1979, the country has been mostly stable since the early 1980s.

Economy

The real gross domestic product (1990 prices) for the year 1999 was US\$ 165.9 million. Estimated per capita income for the same year was US\$ 3,482.94. Services accounted for a significant percentage of GDP, although agriculture remains important to the economy. However, the services sector is growing and the agricultural sector is contracting.

Employment

The provisional figure for the labour force participation rate in 1997 was 67.0%. The agriculture, hunting and forestry sector employed the greatest number of people. Figures also show that skilled agriculture, fishery and forestry are the commonest occupations after craft and trade.

Education and Health

Enrolment in 1998 was 13,418 for primary schools and 5,772 for secondary schools. In the same year, the pupil-teacher ratio was 22 at the primary level and 18 at the secondary level. The infant mortality rate in 1999 was 24 infant deaths per thousand. In 1997, life expectancy was 64.8 for males and 72.8 for females.

The Business Environment

The net inflow of foreign direct investment was US\$ 13 million in 1999. The import/export ratio for the same year was US\$ -49.9 million, and net international transfers (private and official) were US\$ 10.5 million. Inflation at the end of 2000 was 0.33%, and had risen to 0.72% by the end of the second quarter of 2001.

Unionisation

Statistics obtained from the International Labour Organisation show that the largest union is the Civil Service Association with 1800 members in 1996.

Poverty and Human Development

There is little quantitative data on the poverty situation in Dominica. The country has been classified as a less developed country (LDC) by CARICOM, and has a human development index of 0.798 (1998). In 1994 it was estimated that up to one third of the population was living in poverty. A Poverty Assessment Study (1995) done by the British Development Division in the Caribbean noted that in addition to urban squatters, there were also significant amounts of rural poor among small and subsistence farmers, fishermen, and the indigenous Carib community.

Access to International Funding

Dominica is eligible for World Bank funding due to an exception which has been made for some small-island economies, which may otherwise not have access due to a lack of creditworthiness. The funding is granted to support programmes that will strengthen creditworthiness, and in the specific case of the National Development Foundation, funding is received from the EIB, the CDB, IFAD, and others.

3. Literature Review: Experiences and Best Practice

MFIs have been established world-wide in both the developed and developing world with the aim of poverty reduction through enterprise development, by the provision of financial services to the poor (Gulli & Berger, 1999). Although “...*not a panacea for development problems*” (Woller & Woodworth, 2001: p.279) it has clearly been demonstrated that MFIs do have some role to play in the development process and poverty alleviation, especially when access to credit has been touted as a serious problem for poor microentrepreneurs (Gulli & Berger, 1999).

The very poor suffer several problems that make access to finance difficult and affects their ability to make productive use of what resources they have. These problems include their lack of skills, discrimination, and social exclusion, which have all tended to exacerbate the risk-averse nature of the poor (Bhatt & Tang, 2001) and they have hence self-excluded themselves from participation in programs such as those promoted by MFIs.

Overall, the microfinance literature addresses a number of issues relevant to the proposed study. In addition to a number of conceptual issues there is also an abundance of case studies from a variety of perspectives, most interestingly from Rahman (1999), which diverts from the usual debates of the shortcomings or benefits of the microfinance movement in general. Rahman paints a realistic picture of the effects of the *ideal* MFI, the Grameen Bank in Bangladesh, on the women its public transcript³ claims to support. These on-the-ground reports are needed to assess the real effect of such programs, where increased incidences of suicide and violence against women are seen. Such observations raise real concerns as to the effectiveness of such programs. Apart from such anthropological studies, there are a variety of issues that have been addressed elsewhere, and need to be addressed in the Caribbean. These issues include:

- Should MFIs aim to be self-sufficient?
- What should be the role of subsidisation?
- Is microfinance a suitable tool to address poverty in all of its forms?
- Should MFIs adopt different repayment schedules for different types of enterprise (may they be manufacturing, trade or service orientated)?
- What is the effectiveness of credit versus savings-led strategies?
- What should the role of governments be?
- Can self-sufficient MFIs reach the very poor?
- What of the issue of leakage?
- Are group lending strategies superior to individual lending strategies in reaching the very poor?

Guiding these various issues are a number of operational approaches. These are shown in the table below. Although these approaches operate at opposite ends of a spectrum, they are rarely seen in practice, with most institutions operating somewhere in-between these polarised perspectives.

³ The public transcript is the explicit mission of the institution.

Table 1: Polarised Perspectives in Microfinance

Breadth of Outreach- aim is to reach many of the poor	Depth of Outreach- aim is to reach the poorest of the poor
Institutionalist	Welfarist
Minimalist	Integrative
Self-sufficiency	Subsidisation
High Interest Rates	Low Interest Rates
Market-led	Government-Influenced
Group Lending	Individual Lending
Credit-Led Approach	Savings-Led Approach
Urban Operations	Rural Operations

These are but a few of the issues involved. What the literature has shown is that there are a variety of perspectives on microfinance and its role in poverty alleviation and microenterprise development. In terms of MFIs as institutional entities, the debate has centred on whether they should be minimalist (financial services alone) or integrated (finance and human development services) in their approach to serving the poor, and whether the correct direction should be to attempt to achieve self-sufficiency or concentrate on reaching the poorest of the poor while relying on subsidised funding from governments or donor agencies. Other debates include the role of savings-led strategies, group versus individual lending and the level of interest to charge.

Related to these debates, several points from the relevant literature need to be appreciated, including:

- The poor demand savings services as well as credit (Gulli & Berger, 1999) and credit alone will not solve the multi-faceted problems of the poor (Bhatt & Tang, 1999)
- Integrated programs are better at alleviating poverty than minimalist programs (finance services only) because: “...poverty is not simply a lack of funds, but... vulnerability, powerlessness, and dependency. Development finance institutions that offer only traditional microfinance services are not as effective as institutions that also help borrowers overcome the psychological burdens of poverty.” (Bhatt, 1998 reproduced in Bhatt & Tang, 2001: p. 323). What Bhatt is saying here is that the poor lack the ability to make productive use of the funds available and therefore other inputs are needed
- Leakage will need to be avoided, a serious problem in microfinance where wealthier clients push out poorer clients due to the fact that the poor are harder to identify, women are excluded due to social/cultural practices, the very poor lack self-confidence and that the poor are risk averse and tend to be excluded from group lending schemes (Woller & Woodworth, 2001)
- Self-sufficient MFIs have advantages in breadth of outreach while subsidised MFIs have advantages in depth of outreach (Morduch, 2000)

- Surveys have shown that most MFIs reach more “upper poor” than the very poor (Hinkson, 2001)

This last point is especially relevant to the Caribbean, where, due to a well developed financial infrastructure, and scaling-up by MFIs, there is increased competition between MFIs and commercial banks for clients. This is a trend that seems anomalous if microfinance is seeking to serve the “unbankable”.

The example of the Grameen Bank in Bangladesh, and subsequent attempts to emulate it, has shown that the impact of such programs can be positive if these issues are considered in context. The Grameen Bank substitutes material collateral for social collateral (pressure from community/lending groups) which appears to work in this particular setting, with 94% of its clients being women and a 98% repayment rate (Rahman, 1999)

The Grameen Bank has therefore managed to achieve some promising results in the environment they are operating in, but some attempts to emulate it have failed due to a lack of appreciation of context. This has led to the call from Morduch (1999) for a return to the type of experimentation, innovation and evaluation, which led to the success of the Grameen Bank. Although the actual success of the Grameen Bank in achieving its mission has been called into question (Rahman, 1999; Bhatt & Tang, 2001), its foundations are grounded in an appreciation of culture and the specific circumstance of the Bangladeshi poor by Muhammad Yunus, the founder of the Bank.

Other approaches that have attempted to replicate the Grameen Bank have not been encouraging (Bhatt & Tang, 2001), experiencing high default rates, a lack of outreach, a high dependence on subsidies and a tendency for not “including the excluded”, as often seen in the Caribbean (Wenner & Chalmers, 2001).

Despite these problems, *successful* MFIs have demonstrated that microfinance does have a role to play as a grassroots approach to development and poverty alleviation. Such MFIs include BancoSol in Bolivia, Kredit Desa in Indonesia, and the village banks based in the model developed by Foundation for International Community Assistance (FINCA) in South America (Morduch, 1999).

From an analysis of these organisations and related conceptual issues, several policy recommendations have been made as regards the formation of more effective microfinance programs, from both institutional and poverty alleviation perspectives. These policy recommendations include:

- Reform the enabling environment in terms of the macroeconomy, laws, regulations and institutions that impede/promote MFI development (Woller & Woodworth, 2001)
- Collaboration between state and MFIs “...to define the role of microcredit in development policy” (Woller & Woodworth, 2001: p. 278), and to avoid excessive political interference
- Cost of credit is not the real issue- higher interest rates can be charged without compromising outreach by excluding richer borrowers who have access to commercial finance but prefer subsidised loans if available (Morduch, 2000). “Absolutely cheap credit is typically the problem. Relatively cheap credit can in principle work” (p.624)

- Differentiation in financial products- interest rates to avoid a bias against manufacturing microenterprises due to its slow rotation of capital (Gulli & Berger, 1999)
- Government involvement is a problem, they however have a “*critical indirect role*” in the microfinance movement (Morduch, 2000) by enhancing the regulatory environment and enhancing technical effort and entrepreneurial development in the education system. This is especially important for the Caribbean
- Need for centralised credit rating agencies as MFI movement advances (Morduch, 1999). Due to the small size of nation states in the Caribbean, this may be difficult to achieve if undertaken unilaterally due to the inability to achieve economies of scale
- Non-Governmental Organisations (NGOs) are more reliable than government or private sector initiatives in enhancing the development of the poor and the empowerment of women, although subsidies can lead to- inefficiency, limited outreach, high default rates and unsustainable operations (Bhatt & Tang, 2001)
- There is a serious need to address the different segments of the poor, as they are not a homogeneous group. For the poorest of the poor, who lack skills, are discriminated against, and are risk averse, institutional plurality is needed as credit alone will not solve their problems, other services are needed to advance their individual human development (Bhatt & Tang, 2001; Lashley, 2001) and livelihood opportunities
- The use of apex institutions to provide funding through autonomous community banks may prove useful in the Caribbean context (Cervan, 1999).

In addition to these recommendations, Morduch (1999) makes an important observation:

“...promise of microfinance can only be realised by returning to the early commitments to experimentation, innovation, and evaluation” (p.1572).

In the Caribbean in particular, von Stauffenberg (2000) has shown that not only are the issues highlighted above important, but that there are several specific problem areas that need to be overcome, primarily the problem of achieving economies of scale and eliminating inefficiencies. Von Stauffenberg (2000), one of the few studies to specifically consider the MFI issue in the context of the Caribbean, makes several useful observations that served as a starting point for the current study. These observations include:

- Few MFIs in the Caribbean are sustainable despite being in operation for over 15 years
- Caribbean MFIs are heavily subsidised with a great deal of government intervention to keep the interest rate low, which has led to a lack of incentives for efficiency and self-sufficiency
- Low portfolio yields and high operating expenses have eroded Caribbean MFI's equity
- Small, not microenterprises are the main focus of microfinance in the Caribbean with most loans greater than US\$1000 (true MFIs usually lend in the region of US\$300-US\$700)
- There is little use of savings-led strategies due to regulations in the financial sector

- Most MFIs are small in terms of number of clients and loan portfolio, thought to be mostly due to the small size of the market in terms of population, and as starkly observed in Dominica, the high concentration of commercial banks with which MFIs compete
- Portfolio at risk is in excess of 20%, whereas anything greater than 10% is considered a cause for concern
- Repayment problems are believed to stem from political messages that see default as acceptable which leads to the creation of a bad repayment culture, creating an “...ambivalence about defaulting on government-backed loans” (Woller and Woodworth, 2001: p. 620)

Von Stauffenberg (2000) identifies two of the reasons for these failures in the MFI sector in the Caribbean, firstly the well-developed commercial banking sector which is crowding out MFIs, and the high level of government subsidies which is creating distortions and inhibiting the growth of MFIs. In order to overcome these inefficiencies, von Stauffenberg recommends that there is a serious need to limit subsidised funding, improve the training of MFI managers and staff and improve management information systems. This call to improve the training of managers and staff is especially important due to the inefficiencies seen in the MFI sector in the Caribbean, where loan officers on average only manage 150 loans, compared with 300-500 in efficient MFIs, and spending on loan administration and appraisal is more than is earned from interest.

Wenner and Chalmers (2001) provide another useful study of the Caribbean microfinance sector in comparison to a selection of its Latin American counterparts. Wenner and Chalmers find that MFIs in the Caribbean lack the same level of outreach and sustainability as their Latin American counterparts due to different historical legacies. The authors cite general economic stability and a strong government involvement in microfinance as the main constraints to the formation of a strong microfinance sector in the Caribbean.

3.1 Experiences & Best Practice: Lessons for the Caribbean from the Literature

In addition to the recognition by Wenner and Chalmers (2001) as to these issues, they also recommend a number of strategic interventions including:

- Education of policy-makers and operators as to appropriate interest rate setting
- Improve the enabling environment for sustainable microfinance (improvement of secured transaction frameworks, credit bureaus)
- Encourage the participation of the commercial financial sector
- Institutional strengthening
- Take advantage of the highly developed financial market in the Caribbean and develop new approaches to microfinance to suit the Caribbean

There are a variety of other lessons to emerge from the literature that policy-makers and microfinance providers in the Caribbean will need to note. These lessons include a need to explicitly align the goals and missions of donors and MFIs by placing the institution within a specific area of the polarised perspectives outlined in Table 1. For example, in

the study of the NDF in Dominica, donors are seen to send conflicting messages where, for example, USAID refused further funding of loans as arrears were too high and the interest rate was too low. In contradiction, the European Investment Bank has insisted that their funding should be used as grants to subsidise the interest rate charged to clients on a 50/50 basis. However in addition to this, there are a number of other important points to note, including:

- The poor demand credit and savings (Gulli & Berger, 1999)
- Integrated programs are better for alleviating poverty (Bhatt & Tang, 2001)
- Leakage needs to be avoided, and in order to achieve this MFIs will need to charge an interest rate which is sufficiently high to discourage richer clients while at the same time not pricing the poor out of the market
- It must be noted that the very poor are generally risk averse- so they will require more than just finance
- NGOs have been noted to be better than governments at managing MFIs (Bhatt & Tang, 2001). Especially if NGO means non-governmental and government interference is terminated
- Flexibility is needed when dealing with the poor, as is often seen in Barbados with PEFS
- Apex institutions and autonomous community banks can be very successful in the delivery of microfinance
- It also needs to be noted that subsidisation leads to inefficiency- there is therefore a need to instigate management systems that encourage efficiency, such as strict budgetary controls

Overall, one of the main lessons from the literature, and borne out in one of the surveys, was that for the small island states of the Caribbean, community banking is an important avenue to explore- especially as it relates to access, and the facilitation of character-based lending. Although it is claimed that this form of organisation will not be self-sufficient, if operated through an apex institution that has a Caribbean-wide remit, there may be a chance for success as this will be one of the only avenues through which economies of scale can be achieved.

4. Analysis of Barbados Sample

4.1 The Microfinance Environment in Barbados

There are a variety of institutions that claim to offer microfinance in Barbados. Loan sizes are generally higher than would be expected for microfinance, and, as seen across the Caribbean, should be considered as small not micro (von Stauffenberg, 2000), much higher than the US\$300 to US\$700 range normally cited for MFIs. These MFIs in Barbados include the following:

- The Agency for Microenterprise Development (FundAccess) is a private company that provides training, technical assistance and access to credit. Initial loans are between US\$350 to US\$10,000. Subsequent loans are set at a limit of US\$25,000. Collateral and referees are required and many microentrepreneurs claim the process to be long and arduous, especially as others were reluctant to act as guarantors. In addition to this, clients are also expected to complete a two-day microenterprise training program. Repayments are flexible and stretch between one and three years.
- The Urban Enterprise Fund is run by the Barbados Government and lends up to US\$12,500 for start-up and expansionary purposes. The mission of the organisation is to reduce urban unemployment, however, despite this, collateral is still required.
- The Rural Development Fund is another government-run entity that offers up to US\$50,000 for start-up and existing businesses to purchase fixed assets and to use as working capital. Repayment is due within three years of the granting of the loan, and like the other schemes, requires collateral.

All of these 'MFIs' are strict asset-based lenders, while the two MFIs chosen for the Barbadian element of the study have some element of character-based lending. The first MFI studied, the Barbados Youth Business Trust (BYBT) utilises a mix of asset and character-based lending, depending on the subjective judgement of the person assessing the loan. The second MFI studied, Pinelands Enterprise Facilitation Services (PEFS), solely utilises a character-based lending method, based on the local community knowledge of the manager, and the parent organisation, the Pinelands Creative Workshop (PCW).

In addition to these 'MFIs', there are also a number of institutions and schemes that aim to promote the cause of micro and small enterprises. Included here are:

- The Small Business Act which aims to create a more enabling environment for the development of small business by providing funds to become incorporated as well as offering tax incentives for business development
- A small business development unit
- A credit guarantee scheme for small businesses offered by the Central Bank of Barbados to financial institutions as protection against credit offered to small enterprises

- Barbados Investment Development Corporation has recently developed a Small Business and New Enterprise Division to provide support services and training for micro and small enterprises
- Small Business Association to represent the interests of smaller enterprises in the policy-making arena, as well as in the co-ordination/networking between small enterprises

The rest of this section will analyse the results of the Barbadian element of the study, beginning with the Barbados Youth Business Trust (BYBT). This is followed by an analysis of Pinelands Enterprise Facilitation Services (PEFS).

4.2 Barbados Youth Business Trust (BYBT)

4.2.1 Background

BYBT was founded in 1997 as a charitable organisation under the Barbados Income Tax Act providing training and business development loans to the youth⁴. The mission of BYBT is to assist in the development of young people in terms of self-confidence, economic independence, fulfilling ambitions and contributing to the development of their community. BYBT aims to achieve this mission through the promotion of self-employment and job creation.

The Trust is operated by a board of between three and seven trustees, and an executive council that supports the manager between trustee meetings. The manager is responsible for the day-to-day operation of the Trust.

BYBT survives on support and charitable donations from a number of institutions, both domestic and international, including: the Barbados Government, the Central Bank of Barbados, a number of commercial banks and financial institutions, the British and Canadian High Commissions, a number of private sector businesses and the Prince's Youth Business Trust of the United Kingdom. The variety of sources from which funds are obtained can however lead to conflicts in terms of the different missions of the donors. The amelioration of MFI mission and donor mission is therefore an important point to consider when developing a menu of best practices for BYBT.

The Trust operates from one branch in the centre of the capital Bridgetown enabling easy access for clients. Although this central location may increase access, the two (2) employees still have a wide area to cover in terms of the checking on delinquent clients, who by their very nature will not visit the offices of the Trust. This adds time and monetary constraints to the operation of the Trust. Therefore, despite a good location in terms of outreach, the Trust suffers in terms of high monitoring costs due to a shortage of staff coupled with a wide area to cover as there clients are spread throughout the island.

BYBT's strategy centres on providing three main types of loan:

- 1) Business start-up up to US\$12,500 for acquiring fixed assets, working capital, or training

⁴ BYBT define the youth as persons aged 18-35 years

- 2) Business development loans up to US\$12,500 are available during the first 5 years of operation when the business cannot secure capital from other sources for expansion. These loans must be matched from other sources
- 3) Educational loans up to US\$500
- 4) The Trust also provides loans for miscellaneous business expenses up to US\$500, however the total aggregate loan size per client cannot exceed US\$15,000.

The Trust presently has 164 clients and 217 loans outstanding. There are 107 clients that are microentrepreneurs with active business loans, and 57 trainees. In addition to this the Trust also has disbursed 22 grants for a variety of business and educational endeavours.

The average loan size to all clients is US\$3106.91, while the average business loan is US\$4450.63 (BYBT Loans Portfolio, 2002). This equates to average business loans of 45.8% of GDP per capita⁵. The effective rate is currently 12%, a figure that may be considered too low for a microfinance institution with high per loan transaction costs.

The gender profile for the Trust includes 57.5% female and 42.5% male, with an average age of 30. Overall the default rate stands at between 4% to 6%, while for larger loans (in the region of US\$10,000) the default rate is much lower at approximately 2%. However, when default has occurred, little action is taken due to prohibitively high costs in terms of legal and collection expenses, as well as a hidden desire not to persecute the 'small man'. Of course this hidden transcript is not known to clients, and although there are many clients that miss repayments, they however still pay- albeit in small amounts, "but they pay"⁶. Other financial information is shown in the table below.

Table 2: Financial Information 2001- BYBT

Variables	BYBT
Total Assets (US\$)	295,569.50
Salaries/Total Administrative Expenses (%)	32
Total Value of All Loans Outstanding (US\$)	250,000
Loan Portfolio Average Annual Growth (%)	20
Income from Administrative Fees (US\$)	1,830
Income from Donations (US\$)	17,275
Income from Grant Funds (US\$)	100,000
Income from Interest (US\$)	15,691.50
Income from Other (US\$)	1,264.50

⁵ GDP per capita at current market prices US\$9714.26 (CDB, 2000)

⁶ Quote from BYBT General Manager

4.2.2 Credit Technology

BYBT is more of a minimalist MFI than PEFS, where the focus is primarily on finance, although there is an element of training within their programs. To ensure a low level of default as well as to meet the mission of the Trust, a variety of measures have been taken at the assessment, monitoring and post-repayment stages. These measures are expanded on below.

At the assessment stage there are three requirements for the borrower to fulfil, however, consistency in the process has been seen to be lacking. The requirements are as follows:

- 1) Pass a credit check by the Trust through a local agency and FundAccess, another local microcredit provider.
- 2) Provide two references from 'upstanding' community members, for example a minister of religion or school principal.
- 3) For larger loans, the completion of a business plan including projected cashflow, income, balance sheet and a needs schedule. BYBT provides a template and assistance in the writing of the business plan.

At the monitoring stage, the Trust contacts the clients when payments are missed to assess the nature of the problem and also utilises the services of mentors to provide guidance and encourage borrowers to repay on time. Mentors are mostly established business persons, although the Trust is trying to encourage the participation of other community organisations such as the University of the West Indies. In addition to this, in encouraging good business practice and management to ensure repayment and development, the Trust has established links with other business support organisations such as the Barbados Investment and Development Corporation (BIDC) (a Government operated entity that encourages the establishment and expansion of business enterprises), and the Barbados Institute of Management and Productivity (BIMAP) (a management training organisation).

At the post-repayment stage the Trust continues to attempt to meet its mission by encouraging past (and present) clients to attend business development seminars.

In terms of collection and repayment the Trust suffers in some cases from a need to establish these constraints on clients. This is in order to alleviate the problem that some clients view the loans as 'free grants'. The procedures above are therefore necessary to alleviate this problem by making the procedure more rigorous. In addition to this, the Trust insists that most clients present some form of collateral on their loans (84.7% of clients), usually in the form of equipment purchased with the loan or as an inventory debenture.

4.2.3 General Requirements and Regulations

The following section outlines the main requirements and regulations of BYBT. In general, loans and training grants are offered to start-up businesses and businesses under 5 years old. In addition to this, once the business becomes established, it should be the main source of employment for the borrower. However, judging when the business is 'established' is highly subjective.

The funds of BYBT are only available for start-up or expansion costs and are not permitted to be used for refinancing debts. The Trust also insists that any business it funds should comply with all health and safety regulations as well as have adequate insurance. This precludes the participation of most members of the informal sector.

In terms of eligibility requirements, clients must be:

- Between the ages of 18 and 35
- Not be in full-time education
- Residents of Barbados or foreign with resident status
- Satisfy the BYBT that they have the necessary business skills and technical competence
- Demonstrate that they are unable to raise funds from commercial banks

In relation to this last point, due to the heavily concentrated commercial banking sector in the island, most clients already have relationships with commercial banks.

The rest of this section is structured as follows. Initially there is an analysis of all BYBT clients that have received loans for the start-up or development of their own business. Secondly there is an analysis of a selection of clients that were surveyed during the execution of this study.

4.2.4 Analysis of BYBT Business Clients- Full Sample

The client analysis of BYBT included initially an analysis of all available information on clients (both past and present) that had taken loans for business start-up or expansion. This element of the analysis included background information on 160 clients. The main results are expanded on below.

Gender

Overall, BYBT as a microfinance provider is different to the trends seen around the world, where high proportions of clients are female. BYBT has a fairly even split between males (42.5%) and females (57.5%).

Overall there are few differences between the profiles of the male and female clients with the exception of there being a large proportion of women with only a primary school education (48.4% of females as opposed to 25% of males), and of the current client list, of those that still hold loans, a larger proportion are men (54.2%). Of those no longer holding a loan, 22.0% are male. Apart from these differences there are few other differences in terms of age, use of loan or repayment discipline (overall default or number of missed repayments).

In terms of the types of business, for females, 59.6% are in manufacturing and 39.3% in services. The corresponding figures for males are 13.4% and 76.1%.

Age at Time of Loan

The mean age of clients at the time of taking the loan with BYBT is 28 years, ranging from 16 to 38, although one of the requirements of BYBT is that clients be between the ages of 18 and 35. This shows that there is some flexibility in the system, while at the

same time showing a deviation from the main mission of the institution. Twenty-five percent of the sample was between the ages of 16 and 24.

Educational Level

In terms of the highest level of education attained, 38.4% had only attended primary school while another 31.3 had only completed primary school. Overall, 39% of the sample had not completed secondary school, despite compulsory education to the age of 16 in Barbados. This is a worrying result in terms of the human capital development of the island. It is however an encouraging result to see BYBT catering to this element of the population that will undoubtedly have difficulties in attaining access to finance from commercial institutions. The table below highlights the main educational achievements of BYBT's clients.

Table 3: Full Sample: Highest Level of Education Among BYBT Clients

Educational Level	Number of Clients	Percentage of Total (excluding Missing)
None	1	0.6
Primary	61	38.4
Secondary	50	31.4
Technical/Vocational	29	18.2
Associate Degree	5	3.1
Degree	10	6.3
Post-Graduate Degree	2	1.3
Associate Degree & Technical/Vocational	1	0.6
Missing	1	-
TOTAL	160	100

Previous Status Before Joining BYBT

Previous to joining BYBT a large proportion of clients were trainees (32.6%) or self-employed (26.5%). Only two of the respondents (1.5%) were employed and self-employed simultaneously. Those that were employed full-time before joining BYBT accounted for 22.0% of the clients while those that were unemployed accounted for just 17.4% of clients.

Type of Business Funded by BYBT

The majority of businesses funded by BYBT are exclusively in the service sector (55.1%), while 39.7% are in manufacturing, of which a large proportion are run by females (85.5%). A very small percentage of funded businesses are in agriculture (2.6%).

Size of Loans

Of the 160 clients for which information was available, the mean size of the original loan was US\$2,719.55, ranging from a minimum of US\$152.00 to a maximum of US\$12,450.00. Fifty percent of the loans were less than US\$1,787.50. The average loan here equates to approximately 28% of GDP per capita. Please note that these figures differ from those on the current loan portfolio of BYBT as approximately 59 of the loans have been repaid. Overall however, for loans outstanding, the mean loan size is 45.8% of GDP per capita, suggesting an 'up-scaling' trend by the Trust.

Use of Original Loan

Business loans from the Trust were used for a variety of means. Purchase of equipment was the main use of loans where 61.3% of clients used part of loan for equipment purchase, and 48.4% used all of their loan for equipment purchase. Other uses for the BYBT loan included cash-flow (16.6%), start-up (7.6%), as well as a combination of uses. For a large number of cases the purchased equipment was used as collateral for the loan, and in a few default cases this equipment was repossessed.

Use of Collateral

Contrary to the practice of many microfinance institutions around the world, BYBT requires collateral for the majority of their loans. In 84.7% of reported cases clients have had to provide some form of collateral for their loan, and as mentioned above in many cases this involved the equipment purchased with the BYBT loan or an inventory debenture.

Additional Loans from BYBT

Of the 59 clients that had completed repayment of the original loan only two (3.4%) took out another loan. This appears to indicate a graduation of some sort where clients are progressing into the commercial banking sector. For the surveyed clients this was shown where 94.4% of respondents were not refused a loan after joining BYBT, compared to 61.1% accepted before joining BYBT. However, for clients that had not completed repayment, 27 (26.7%) took out another loan, and one client has now taken out a total of 7 loans for the business. Even though there appears to be a degree of graduation in some respects, there are obviously still some difficulties to be overcome in developing client's business abilities sufficiently to allow them to wholly graduate into the commercial financial system.

Default

Although the default rate is not as severe as seen elsewhere in the Caribbean (Wenner & Chalmers, 2001), it is still higher than seen in Latin America and South East Asia. Of all the BYBT clients for which data was available, 18.4% had defaulted on their loans. In addition to this a severe lack of discipline is shown by BYBT clients where 64.5% had missed repayments at some point and the mean number of repayments missed was 10.6. This indicates a lack of financial discipline among the clients and a low enforcement ability by the Trust. This appears to be an accepted feature of the operation of the Trust where they are happy to take smaller payments and longer repayment periods to meet their mission. However, if this hidden transcript is exposed- and perhaps it already is- the consequences for the Trust would be catastrophic.

The following section will look at a selection of surveyed clients of BYBT to garner a more in-depth understanding of the business clients' background and satisfaction with the Trust.

4.2.5 Analysis of BYBT Business Clients- Surveyed Sample

The data presented above on BYBT's business clients was supplemented by a survey of 37 clients (23% of BYBT's business clients), of which two (2) businesses were no longer in operation. This was undertaken to provide a deeper understanding of some of the main issues.

In terms of gender, 59.5% of clients surveyed were male. This was unlike the profile of all clients but as there were few significant differences by gender this was not thought to present a problem for the robustness of the survey.

The current location of the respondents' businesses were mainly suburban (54.1%) while 21.6% were urban and 18.9% were rural. Despite the poverty profile of the Caribbean being mainly female, young (less than 24 years old) and rural, the fact that less than one-fifth of the Trust's clients are rural should be a point of concern if it is going to contribute to poverty alleviation in the island.

The majority of the sample were self-employed in the business funded by the Trust (77.8%), while only one person was employed full-time, two were unemployed and five were employed while operating their own business when the time was available. The rest of this section will outline the main results from the survey that were not available for the full sample of BYBT clients.

Current Monthly Income

The mean monthly income for the clients surveyed was US\$913.50⁷, with a maximum of US\$3,100.00. The majority of these clients (75%) had a monthly income of less than US\$1,065.00, while half of those surveyed had a monthly income of less than US\$675.00, which equates to 83.4% of GDP per capita per annum. Examining the data on monthly income previous to joining the Trust, 56.7% had a monthly income less than US\$500.00. There was therefore a general, although marginal increase in income over the membership period as currently, only 40% have an income below US\$500.00.

Parental Employment Status

The employment status of the borrowers' parents was included in the survey to analyse whether there was any role to be played by intergenerational entrepreneurship on the borrower's participation or success. There however appears to be no relationship between participating (i.e. one would expect borrowers to have parents whom are self-employed) or success. Borrowers' mothers were either employed (42.9%) or unemployed (28.6%). Unknown or self-employed accounted for only 14.3% of the sample.

⁷ This equates to 110% of GDP per capita per annum, which is much higher than the annual per capita poverty line which stands at 28.3% of GDP per capita

For the fathers of borrowers a higher proportion of self employment was seen with 37.1% of fathers being self-employed, while 28.6% were employed and 2.9% unemployed. The rest were either retired, deceased or whereabouts unknown.

Household Characteristics

The mean number of persons in the borrower's household was 4.63, with a mean of 2.17 wage earners. In terms of overall household income, 65.7% of households survived on less than US\$2,500.00 per month, while 80% survived on less than US\$3,500.00.

Employment History

The average borrower took their first paid employment at 17 years of age. Seventy-five percent of the sample had taken employment by age 18. The mean number of jobs held before joining the Trust was 3.97.

Business Premises

The majority of surveyed businesses funded by BYBT operate from either the borrowers' home or the house of a friend or family (61.1%). Approximately one-fifth operated from a shop or store (19.4%), 5.6% were mobile and 13.9% had another location for their business (mainly transient but not mobile).

Income Profile

A large proportion of borrowers cited the funded business as either their only or main source of income (69.7%), while the remainder cited it as only a supplemental source of income. Other source of income included other's earnings (mainly spousal), child support, welfare payments and part-time/casual employment. The breeding of dogs, general labouring and taxi-driving were other cited income sources.

Funded Business Performance

In general, the level of turnover in the first year of operation was on average US\$15,886.00. Since the first year of operation the average business has seen turnover more than double to US\$31,979. The change in turnover for the sample was however skewed with 50% of the sample experiencing increases of less than US\$2,500.00.

At inception the mean number of employees was 1.1 (ranging from 0 to 6), increasing to 1.44 in the current year (ranging from 0 to 8), demonstrating some form of employment generation.

Currently, in terms of assets, the mean value was US\$14,370.97, with a maximum of US\$75,000.00. Three-quarters of the businesses had assets valued at less than US\$25,000.00. In terms of the change in assets since joining the Trust, the mean change was US\$18,256.00, with 50% experiencing changes of less than US\$2,500.00. One-quarter of respondents experienced declines of more than US\$2,375.00. This result calls into question the effectiveness of the funding.

Main Business Changes

The majority of surveyed clients joined the Trust before 2000 (64.9%). Since this time the majority of businesses have experienced no major changes (68.6%). For those that

did change, many had diversified their services or products while 8.1% of businesses either scaled-down operations or became more focused on one element of their business.

In terms of profitability, 57.6% had experienced increases since their first year, with just over one-quarter experiencing declines. The majority of firms had experienced no change in the numbers of employees (51.4%) since inception, while 37.1% had experienced increases.

The product range of the a majority of businesses expanded since inception (65.7%), while only 5.7% had narrowed their focus.

Personal Financial Changes

There have been mixed experiences among the clients of BYBT in terms of changes in personal income since the inception of their business. Increases in personal income were only seen among 35.5% of the sample, while 29% experienced declines.

In terms of personal assets, the figures are more encouraging where 50% experienced increases and 40.6% experienced no change. Although this proportion experienced no change and therefore the effectiveness of the Trust must be questioned, at the very least the effect has not been negative.

Previous Status before BYBT

A large proportion of surveyed clients were self-employed before joining the Trust (42.9%), while 20% were unemployed and 31.4% were in wage-earning employment.

In the year previous to joining the institution, assets ranged from zero to US\$116,500, with a mean of US\$11,131.74. However, the distribution is here is heavily skewed with 50% of the sample having assets less than US\$2,873.50.

Loan & Credit History

Of the clients surveyed, original loan sizes ranged from US\$260 to US\$12,450, with a mean of US\$4,629.44 (approximately 50% of GDP per capita). Half of these loans were less than US\$2,594.50. These loans were used for a variety of purposes including:

- Purchase of equipment (25%)
- Business start-up (13.9%)
- Cash-flow (13.9%)
- Combination of the above (39%)

In addition, a majority of borrowers had to present some form of collateral (88.6%) which, as mentioned above, usually encompassed the equipment purchased with the loan or inventory debentures. Repossessed equipment has actually become a problem for BYBT in terms of depreciation and related losses, as well as storage difficulties.

Multiple loan clients, those that took out more than one loan accounted for 38.9% of the sample, of which 69.2% of these had only taken out one additional loan ranging in value from nearly US\$500 to approximately US\$15,000 (mean of US\$6676.91).

Of all the clients surveyed, 77.8% had missed repayments at some point, with a mean amount of missed repayments approaching seven. In addition, of the surveyed clients, 89.2% still held a loan with the Trust.

In terms of the clients' relationship with the commercial financial sector (commercial banks, finance companies and credit unions), 54.3% had previously applied for a loan from one of these institutions. Approximately two-thirds were successful in obtaining a loan previous to joining the Trust. This goes against the eligibility criteria of the Trust where the client must prove that they do not have access to other sources of finance.

Nearly 39% of respondents were unsuccessful in their applications (mainly due to a lack of collateral) before joining the Trust, while only 5.6% were unsuccessful after their time with the Trust. This indicates a favourable increase in the Trust's clients to obtain commercial finance, even though creditworthy clients are joining the Trust and may be crowding-out less fortunate borrowers. In addition, youth was cited as another reason for loan refusal where it was considered by some of the clients that traditional bank managers are biased against the youth due to their unavoidable lack of experience and an inability to articulate plans in banking speak.

For those successful in tapping into the commercial financial sector, loan sizes ranged from US\$400 to US\$40,000, with a mean of US\$12,165.38. Half of these loans were less than US\$6,750 (69.5% of GDP per capita).

Of all the clients surveyed, 74.3% held a savings account with a financial institution ranging in size from US\$25 to US\$17,500. Half of the sample had savings less than US\$500.

In terms of other sources of credit apart from BYBT, over 40% of the sample had no other sources of credit, while family and credit cards were cited 32.4% of the time.

Use of Other Support Organisations

Only 25.7% of the sample were a member of any of the business support organisations in the island, a result seen in other surveys conducted on the island (Lashley, 2002). In addition to this, only 20% of the sample used training facilities or grants supplied by other NGOs or governmental schemes. These tendencies have been seen to be due to distrust and irrelevance at one extreme to complete lack of awareness at the other (Lashley, 2002).

Client Perceptions of BYBT

Overall the clients of the Trust hold it in high regard with 60% citing it as very important to the success of their business. Over one-quarter (28.6%) cited BYBT as either important or quite important to the success of their business.

In terms of satisfaction with their dealings with the Trust, the clients were generally quite satisfied, as shown in the table below.

Table 4: Client Satisfaction with BYBT- Percentage of Respondents

	Not Satisfied	Slightly Dissatisfied	Neutral	Satisfied	Extremely Satisfied
Range of Credit Products	10.0	10.0	23.3	30.0	26.7
Quality of Service	5.7	2.9	11.4	22.9	57.1
Interest Rate	5.7	2.9	34.4	22.9	34.3
Length of Repayment	0.0	2.9	14.3	40.0	42.9
Monitoring of Loan	6.1	0.0	6.1	45.5	42.4
Effectiveness of Loan	2.9	5.7	14.3	20.0	57.1
Ease of Conducting Business	5.7	0.0	14.3	22.9	57.1

In terms of the difficulties experienced with the Trust, 59.4% cited no difficulties. The difficulties that were cited however, included:

- The length of the loan process
- Unhelpful/inflexible staff
- Trust too 'financial' and not people-centred
- Monitoring inadequate
- No grace period currently exists
- Not enough related training
- Inefficient mentoring system

4.2.6 Client Case Studies

Case Study I

ARTS was in operation under another name from 1995, but it was registered in 1998 under its present name. At the start, DG worked full-time by herself. She now has a full-time employee and is opening a shop to be run by her assistant while she continues to manage the home-based operations.

DG first learned about the Barbados Youth Business Trust (BYBT) through their television advertising. Although she had obtained a commercial bank loan previously, she did not seek funding from any other source besides BYBT. The loan was intended to help her develop another line of products.

DG had no complaints to make about the application and approval procedures. She expressed her appreciation of the monthly telephone reminder for repayment. Due to schedule clashes she has yet to attend BYBT's seminars and meetings. She was not aware that grants were available.

Her opinion on loan repayment is that people should not take advantage of the system, but use it in good faith, borrowing only what they can afford to pay back in good time, even allowing for the possibility of slow months. She believes that the government is doing enough.

The loan that she obtained by BYBT did meet her needs, although due to other commitments, she was unable to find the time to fully launch the new product line. She plans to do this very soon as she still has the material to do so. She may apply for other loans from BYBT, but only small ones (US\$2 500 and less). She may also apply for a grant to attend a trade show. She plans to start an account at a credit union in order to be able to apply for loans later, however, she remains unimpressed by the high charges levied by commercial banks and is unlikely to seek funding from this source.

Case Study II

D Eatery first began operation in 1998. At first the venture did well, but sales went down after SW was no longer permitted to sell beer at that venue. SW once worked full-time with occasional help from a niece, but since taking a fish preparation course in October organised by the Fisherfolk Association, she has been working in the fish market again. Her boyfriend also helps to run the Eatery, and they have plans for other business ventures. This was considered very necessary as the fishing season is only six months long.

SW heard about the Barbados Youth Business Trust (BYBT) from a television advertisement, and applied for a loan to buy stock for her business. She was already receiving assistance from the Rural Development Commission to build the structure. SW tried approaching FundAccess, but found the requirements too onerous, especially the number of guarantors required.

SW experienced no problems with BYBT. The application and approval process went speedily with no problems. She especially appreciated the interest rate at BYBT, which was lower when compared to the rate offered at commercial banks. She has defaulted

often on payments, but she says that the director has been very understanding of this and encourages her to pay what she can.

She has not yet attended seminars and Business Club meetings, generally due to a lack of time. However, she expresses an interest in going in the future as it would be good to hear the stories of other entrepreneurs like herself.

SW believes that clients must repay faithfully in order to keep BYBT operating. However, she welcomed their flexibility in understanding the effect of personal problems such as illness or injury on the ability of a client to pay, and noted that such flexibility would not be found at a commercial bank.

SW was satisfied that the loan met her business needs. She would like to have another loan to buy more stock, but she is now 37, and can no longer use the financial services of BYBT. However, she is considering going into partnership with her boyfriend, and as he is 33, he would be able to apply for a loan. Whether the loan would be used for the Eatery or another joint venture remains to be seen. Although she belongs to a credit union, she would recommend BYBT to any young entrepreneur instead of a commercial bank or credit union due to the terms under which loans are granted.

Case Study III

SG is one of four directors of the company X, which was founded in 1988 and became a full-time endeavour for its directors in 1992. In 1996, the art department of the company X became the company Y Inc. with SG as the sole full-time director and the other three directors of X available part-time. The first loan from the BYBT was used to start up Y Inc. Two loans from a commercial bank and a second loan from the BYBT followed. The first BYBT loan was at the maximum amount allowed, but it was still not sufficient to cover the needs of the new company. Later loans were obtained to complete the process, which focused mainly on purchase of equipment and office refurbishment.

Y Inc. was one of the BYBT's earliest clients. The directors had completed the Youth Entrepreneurship Scheme (YES) and had been referred to the BYBT for funding. SG said that the BYBT may have been linked to YES via the Ministry of Education and Youth Affairs in an attempt to marry training opportunities and funding opportunities. It appears that a number of YES graduates later became BYBT clients, since the BYBT wanted its first clients to have some entrepreneurial training so that they would be less of a risk. As a result of having participated in YES, the directors of Y Inc. had already prepared a detailed business plan, and this facilitated the application and approval process.

The directors found BYBT staff to be approachable and easy to work with. Site visits by staff members and trustees ensured that development was proceeding according to the plan, and the total amount was disbursed in stages as each phase of the business plan was completed. The staff also showed flexibility about late payments. SG commended the mentoring programme, remarking that a mentor could better monitor the business environment to assess the reasons for non-payment, and judge whether flexibility in repayment could be permitted. He did note that they did not develop a close relationship with their assigned mentor, but ascribed it to the fact that the directors had quite a bit of business experience of their own before joining the BYBT.

The directors joined the BYBT's Business Club, and both companies benefited from Go-and-See grants for the purpose of attending trade shows. SG was also invited by the BYBT to be a member of the Barbados delegation to a conference of youth trusts held in London. While there, he noted that one of the practices of the trusts in the UK is to first approve a small grant, then, based on the progress of the business after this, to approve larger loans later on. He believes this model has advantages as it may offer a much-needed boost to novice businesspersons who may first need to invest in training and/or research before they can produce what is required to obtain a start-up loan (e.g. business plan, samples, market research, etc.). However, he admits that such an approach requires a larger pool of funds.

The loans from the BYBT met the business needs of Y Inc. at a time when the directors¹ indebtedness to commercial banks for the parent company hindered their ability to obtain further funding. They intend to continue using the BYBT for loans, but SG noted that they will have to seek other sources of funding for amounts beyond the BYBT maximum.

SG believes that the sustainability challenge faced by the BYBT can be met in time as past clients become viable and able to help the BYBT by providing funding and/or mentors for the next generation of clients. Until this time, he thinks that government and the private sector should help the BYBT as much as possible. He considers investment in small and micro businesses to be crucial, as even if some fail, there will be enough of those who survive and flourish that will be willing to help to support the BYBT's continuing operation.

Case Study IV

EC began his electronics company in 1995 as a full-time venture. When Value Added Tax (VAT) was introduced, his stock suffered an overnight depreciation. In an effort to adapt, he sought funding from commercial banks and credit unions. Untrained in business jargon and structures, EC was unable to make an impression on the loan officers. He then joined the Youth Entrepreneurship Scheme (YES) to obtain the necessary training. In addition to training, YES helped students to prepare their own business plans which were then professionally polished and compiled by Peat Marwick. EC was very appreciative of this programme, saying that it not only gave students an opportunity to use market research and product definition to concentrate their business efforts, but the use of the Peat Marwick name lent credibility to their business plans. EC found this to be important because, in his experience, loan officers often think that young, male entrepreneurs are particularly high-risk. He would welcome professional services like this, for a fee if necessary, within the BYBT for human resources, planning, accounting and other aspects of business.

After YES referred him to the BYBT for funding, EC was able to get his first large loan for renovations and equipment. The business plan made the application and approval process go smoothly, however, he did find the approval took some time and that the board was too distant during the process. He recommended that board members conduct face-to-face interviews with prospective clients in order to screen out those with superficial business knowledge. The disbursement of funds was also delayed due to the additional paperwork required, namely the submission of bills to prove that the loan was

being spent according to the submitted plan. However, EC noted that no site visits were made in his case, as he feels ought to have been done.

EC obtained the maximum loan amount, but still found it insufficient for his purposes. He thinks a larger amount should be granted so that businesses can grow more rapidly. For his future loan needs beyond the BYBT limit, he will be seeking funds from commercial banks, FundAccess, and the Enterprise Growth Fund.

He also finds the present system of payment too casual and too open to abuse by the same clients who would treat a commercial bank with more respect. He suggests that a larger range of payment options (e.g. debit card, deduction from account, etc.) or the use of a collection agency would help busy entrepreneurs make timely payments by using the least time-consuming, most convenient method.

EC has attended one or two of the BYBT seminars and also delivered a presentation at one, but otherwise he is too busy. Ironically, he feels that with better training, he would be able to use his time more efficiently and 'run his company' instead of having his company 'run him. He remarked on a lack of an entrepreneurial culture among black Barbadians in particular, saying 'We have not been training in corporate management; we have been trained in rum-shop management.' For this reason, he sees appropriate training as a necessary part of the entrepreneurial success package.

EC envisions a future for the BYBT as a venture capital equity investment firm rather than just a microfinance institution. The interest rate would be even lower, and the BYBT would have even more say in clients' companies and more control over the way the loan money is spent. Although this may be unpopular with clients, he believes that they can be educated to see the benefits of a structure where they could have their mentor act as their venture capital representative on the board, and call meetings as required. While he commends the BYBT for bring the first to offer their type of service, he thinks they should operate more like a credit union, giving successful clients the opportunity and thus the motivation to 'graduate' and become more active in the BYBT as shareholders. These shareholders could offer mentoring services, contribute to the BYBT's funds, and even become board members.

Case Study V

DS is the proprietor and sole artist of his own studio, which he plans to expand into a gallery in the future. He also holds three part-time positions as an art teacher at a private school, a public tertiary institution, and a cultural organisation. Although he always planned to set up his own business, it was not until he participated in the Youth Entrepreneurship Scheme (YES) and was required to make a business plan as part of his training that he formally registered his studio as a business in 1998.

DS was referred to the BYBT for funding through his participation in YES. He took out three loans for assistance in holding exhibitions and one for purchasing equipment. Although he had a business plan, the size of the loans was sufficiently small that no plan was required by the BYBT. He has made no attempt to obtain funding from other sources either before or after joining the BYBT. His experience with the BYBT has been so positive that he plans to continue to use its services until he passes their client age limit. However, any future loans are likely to be for small equipment and materials

purchases as he does not feel safe trying to handle a large loan. He plans to finance the building of his gallery from his own savings. DS may appear to be an extremely risk-averse client, but he may simply be very aware that an artist's income can fluctuate wildly.

As a client with no collateral, DS found that the BYBT exceeded his expectation in many areas. Service was excellent. Templates were provided to assist prospective clients with filling out forms and preparing plans. He also benefited from a Go-and-See grant that 'topped-up' a scholarship for him to go to Belize to contribute a sculpture to a collection. He then delivered a presentation on his trip to the quarterly meeting of the BYBT Business Club. He attends these meetings regularly, but has taken part in few seminars and only two exhibitions facilitated by the BYBT. However, he has participated in other exhibitions not linked to the BYBT.

DS tends to repay his loans in advance. Since steady pay is not part of the artist's experience, he considers it better to pay three months worth of debt in one good month in order to compensate for future lean months when payment is impossible. He also feels that it is the client's responsibility to take the time to negotiate a manageable repayment plan from the start.

DS suggested that the BYBT look to expand to other countries and have branches there that would function almost like bank branches. For example, if a BYBT client ran into financial difficulties overseas, they could contact the local branch or representative for assistance. He believes that the size of the Go-and-See grant should be increased. He also recommends that the BYBT develop a better advertising strategy to encourage people to apply and realise their entrepreneurial dreams, in particular those who have suffered job loss during the recent economic downturn.

4.2.7 Summary

Overall the Trust is performing well in meeting the needs of the clients it serves. However, as seen in a number of other MFI cases, lending is mostly small, not micro. In this case, where clients are somewhat already in the commercial banking sector, the use of the *exit rate* is not an adequate measure of MFI success. Many of the clients had previously applied and been accepted for commercial loans, however, the effect of the Trust has been to reduce the number of refusals as over 94% of clients that apply for loans are now accepted, compared to approximately 60% previous to joining the Trust.

One of the main problems the Trust suffers from is a lack of staff to adequately monitor their clients. Although the loan officer to client ratio is favourable at 1:164 (the second employee is a receptionist), this does not take into account that this one loan officer is constrained by having to screen, monitor and administer the loans, not just monitor and support the clients as with an average loan officer.

Overall, BYBT is a charitable organisation offering microfinance to young entrepreneurs. One of the main problems that such an institution suffers from is a perception by clients that loans are 'handouts'. This problem should be ameliorated by the screening process, but as this process is not always followed, the Trust leaves itself open to losses. This tendency will not facilitate the long-term survival of the institution in times of scarce donor funding. The fact that the loans have some effect on the businesses conducted is to

be commended, however, as characteristic of most MFIs in the region, lending is more of the small rather than micro variety, especially as lending is in most cases asset-based rather than character-based.

Although BYBT offers a variety of loan packages for business development and training, as well as a selection of grants, the institution can be classified as minimalist in its outlook as there appears to be a concentration more on the financial aspects of lending rather than the overall human development of their clients in terms of training. This is not to say that the Trust does not contribute to development of their clients, just that the non-financial effects are limited.

In terms of the long-term sustainability of the institution, its capital return rate is enhanced by the fact that the interest charged on loans is in line with the commercial financial sector, if not above it. For example, in November 2001 the prime lending rate in Barbados stood at between 8% and 9%, whereas the Trust was charging on average 12%. Despite this, due to the higher transaction costs that the Trust experiences with their small loans they should charge higher. In terms of the social return rate, although the Trust may contribute to the success of a selection of businesses, employment generated from the funded businesses is low and only occurring in about one-third of cases. However, the borrowers are experiencing increases in their personal financial fortunes, although this is from a level which could not be considered as characterising poverty. The contribution to the alleviation of poverty must therefore be considered minimal, but in the sense that they are providing loans to under-funded youth could be considered as a preventative measure rather than a cure.

If the Trust can locate funding to increase its institutional capacity, i.e. more employees to screen applicants and monitor repayments, it may be able to meet its mission, and those of its funders, with greater success. The current situation is not conducive to the successful execution of the microfinance project.

There are several lessons to learn from the Trust. They have proved successful in filling a gap for young entrepreneurs by allowing them to access credit, although some may already have other means. The screening process may be lengthy in some cases, while in others it is not required- therefore character-based lending is seen when the officer is sufficiently satisfied. However, to ensure the potential borrower is adequate, there is the option of making that potential borrower go through the screening process. In a sense the client has to prove themselves. This flexible approach can assist many MFIs in approaching the screening of their clients. Every client should be interviewed, and if the results are not considered positive, the MFI should ensure the potential client completes the screening process, while acceptable clients are approved on character.

4.3 Pinelands Enterprise Facilitation Services (PEFS)

4.3.1 Background

PEFS was originally founded in 1998 as a pilot program to provide microfinance in collaboration with a local commercial bank for the Pinelands community, a suburban community that has suffered from poverty and negative publicity due to crime and dereliction. PEFS was formally established in January 2000 when its parent body, the Pinelands Creative Workshop (PCW) brought the venture in-house to attempt to make the program more successful. Unlike the other organisations in the current study, PEFS is an initiative formed under the auspices of an established community-based organisation, the PCW.

The PCW was established in 1978 as the reincarnation of the Pinelands Development Council, an organisation established to enhance a negative community image. The organisation has since gained a reputation in cultural advancement, especially in the area of dance, and has broadened its scope while still attempting to meet its mission of developing self-awareness, promoting a positive community image, and educating and uplifting the community.

The PCW now has a variety of initiatives/schemes in place to assist in achieving its mission. These include:

- Social development initiatives: the National Enterprise, Education and Development Trust Fund (NEED), the Marcus Garvey Resource Centre, a-meals-on-wheels program, a text-book recycling program, the Pinelands Emergency Relief Unit, a Relief Support Program, a sports division, and a regional consultancy arm that provides technical assistance to similar community-based schemes in the Eastern Caribbean.
- Cultural development initiatives: Unit for Cultural Development, PCW Promotions, PCW Talent Agency, Fusion (a network for regional grassroots theatre companies).
- Economic development initiatives: Pinelands Incorporated (the economic/entrepreneurial arm of the PCW), the Amalgamated Baking Company Limited (ABC) and PEFS.

In actuality, the PCW is an integrated organisation with numerous intra-linkages. In the specific case of PEFS, it was formed (microfinancing brought in-house) to handle the microfinancing aspect of the NEED Trust Fund (a social development initiative), and utilises the Marcus Garvey Resource Centre to offer additional business support services to its clients. Although PEFS has one official employee, the manager, there is a network of PCW employees to draw on from its community-based offices.

With the advent of the pilot phase of PCW's microfinance project, funding from the Barbados Government's Poverty Alleviation Program was utilised to form a partnership with a commercial bank, where the PCW provided credit applications as referrals to the bank in addition to setting up a guarantee account to act as cash collateral for the loans. The program was only moderately successful and was subsequently brought in-house in January 2000 when PEFS was officially established. PEFS goal is articulated as follows:

“PEFS’s ultimate goal is to be the premier provider of micro loans in Barbados and to eventually export the business model to the wider Caribbean. We intend to uphold and promote all the good and workable aspects of the micro-credit movement (now at work in over 50 countries) and to avoid the pitfalls that have been identified over the years. PEFS strongly believes that it can serve its local communities effectively and yet operate in a safe, sound and professional manner: be competitive; maintain an adequate level of capital and be self-sustaining in the short term” (PEFS Information Leaflet, 2001)

At present PEFS is not self-sustaining and relies on the NEED Trust and monies from the Barbados Government’s Social Investment Fund. As of 31st December 2001, loans directly funded by the Social Investment Fund, targeted directly at microenterprises, amount to US\$110,608 servicing 50 clients. This is an average of US\$2,212.16 per client, or 22.8% of GDP per capita, less than half of the average loan to BYBT clients (which was 45.8% of GDP per capita).

In terms of direct loans from excess repayment monies to PEFS (PEFS’s Direct Loans), there are 38 loans totalling US\$44,411, or an average loan size of US\$584.36, or 6% of GDP per capita. The total value of all loans outstanding amounts to US\$124,000, with an average outstanding balance per client of US\$1425.50. The loan portfolio has an average annual growth rate of 25%, while the effective rate of interest charged is 15%. The average loan term is 18 months. Other financial information on PEFS is shown in the table below.

Table 5: Financial Information 2002- PEFS

Variables	PEFS
Total Assets (US\$)	185,000
Average Annual Growth in Total Assets (%)	1.00
Number of Loans/Total Staff	70
Salaries/Total Administrative Expenses (%)	79.79
Salaries/Average Portfolio (%)	12.10
Salaries/Average Total Assets (%)	12.14
Operational Self-Sufficiency-Operating Income/Operating Expenses (%)	36.49
Financial Self-Sufficiency-Operating Income/ Total Adjusted Costs (%)	36.49
Adjusted Return on Average Total Assets (%)	-2.91
Administrative Expense/Average Loan Portfolio (%)	15.16
Administrative Expense/Average Total Assets (%)	15.21

Overall PEFS services approximately 68 microentrepreneurs, as well as a number of social loans which it services for PCW. The concerns in this study are microentrepreneurs, therefore the client-base is considered as amounting to 68. Of these clients, information was obtained for 35 clients (51.5% of clients). This sample size is

considered more than adequate for the purposes here. Of these 35 clients, 22 responded to the majority of issues, while the remainder only supplied basic information.

4.3.2 Credit Technology, General Requirements & Regulations

PEFS operates an integrated package in association with PCW by offering microfinance, support services and basic business education as well as cultural development. Its screening and monitoring are based on local community knowledge by the manager, therefore, although the financial systems are in place to monitor repayments and other financials, the relationships with clients are somewhat less formal.

PEFS does not require any collateral in its lending strategy and assessment is based on a minimal level of disclosure by clients. This is mainly in relation to their basic income and ability to repay. Assessment is character-based and related to the local knowledge of the loan officer (the manager).

4.3.3 Analysis of Sample

The following analysis consists of both file information gathered from PEFS, as well as survey data gathered directly from the client.

Gender

The majority of the sample was female (57.1%), although approximately 70% of all clients are female. However, this is not in line with other institutions around the world where over 90% of clients are female. This trend is mostly because PEFS does not specifically target females, but community members in general.

Age at Time of Loan

The clients of PEFS are older than those for the BYBT. This is as would be expected as BYBT has an age limit whereas PEFS does not. The mean age of clients at the time their first loan was granted was 35.2 years (28 for BYBT), ranging from 17 years to 54 years.

Education

As seen in the table below, in terms of education, there appears to be an encouragingly high level of clients that have either completed secondary education, or achieved a technical or vocational qualification.

Table 6: Full Sample: Highest Level of Education Among PEFS Clients

Educational Level	Number of Clients	Percentage of Total⁸
Primary	2	9.1
Secondary	12	54.5
Technical/Vocational	7	31.8
Associate Degree	1	4.5
TOTAL	23	100

Parental Employment Status

The parents of borrowers were mostly employed or self-employed. Very few were unemployed. However, a large percentage of the sample claimed that parents were either deceased, retired or their whereabouts were unknown. Seeing that these borrowers are older than those of BYBT, this is not a surprising result. For mothers of borrowers, 22.7% were employed while 18.2% were self-employed. Only 9.1% were unemployed, and 50% were deceased, retired or whereabouts unknown.

For the fathers of borrowers, those that were deceased, retired or whereabouts unknown rises to 59.1%. A larger share of fathers than mothers were employed (31.8%) while only 4.5% were self-employed. Unemployed fathers accounted for 4.5% of the sample.

Household Character

The majority of client's households had 3 or fewer members (54.5%), ranging from 1 to 11. Comparing this to the number of wage earners per household, there was on average 2 wage earners per household, ranging from 1 to 5. Overall the majority of households (86.4%) survived on less than US\$2,500 per month.

Employment History & Previous Status

The majority of clients took their first paid employment between the ages of 17 and 19 (68.1%). The average client has held approximately 4 different jobs in a variety of occupations which were mostly semi-skilled. Previous to joining PEFS, the majority of current clients were self-employed (58.8%), while 11.8% were operating their business while undertaking full-time employment. Approximately 12% of the sample were unemployed before joining PEFS.

Previous to joining PEFS, the monthly income was less than US\$500 per month for over half of the sample (57.7%), meaning that over 40% of the sample earned twice as much as the annual per capita poverty line of US\$2751. No clients earned more than US\$1,500 per month. However, the assets of the clients had a much wider range, up to

⁸ Percentages do not add to 100% due to rounding

US\$210,000. This however is a distorted picture as 75% of the sample had assets less than US\$5,750, and 50% of the sample had assets less than US\$1,000.

Type of Funded Business

The majority of businesses funded by PEFS are in the service sector (66.7%) while manufacturing accounts for 18.2%. Mixed businesses (operating a combination of agriculture, services or manufacturing businesses) and agricultural operations account for 15.2% of funded businesses.

The majority of businesses are located in suburban areas, mostly surrounding the Pineland's community (85%) while the remaining businesses operate in the capital, Bridgetown. Most operate from the client's home (65%) while only 25% operate from a shop.

Overall, the businesses are either sole proprietorships (95% of businesses) or partnerships and, for the majority of clients, is the only or main source of income (75%). Only a quarter of clients cited that the business was only a supplemental source of income.

Size of Loans

The mean original loan size to the clients of PEFS was US\$1,853.42, ranging from as little as US\$400 to US\$5,000. Subsequent loans ranged from US\$300 to US\$5,500, with a mean of US\$1,850.18. These mean loan sizes amount to approximately 18.5% of GDP per capita, and nearly US\$1000 less than the BYBT.

Use of Loans

A large percentage of loans were used to remedy cash-flow problems (39.4%), while only 3% of clients used their loan for business start-up, and 15.2% used them to purchase equipment. Combinations of start-up, cash-flow and equipment purchase accounted for 42.5% of the sample.

Use of Collateral

None of the clients have at any time had to present collateral for their loans as PEFS operates a solely character-based lending strategy.

Additional Loans

One-third of the sample had taken out an additional loan. One client has actually taken out 6 additional loans while the majority of these had taken out two additional loans (63.6%).

Current Monthly Income

The monthly income for the clients of PEFS ranges from US\$175 to US\$1,250. Mean monthly income is US\$524.48, more than twice the per capita poverty income of US\$229.25 per month, with 75% of clients earning less than US\$700 per month. Sixty percent of clients cited that they had other sources of income, which included part-time work such as taxi driving, baby-sitting, sewing and tutoring.

Default

Although none of these PEFS clients have defaulted on their loan(s) to date, over 80% have missed a repayment, while 60% have missed more than 2 repayments. Overall, of

the clients borrowing through PEFS's access to the Social Investment Fund, the portfolio performance as of 31st December 2001 is as follows:

- Less than 30 days delinquent (10%)
- 30-60 days delinquent (60%)
- 60-90 days delinquent (20%)
- At Risk of non-repayment (10%)

For clients that have been utilising PEFS Direct Loans, the portfolio performance is as follows:

- Less than 30 days delinquent (25%)
- 30-60 days delinquent (70%)
- 60-90 days delinquent (5%)
- At Risk of non-repayment (0%)

As can be seen from the above figures, PEFS does not consider a large percentage of their loan portfolio at risk, mostly due to personal and community knowledge. Overall, the balance of loans due over 90 days is US\$18,600.

Funded Business Performance

In the first year of operation after applying for the PEFS's loan, the majority of businesses had turnover of less than US\$7,300 (62.5%), ranging from US\$300 to US\$12,000. In terms of employees in this first year, only 9.5% employed another worker.

Since this time the clients' businesses are now experiencing a mean turnover of US\$13,770, nearly double original turnover. In terms of the current number of employees, there has been no significant change.

In terms of assets, the current mean is US\$5,923.44, with a maximum of US\$60,000. This result is however skewed by these large values, demonstrated by the fact that 50% of the sample have assets less than US\$2,375.

Main Business Changes

In relating to the performance of the business, the clients were asked as to the changes experienced since being granted the loan by PEFS. For profits, 47.1% of clients observed an increase in profits, while 29.4% had experienced a decline. The remaining clients had experienced no change in profits over this period.

In terms of product-range for the enterprises, 50% experienced an increase, while 44.4% experienced no change. Less than 6% had decided to refocus on a specific product.

Personal Financial Changes

For the majority of clients there has been a decrease in personal income over the loan period (47.1%), while only 23.5% have experienced an increase over the period since the loan. The rest had experienced no change. This is a worrying issue, as over 75% of the

sample have not experienced any increase, questioning the effectiveness of the loans granted by PEFS.

A similar picture is seen with personal assets, where only 35.3% had experienced any increases. However, only 11.8% had experienced declines.

Loan & Credit History

Of all the clients surveyed, nearly two-thirds had applied for a loan from an institution in the commercial financial sector. Of these, 71.4% were successful in their applications in the period before joining PEFS, while for those that applied after joining PEFS, there were no unsuccessful applications.

The loan sizes from these institutions ranged from US\$250 to US\$150,000, with 50% less than US\$2,500.

Use of Other Support Organisations

As with BYBT, the clients of PEFS had few relationships with other business support organisations in the island. None of the clients sampled were members of any business organisations and only 31.8% use training or grant facilities, even those offered by PEFS. Those involved in operating these support organisations in the Caribbean have commented many times that this appears to be indicative of the business culture among small Caribbean businesses.

Client Perceptions of PEFS

The clients of PEFS, like those of the BYBT, appear to hold the institution in a very high regard, and believe that the goals of the institution are being met. All the clients surveyed cited PEFS as being at least important to the success of their business, while 90.5% believed PEFS to be quite or very important.

In terms of the satisfaction they feel with a range of issues, very few are dissatisfied, as shown in the table below.

Table 7: Client Satisfaction with PEFS- Percentage of Respondents

	Not Satisfied	Slightly Dissatisfied	Neutral	Satisfied	Extremely Satisfied
Range of Credit Products	0	7.7	0	7.7	84.6
Quality of Service	0	0	4.5	4.5	90.9
Interest Rate	0	0	9.5	28.6	61.9
Length of Repayment	0	4.5	9.1	9.1	77.3
Monitoring of Loan	0	0	5.3	15.8	78.9
Effectiveness of Loan	0	0	9.1	27.3	63.6
Ease of Conducting Business	0	0	0	13.6	86.4

The table above shows that the only dissatisfaction centres on the range of credit products and the length of the repayment, although it is at a minimal level. Overall, PEFS appears to be keeping its clientele satisfied. Unfortunately, this has led to a number of comments during interviews that there is no desire to leave PEFS, i.e. graduate to the commercial financial sector, and this can have consequences for the ability of PEFS to help new clients that are unable to gain access to commercial finance. This desire to remain with PEFS is not only due to the variables queried above. Clients have cited the fact that they are treated as equals (unlike the treatment they receive from the commercial sector), as well as the convenient community-based location of PEFS as two of the prime reasons for their willingness to remain.

One other point that deserves mentioning, is the satisfaction with the flexibility of PEFS, where clients have commented that missed repayments did not result in censure as the institution was understanding as to difficulties. This has led to the development of the social capital in the community, where, when able, clients repay more than is due to make up for previous missed payments.

4.3.4 Client Case Studies

Case Study I

The business began in 2000 with AD working full-time by herself. The loan from Pinelands Enterprise Facilitation Services (PEFS) was obtained soon after to assist in the start-up process. AD has recently hired a full-time employee.

AD wished to expand her baking business and move it from being a home-based operation to a full-fledged business. She heard about the Youth Entrepreneurship Scheme (YES), but when she investigated it, she felt that their requirements sounded too complicated. She knew a friend who had obtained a loan from PEFS, and was encouraged to try them.

The application process went smoothly. AD remarked on the easy access to the director of PEFS, describing it as being able to 'just walk in and talk'. The loan approval took four months, but she could not say whether this was a longer or shorter time period than usual, as she had no previous loan experience. She had no difficulties with repayment, being careful to pay extra when she could. She was informed about training opportunities, but found her initial twelve-hour working day to be too hectic for her attend. Now that she has an employee and some more free time, she plans to take advantage of the training offered.

She found the maximum loan amount to be too low, and thinks that they should increase it. While she appreciates the flexibility offered by PEFS to some clients during repayment difficulties, she thinks that clients should take the initiative to pay more during good months so that they will not be in default over one or two bad months, i.e. a saving function would be welcomed. She also firmly believes that whether the funding comes from government or other sources, clients should pay back their loans so that the institution will be able help new clients and be more effective.

The loan did not meet her needs completely. She described her situation as one where she was forced to inch along, whereas with a larger loan, she would have been able to set up certain things and achieve better returns more speedily. She will go back to PEFS for any future loans, until they tell her that she must go to a commercial bank instead. Her memory of institutions like FundAccess and YES is that too many complicated steps are required of the client. As a result, she is unlikely to look at other funding beyond credit union loans. She does belong to a credit union, but remarked on the need to build up funds in one's account before loans could be obtained.

Case Study II

RN started her business around 1993-1994, selling snacks on school premises. She applied for a loan without success once to a commercial bank and twice to a credit union. The credit union applications were particularly disappointing as she had the necessary amount in her credit union account, but was unable to get a guarantor.

She then heard about PEFS through a friend. The loan was intended to help her to bypass high customs agent commission fees by bringing in stock from overseas herself. This was not entirely successful as she misjudged the level of the increased duties on her stock. However, she is continuing with her business, hoping to use it to build enough funds to open her own day-care.

Apart from the slight delay of the loan approval process, RN had no problems at all with PEFS. In fact, it went more swiftly than usual, as a PEFS committee member knew of her work at the school, where his son was a student, and was able to recommend her. She would like to get another loan with PEFS as soon as she has completed the payments on her present loan, and she would also like to take advantage of their training opportunities,

something that she has not had time to do before. She finds that PEFS has served her so well that she is not interested in seeking funding from commercial banks or credit unions.

Case Study III

While still employed full-time, PL began selling food part-time from his home in 1995. He was encouraged by positive response from his clients to go into the business full-time and expand his product range. After a brief period of working full-time again in 1997, he took on a partner in 1998 and they invested their own private funds to start up the business. Working full-time weekends and weekdays, they saw quick growth within three months. They employed two others and operated (illegally) out of a government residential unit. However, he left the partnership abruptly, leaving behind much of the business's assets, when he suspected that his partner was involved in the sale of illegal drugs. He is now attempting to start up on his own, but an injury delayed his plans and limited his ability to make his loan payments. He is presently working only part-time at his business with one occasional employee, but hopes to expand again now that he has recovered. He believes he may have to target markets out of the area, as there are too many competitors in his neighbourhood.

He first heard about PEFS through a community talk. He had heard about FundAccess through a school friend, but he first applied to PEFS, and as the application was successful, he did not seek funding from any other agency. The original PEFS loan was used to purchase equipment and to expand the business. The second loan was used to obtain transport for delivery, but it was soon after this loan that the partnership was dissolved, and subsequent loans were used for his solo efforts. Apart from a delay in the approval of the loan due to what he described as thorough procedures, PL had no criticisms to make about PEFS. He especially commended the Director's flexibility and understanding about his inability to pay during the time of his injury.

For PL, the main asset of PEFS is the community feeling and the sense of belonging. He refers to the Director as a father figure, and has been recommended by PEFS for courses and training offered by the Pinelands Creative Workshop. Informal mentors in the community, both within and beyond the Pinelands organisations, have assisted him, and he participates in community activities. He also gives back to the community by providing free meals to those in need and acting as a mentor to the youth. He considers Pinelands, both the organisations and the community, to be like a family.

4.3.5 Summary

PEFS appears to be having a substantial effect on their community. Although this effect is not solely in business development terms, PEFS and PCW are enhancing the social capital of the community and providing a much-demanded service. The clients are satisfied, as shown above, and PEFS appears to be relevant. For example, PEFS does not have a wide range of credit products, however, the clientele is satisfied. This says that this narrow range of services is adequate enough to meet the community's needs.

Overall, PEFS is a subsidised MFI with a community development mission, and there is a latent desire to replicate the model across the Caribbean in other similar communities. Although the services offered are limited, they appear to be meeting the needs of the community- utilising a character-based credit technology. Interest rates charges are

enhancing the long-term sustainability of the institution, although rates could be higher to enable greater cost recovery.

PEFS social return rate appears quite high in terms of the personal human development it is nurturing, and the social capital it is building among its clients. This is especially due to the respect with which customers are treated, and the reciprocal respect with which the clients treat the institution.

Overall, PEFS should be an example for other institutions with the integrative mission of human development rather than self-sufficiency. Although there are problems with the operation of PEFS, these can be solved in time through learning. Although the institution may not be profitable in this short period, once repayment problems are resolved, the viability of this form of community lending in the Caribbean may emerge.

Lessons from PEFS are therefore centred on the fact that community-based character-based lending can work in the Caribbean. Although they may not be self-sufficient in terms of being able to finance themselves and the loans, the social good must also be considered. Flexibility and innovation in the provision of the microfinance product is of paramount importance, where the importance of understanding context is seen to be important. PEFS, and its parent body PCW, have shown that by an understanding of one's community, successful microfinance and cultural development models can be adapted to suit the community they serve and be effective.

5. Analysis of Dominica Sample

The National Development Foundation of Dominica (NDFD) is a much larger institution than those seen in Barbados, approximately five times the size as the Barbadian MFIs combined. The NDFD is one of the few successful National Development Foundations in the Caribbean. NDFD was established in 1981 as a provider of credit and training to small entrepreneurs. In the initial stages the institution was funded by USAID, with subsequent significant funding coming from the European Investment Bank (EIB), the Caribbean Development Bank (CDB) and the International Fund for Agricultural Development (IFAD). When USAID funding ceased in the mid-1990s, NDFD faced severe cash constraints and had to rationalise staff, limiting its monitoring and curtailing its outreach.

5.1 Background of the NDFD

The office of the NDFD is located in the downtown area of the small capital of Dominica, Roseau. With the current reduced staffing levels of 14, 4 loan officers, the current office space appears adequate to their current needs. Although their central location makes it attractive to visiting clients, the road network in the island hampers the loan officers ability to be efficient in the monitoring of their mostly rural clientele (see table below).

Table 8: Characteristics of Loans Disbursed (2000)

Sector	Number of Loans	Male	Female	Groups	Urban	Rural
Services	96	63	32	1	44	52
Industry	33	19	14	1	10	23
General Construction	7	7	0	0	4	3
Home Improvement	21	13	8	0	8	13
Distributive Trades	47	15	32	0	22	25
Agriculture/Fishing	58	52	6	0	15	43
Other	116	64	52	0	60	56
TOTAL	378	232	144	2	163	215

Due to the severity of the crisis in the banana industry the NDFD tries its best to serve the needs of rural areas to mitigate the effects on small farmers. However, the reduction in funding has recently forced the NDFD to curtail its training services, a vital component for assisting these small farmers in expanding out of the sector which they have spent the majority of their lives.

Overall, the mission of the NDFD is as follows:

“...to contribute to poverty reduction and human resource development at the national level by mobilising funds for the provision of credit, business advisory services, and training primarily to the micro and small business sectors.” (NDFD, 2001)

In 2000, the NDFD approved 378 loans totalling US\$890,148.75, 57% of which was directed to rural areas and 30% to females. In addition to this, the NDFD managed to generate a surplus on operations for the second consecutive year of US\$33,585.75, after loan loss provision. This surplus was due to a fall in expenses by 8.7%, despite a fall in revenue due to the suspension of training activities.

In distributing these loans the NDFD relies heavily on external funding from a variety of domestic and international sources. In the use of this funding to foster development, the NDFD has recently established an Accounting Business Management and Training Centre to assist in business plan development, record keeping and management. This Centre was initially funded by French Technical Cooperation, with additional funding from the European funded NDFD Institutional Strengthening Program. In 2000, the NDFD also received funding from the Dominican Government (D-Rep Loan) and the Aid Bank amounting to US\$84,849.75.

The NDFD also received a grant from USAID of US\$9,621 which was used to defray the capital cost of replacement computers purchased in 1999. The NDFD has also received commitment from the International Cooperation and Development Fund (ICDF) to provide loan funds to the tune of US\$300,000.

From these monies provided from a variety of organisations, the NDFD operates a range of Funds. These funds include the following:

- OAS/CHF Housing Retrofit Fund. Established in 1995 from the Organisation of American States (OAS) with an initial donation of US\$5,000. The loans are used for refitting low income houses. In 1997, US\$10,000 was provided from the Dominican Cooperative Housing Foundation (CHF)
- GOCD/IFAD DREP Loan Fund. A joint project between the Dominican Government, the International Fund for Agricultural Development, and the Caribbean Development Bank to assist small holders of agricultural land and other rural poor, particularly women, to expand their income base. The fund totals US\$186,562.50, disbursed in five equal tranches over a two and a half year period beginning in June 1998
- STABEX Diversification Project Loan Fund. With an aim of increasing non-banana agriculture and agri-business for the domestic and export market, the fund provides US\$187,500 to encourage private sector diversification
- STABEX Technical Assistance Grant Fund. Grant fund of US\$46,875 for technical assistance
- CDB/AIDBank Loan Fund. Loan fund of US\$281,250 to be disbursed to the micro and small business sector which was granted in 1999 from the CDB and the Dominica Agricultural Industrial and Development Bank (AIDBank)

Despite this variety of loan funds, the NDFD suffered a poor liquidity ratio (portfolio as percentage of available loan funds) of 93%. Due to this poor ratio lending activities had to be curtailed towards the end of 2000, leading to a 19% decrease in disbursed loans as compared to 1999.

Table 9: Summary of Loans Disbursed by Size in 2000

Loan Size (US\$)	Number	Total Value (US\$)
Less than 375	26	9637.37
375-750	57	33899.49
751-1125	63	60347.70
1126-1500	36	48038.08
1501-1875	37	58432.46
1876-3750	89	236585.07
Greater than 3750	70	443208.67
TOTAL	378	890148.86

For 2000, average loan sizes decreased from the 1999 figure from US\$2,575.50 to US\$2,355.00. Of these loans disbursed, 81.5% were less than US\$3750.00, while 58% were for less than US\$1875.00. These loan sizes reflect 108% and 54% respectively of GDP per capita. Average loan size in 2000 was 68% of GDP per capita.

In terms of the sectoral distribution of loans by the NDFD, there appears to be a divergence between aims and allocation. Although there is a desire to target the agricultural sector, only 12.5% of loans were allocated here. Miscellaneous loans accounted for 31% of all loans while the service sector accounted for 25%. The retail and distributive trades each accounted for 12.5% of loans disbursed.

Table 10: Sectoral Distribution of Loans by Number of Loans, Number of Jobs, and Value

Sector	Number of Loans	Percentage of Loans	Number of Jobs	Percentage of Jobs	Percentage of Total Loan Value
Service	96	25%	159	28%	36%
Industry	33	9%	49	9%	9%
Agricultural	44	12%	86	15%	7%
Retail/Distributive	47	12%	103	18%	14%
General Construction	7	2%	16	3%	3%
Fishing	14	4%	23	4%	3%
Retrofit Loans	21	6%	56	10%	6%
Other	116	31%	70	12%	22%
TOTAL	378	100%	314	100%	100%

Despite the curtailment of lending towards the end of 2000, interest revenue increased by 18.2%. However, training revenue and bad debt recovery both decreased. In addition, the NDFD also experienced declines in dues and donations of 34%. Total assets also declined, although only by 2.4% to US\$2.5 million.

5.2 Financials

Von Stauffenberg (2000) has noted that of all the institutions in his study of MFIs in the Caribbean, that NDFD's management was the most entrepreneurial of all the NDFs in the Caribbean in terms of their approach to microfinancing. Despite this approach however, NDFD was seen to be losing money and suffering severe liquidity constraints. This is mainly due to the fact that the interest rate was too low to even cover operating expenses, and the Dominican finance market is heavily saturated, constraining the development of NDFD. The main information gathered by von Stauffenberg for the NDFD is shown in the table below.

Table 11: Main Information for the NDFD (December, 1999)

	NDFD
Gross Portfolio	US\$1,406,000
Percentage Growth (1999)	26.5
Number of Clients	1,172
Average Loan Amount	US\$1200
Average Loan Amount/GDP per capita*	0.4
Average Loan Terms (months)	36
Past Due >30 Days (Total Portfolio)	39.0%
Loss Provision Coverage >30 Days	11.2%
Operating Expenses/Average Gross Portfolio	17.4%
Clients/Loan Officer	391
Portfolio Yield	14.0%
Cost of Funds	4.8%
Debt/Equity	0.60
Return on Average Equity	-0.7%

Source: von Stauffenberg (2000)

*GDP per capita (1997)= US\$3,040

In addition to this data from 1999, the NDFD has supplied a more comprehensive breakdown of its financials for the 2000. Data was unavailable for 2001 as it was still under preparation for the approval of the Directors, which encompass a group of volunteers from both the private and public sector. These financials are included in the tables below.

Table 12: NDFD Financial Statistics, Consolidated Funds- 1999 and 2000 (US\$)

Financials	2000	1999
Total Current Assets	321016.5	342413.6
Total Current Liabilities	18897.75	17259.38
Net Current Assets (Working Capital)	302118.8	325154.3
Fixed Assets	428822.6	445820.6
Loans Recievable (Net of Provisions)	1466910	1365506
Retained Earnings (General Fund Only)	122119.1	88533.38
Revenue (Excluding Grants)	248866.5	247245.8
Expenditures	215280.8	235906.9
Net Surplus (Deficit) Before Grants	33585.75	11338.88
Grants	0	3790.5
Net Surplus (Deficit) After Grants	33585.75	15129.38
Current Ratio	16.99	19.84
Net Worth	1620692	1619589
Net Worth/Fixed Assets	3.64	3.63
Current Assets/Total Assets	0.15	0.16
Total Liabilities/Net Worth	0.18	0.25
Portfolio/Available Loan Funds (Liquidity Ratio)	0.93	0.82
Self-sufficiency Level	1.16	1.05
Expense/Income (Efficiency Ratio)	0.87	0.95
Cost per Loan Dollar	0.24	0.21

Source: NDFD (2001). Annual Report. NDFD: Dominica.

As concerns more recent data, the NDFD provided the following information as it relates to the profile of their credit services, staff and management performance indicators, and efficiency and profitability. This data is shown in the table below.

Table 13: Key Indicators as of March 2002

Variable	Value
Average Annual Growth in Assets	2.49%
Total Value of All Loans Outstanding	US\$1,579,410
Number of Loan Clients	1172
Average Outstanding Balance per Client	US\$1,347.38
Average Annual Growth of Loan Portfolio	16.76%
Average Loan term	42 Months/3.5 years
Effective Rate of Interest	10%
Average Loan Balance as a % of GDP per Capita	0.434%
Equity as a % of Total Assets	82.5%
Number of Loans/Total Staff	84
Salaries/Total Administrative Expenses	0.2079
Salaries/Average Portfolio	0.099
Salaries/Average Total Assets	0.048
Average Salary per Fieldworker	US\$825
Average Salary per Fieldworker as a % of GDP per Capita	0.266
Operational Self-Sufficiency (Operating Income/Operating Expenses)	1.15
Financial Self-Sufficiency (Operating Income/Total Adjusted Cost)	1.16
Adjusted Return on Average Total Assets	0.013
Adjusted Return on Equity	0.016
Administrative Expenses/Average Loan Portfolio	0.047
Administrative Expenses/Average Total Assets	0.023

5.3 Credit Technology

Due to the problems experienced with arrears and the subsequent loss of funding from USAID, delinquency control has become an important area for the NDFD to control.

In terms of assessment, credit checks are difficult in Dominica due to a lack of infrastructure. To circumvent this problem the NDFD is forced to use both physical collateral and guarantors to protect themselves. In attempting to prevent delinquency the NDFD monitors clients through on-site visits. This is however difficult and costly due to the rural nature of the population, the mountainous terrain and a subsequently difficult road network. This is in addition to staffing constraints and a lack of loan officers.

When these security measures have failed, the NDFD employs an independent collector who earns a commission on each collection. However, this approach and the use of the legal system are last resorts.

When these steps are taken however, clients have been known to repay promptly, especially when community members become aware of arrears with the presence of debt collectors, a form of social capital at work. However, this is a disturbing trend, for if the clients have the monies to repay, why are they using the NDFD for funding, precluding opportunities for others?

5.4 Main Environmental and Institutional Issues Arising

No microfinance institution operates in a vacuum, and it is clear that certain circumstances increase risk and reduce the ability of the organisation to be sustainable. Three factors are worth mentioning, politics and the economy, natural disasters, and population issues. Following a brief review of these issues, the main institutional issues are examined.

Politics and the economy

One client remarked that every time the government changes over, the economy falters. Others cited the WTO ruling on the banana issue, and lowered agricultural productivity due to a lack of scientific farming practices. One key public figure commented that the time that was perceived by most as a time of plenty was financed by international loans, and that the time for paying back those loans has come. Another interesting point made was that as long as the port and airport facilities remain underdeveloped, tourism, foreign investment and manufacturing would be limited. There were different opinions given as to reasons, but all clients expressed the view that the economy is likely to continue on its downward slide and things will get harder.

There is also the tendency for government to employ large numbers of the population. While official ILO statistics for 1997 put the percentage of public sector employees at 21.3% of the labour force (ILO 1997), one key informant quoted an unofficial figure of 40% of the labour force, with 60% of government expenditure going to payroll. In view of the poor performance of the economy, clients and other key informants anticipate a cut in public sector wages and/or number of employees. This could have a serious impact on the ability of NDFD clients to make their payments as a large number of them are government employees.

Natural Disasters

Dominica is situated in an area of high probability for hurricane strikes. These annual storms can disrupt infrastructure and destroy agriculture on the entire island. An organisation like the NDFD would experience a serious blow to any efforts to be sustainable if there was a severe hurricane, since a significant percentage of the loans in its portfolio are for agriculture (NDFD, 2001). In addition, the island has suffered recently from seismic activity in the southern part of the island, and University of the West Indies seismologists anticipate that large eruptions will occur some time during the next 100 years. Some of the models predict that the capital Roseau will be partially or seriously affected by future eruptions (Seismic Research Unit (UWI), 2000).

Population and Size

Bangladesh is an example of a country that suffers from natural disasters and has a weak economy, yet it has managed to produce the model of the microfinance institute. Two things Bangladesh has that Dominica does not is a large number of clients over which to spread risk and attain economies of scale. This is in addition to a large size that ensures that not all parts of the country are equally affected by a disaster. It is debatable whether sustainability is possible for a microfinance institution in a 'microstate' such as Dominica or the other islands of the Caribbean.

Institutional Issues

The recent reduction in funding experienced by the NDFD has had serious consequences for the Foundation and its clients. As noted by the Executive Director, when funding was more forthcoming, arrears were in the region of 5/6% when the Foundation was able to undertake more training and meet with clients more frequently. When funding from USAID ceased, arrears reached 16%, which has been difficult to reduce due to costs and a lack of available staff.

Therefore, one of the main issues here is a need to increase the ability of staff to meet and train clients. Funding for building the capacity of the NDFD is therefore vitally needed if they are to be effective in their mission and engender a more positive repayment culture among the Dominican population. Staffing issues are one of the many difficulties experienced by the NDFD and the other MFIs investigated.

The funding from USAID ceased in the case of the NDFD due to arrears as well as the low interest rate they were charging. However, the NDFD is presented with a dilemma. Without funding they cannot hope to improve the repayment culture, and if they raise interest rates they incur the wrath of the Dominican Government, and lose their more 'bankable' clients to the concentrated commercial banking sector in the island. This is due to the fact that in some cases, the NDFD are already subject to higher rates of interest than available in the commercial banking sector, where loan rates can be as low as 8.5%. The NDFD charges interest rates between 10% and 12.5% depending on the category of the loan and the funding source, as different donors may specify different interest rates for their funds.

Therefore, two other main issues exist: the interference of government and the role of the commercial banking sector. This is especially where government is interfering across the board to keep interest rates low, while the commercial banking sector is scaling-down

while the NDFD is scaling-up. This leads to increased competition for the NDFD where they meet commercial banks at a point detrimental to the long-term survival of the NDFD.

The problem with the commercial banking sector, which may be considered good if the exit rate is considered important, is that they 'steal' the NDFD's creditworthy clients. Although this may appear desirable, i.e. clients are made 'bankable' by the NDFD, it is also hampering the NDFD's ability to utilise these clients to further the NDFD's cause and assist in the enhancement of not-so-creditworthy clients.

If these clients move to commercial banks, and that is considered desirable, the NDFD will never be self-sufficient. Therefore, if the *exit rate* is considered important here, the NDFD would therefore need to restructure to become a sort of 'halfway house', and would need long term funding to meet these social goals.

Another important issue is the conflicting messages the NDFD receives from donors. On the one hand it is told by USAID that its interest rate is too low to cover costs per loan. On the other hand they are advised by the European Investment Bank (EIB) that grants distributed on a 50-50 basis (50% NDFD loan, 50% EIB grant) cannot be used to gain revenue through the charging of interest on the whole loan. The NDFD are only allowed to charge interest on its 50% of the loan to the client, not the 50% EIB contribution. This effectively subsidises the interest rate, further clouding the picture for the NDFD.

The other two main issues important to the NDFD relate directly to training, both for staff and for clients. In the monitoring of clients, the NDFD's job is made increasingly difficult due to a slack or complete absence of record keeping. When asked if they are making a profit, clients have responded that once they are making money, whether it is at a loss or not, they consider that they are making a profit. This presents a problem for the NDFD in approving further loans and evaluating the effectiveness of loans disbursed.

Allied to this is the belief by NDFD management that more than just loans are needed. Clients need to be trained and encouraged in the use of record keeping if they expect to be self-sustaining.

In relation to staff, there is also a recognised need for training in the area of project appraisal. If this form of training is not forthcoming, the NDFD will find it very difficult to be strategic and targeted in its approach to future developments.

5.5 Client Interviews

Due to the size and rural nature of the Dominican clientele of the NDFD, a different approach to the Barbadian study was adopted. In the case of the Dominican sample, interviews were conducted with 20 clients drawn at random from the database of the NDFD. This was in order to provide more indepth information that would have otherwise been the case. The general characteristics of this sample of clients are expanded on below. The following section provides more detailed information on a selection of clients collected through a series of case studies.

Of the clients interviewed, 7 were male and 13 were female, with 18 of those interviewed still holding a loan with the NDFD. The majority of clients had joined the NDFD when they were over 39 years old (12 clients), with the range of ages between 21 and 58. In a

manner this acts against the poverty profile of the Caribbean, where the poor are young, female, rural and undereducated. However, despite the lack of focus on the youth and females (34% of all NDFD loans are to females), the NDFD has concentrated on rural areas, with 61% of all loans to rural clients (62.5% of clients interviewed were rural) and the undereducated (30% of surveyed clients had only completed primary school, and a further 25% had only reached secondary school).

Of the clients surveyed, 14 were currently self-employed, while 5 were employed while running their current business. Only one of the clients was currently unemployed, and the majority of interviewees had taken employment by age 18 (60%). In terms of monthly income, with the exception of the unemployed client, 50% earned less than US\$300 per month, which equates approximately to GDP per capita. The maximum monthly income observed was US\$2,250, not an income that can be considered as representing poverty. In addition, this does not appear to represent any significant increase as 32% of clients reported their income as less than US\$280 per month before joining the NDFD. However, in demonstrating the scaling-up of operations, over 68% of interviewees had monthly income above the average of GDP per capita, which equates to US\$280. In terms of household character, 15 of the 20 interviewees had household incomes below US\$1875, supporting on average 3 persons from 2 wage earners.

For the clients interviewed, 8 were in agriculture, 8 were in services, 2 were in manufacturing, and 2 were in a combination of activities, mostly agricultural processing and manufacturing. The majority of these businesses (60%) either operated from the operators home or that of a family member or friend. These mostly home-based businesses were either the only or main source of income for those interviewed. Only seven clients cited their income from the business as supplemental.

Business Performance

In the first year of operation, turnover ranged from US\$937.50 to US\$37,875.00, however, nearly 60% of businesses had a turnover of less than US\$9,000. If this is compared to current turnover, the range was from US\$37.50 to US\$54,000.00, which represents a considerable reduction on the minimum turnover which is not matched by the related increase in the maximum. The median current turnover was US\$7650.00.

As this relates to the change in turnover over the loan period, only 2 of the 20 respondents reported any increase. However, as many of these businesses have not been established for more than five years, this result may not currently present any significant issues. If this trend continues however, it may be a cause for concern.

In terms of current assets among the interviewed clients there is a wide range, zero to US\$600,000. In terms of the maximum value, this represents a US\$300,000 increase. For the change in assets over the period of membership of the NDFD, over 40% of interviewees either experienced a decline or no change in their assets. For those that experienced an increase, it was substantial, up to a US\$600,000 increase.

Of all the businesses surveyed, there was a marked absence of dynamism, where only 5 of the 20 businesses surveyed had altered their direction in any significant way, and overall, changes in the businesses over the last two years have not been positive, as represented in the table below, where on the whole, profits have decreased, there has

been little employment generation, and personal advancement has not been realised. These are very serious issues that will need to be addressed.

Table 14: Changes in Main Business Variables (2000-2002)

	Increased (number of interviewees)	No Change (number of interviewees)	Decreased (number of interviewees)
Profits	4	4	7
Employees	1	10	4
Product Range	7	7	1
Personal Income	4	4	6
Personal Assets	6	8	0

In terms of original loans for those interviewed, sizes ranged from US\$375 to US\$45,000, and the majority presented no collateral (55.6%). Although the lower end loans could be considered micro in many respects, an upper end loan of such size cannot be termed micro. Despite this upper end value, three-quarters of those interviewed had received loans of less than US\$3375, just a fraction less than GDP per capita.

The majority of these original loans were used for business start-up or to solve cash-flow problems. Only three interviewees used the loan to purchase equipment. Of these clients, half have taken out an additional loan, ranging from US\$562.50 to US\$22,500. The mean value of additional loans was US\$6,729.17, with 50% less than US\$4,500. This demonstrates a scaling-up from original loan sizes.

In terms of the repayment culture among those interviewed, 11 clients had missed repayments at some point. One client had actually missed two years of repayments, but is however now attempting to correct the situation.

In demonstrating the highly banked nature of the Dominican population, 17 of the 20 clients interviewed had applied for a loan from a commercial bank or credit union. Of these 17, only 3 had been refused in the period preceding their membership of the NDFD. The nature of these loans from commercial banks was not readily established, but sizes ranged from US\$187.50 to as high as US\$150,000, with a median of US\$45,000, representing loan sizes much higher than that of the NDFD.

To demonstrate again the strong relationship these clients had with commercial banks, 17 of the 20 interviewees also held a savings account with these institutions. Savings ranged in value from US\$37.50 to US\$18,750, with a mean of US\$3894.64. If this is representative of the general clientele of the NDFD, the instigation of a savings element for the Foundation could provide a useful source of capital to on-lend. The prospect of such a savings element for the clients of the NDFD was met with very positive signals as 80% of interviewees stated they would definitely use such a service.

In terms of the importance of the NDFD to the enterprises funded, all clients interviewed stated that the funding and the support of NDFD staff was either important (15%), quite important (15%), or very important (70%). In terms of overall client satisfaction with the operations of the NDFD, the table below outlines the main perceptions.

Table 15: Client Satisfaction with NDFD- Percentage of Respondents

	Not Satisfied	Slightly Dissatisfied	Neutral	Satisfied	Extremely Satisfied
Range of Credit Products	0	5.6	11.1	16.7	66.7
Quality of Service	0	0	15	10	75
Interest Rate	0	0	33.3	38.9	27.8
Length of Repayment	5	5	5	50	35
Monitoring of Loan	5	15	10	20	50
Effectiveness of Loan	0	0	15	35	50
Ease of Conducting Business	5	0	5	20	70

As seen in the other two studies in Barbados, there is a great deal of satisfaction among the clients. The only major problem that the interviewed clients appeared to have with the NDFD is the monitoring of repayments, where clients believed they should be more vigilant. This is however difficult for the NDFD at the moment due to low staffing levels. Overall the clients have had little difficulty in dealing with the NDFD and the only specific problem mentioned was the length of the loan process where delays were often experienced.

5.6 Case Studies

Case Study I

LS started his farming business part-time in 1986. By 1993, he began working full-time and took on a partner, TY, who works for the business part-time in addition to his full-time occupation as a government employee. They used their own private funds to establish the business.

LS applied to the NDFD for a loan approximately seven times between 1986 and 1993 without success. After TY prepared a business plan, LS applied again in 1993 and got

the loan, which was used for basic farm improvement and to buy stock and equipment. TY also applied for a loan in 1997 for equipment for a separate project on the farm, and obtained the loan with no problems. He pointed out that government employees rarely have difficulty in getting loans as their payments are deducted directly from their salaries. For this reason, clients try to have government employees as their guarantors as this improves their chances of getting the loan.

TY was particularly critical of the monitoring of clients by the NDFD, citing the need for regular site visits by field officers to eliminate a practice he claims to have already witnessed - that of clients taking funds and using them for other purposes without the knowledge of the NDFD. He noted that although the NDFD calls on personnel from the Ministry of Agriculture to assist in carrying out site visits, sometimes both Ministry and NDFD staff are too overbooked to cover all clients.

He also questioned the present system of providing training and seminars to clients at a cost. His suggestion is to make it an optional part of the application fee, so that clients simultaneously invest in their business and their own training. In general, he recommends that more supervision of clients' businesses is needed, and not only for cases of impending default since clients often pay back loans from other sources of income after their businesses fail. He questions whether the NDFD is truly fulfilling its mandate if the micro and small businesses in its portfolio continue to have a high rate of failure in spite of good loan repayment.

He also mentioned that loan officers without sufficient knowledge of agriculture often turn down applications that they think are not feasible, forcing farmers to use their own scarce resources. LS confirmed this, saying that once, after trying and failing to get a loan, he tried his plan with private funds and produced even greater yields than those that loan officers had deemed impossible. TY believes that the NDFD needs to have a forum where clients can talk about their businesses, raise concerns and offer suggestions.

They plan to expand their business into hydroponics and greenhouses, but they will need a loan size beyond the NDFD's maximum limit. Therefore they will look for other sources of funding, including the Aid Bank, and use the NDFD only for their small loans needs.

Case Study II

MS set up her computer school in 2001. A friend told her about the NDFD, and although she made inquiries about other funding, she did not apply to any other institution. The loan was used for start-up, and though she found it was adequate, she said she would have preferred a larger loan. She would like to be able to get a second loan without having to paying off the first one.

MS had no complaints about the loan process and monitoring, and praised the NDFD officers highly for taking an interest beyond 'just business'. Monitoring was accomplished through site visits and calls. She had not heard about the training offered by NDFD.

She said that she will continue to use the NDFD for funding her business. Although she belongs to a credit union, she prefers to use it to obtain small personal loans instead.

In spite of her apparently excellent relationship with the NDFD, an interesting event occurred prior to the interview, and at its conclusion. The NDFD officers first went to her home, and were told by a man at the house that she was not in. He then asked anxiously if there was a problem with the loan repayments. The officers hastily assured him that there was no problem, and proceeded on to the school, three minutes away. En route, they related that although she was only one or two months in arrears, they had tried to visit her recently and had been unable to find her, and suspected that she had been warned in advance by neighbours of their arrival. After the interview, the same man who had been at her home appeared, out-of-breath and anxious, to tell her that he had tried to call her to warn her of the arrival of the officers. As he had been unable to reach her, he ran over to the school to find her.

This is an interesting example of the possible negative effect of community cohesion on microfinance, as friends and neighbours are apparently willing to help clients evade loan officers.

Case Study III

AC worked for seven years as an early childhood educator before deciding to resign to be closer to home. Her boss recommended that she set up her own kindergarten at her home and suggested the NDFD as a source of funding. AC did not seek any other sources of funding, nor did she let her husband know of her plans to set up a school at home. She used her first loan to assist with construction and infrastructure, relying on donations from friends and other interested persons for supplies of school materials. Apart from a slight delay in approving the loan, she had no difficulties with the process. She was required to submit bills to prove completion of the first stage of the work before funds for the next stage were released.

AC admitted to a need for training, however, beyond being shown by a loan officer how to keep books, she has not attended any of the seminars or workshops held, pleading a lack of information as an excuse. When questioned further, she admitted that she sometimes hears about them on the radio or the television, or she is informed when she calls the NDFD. She did mention that once they called her concerning a seminar, and when she expressed interest, they promised to get back to her and never did. This situation may be related to understaffing at the NDFD.

Before the start of the interview, when the NDFD officers were still present, she invited them to speak at the school's end of term, sounding rather as if she did not intend to take no for an answer. The senior officer cited a previous engagement and delegated the junior officer to attend. In spite of this, during the interview, she said that the NDFD should take more interest in the school, and that there should be more visits.

She could have benefited from better payment monitoring, as she piled up two years worth of arrears through not understanding that late payments result in the charging of interest. Statements from the NDFD are available on request, and are not routinely issued. In the end, she felt sufficiently overwhelmed that she turned over the managing of the debt to her husband, who has an accounting background, and who is now an unofficial partner in the business.

The loan met her needs to a certain extent, but not to her complete satisfaction. In the future, AC plans to seek other sources of funding besides NDFD, and also wishes to get training in management so that she can handle her business more efficiently.

Case Study IV

NP had been working on a farm for several years when in 1982 he had the opportunity to buy it over. In 2001 he obtained a loan from the NDFD for a fruit cultivation project. He noted that it was previously easier to get loans from commercial banks, when the economy was in a better state, but that now there were problems with the size of the down payment and the lack of security. The NDFD was recommended to him by an employee at the National Bank of Dominica, and he found their down payment requirements to be more reasonable.

It is too early to tell how effective the loan will be, as he has not yet received all the promised funds. Nor can he comment on the monitoring of repayment as he has only recently completed his six-month grace period. The NDFD visited his farm twice during the loan approval process, but he has not seen them since then. He is also unable to comment on the training and seminars, as he has no information on them.

NP had some interesting comments to make on the role of institutions like the NDFD. He prefers that they give assistance as loans rather than grants, but he stresses that they should not start to compete with commercial banks. Citing another Dominican institution, the AID Bank, as an example, he remarked that although it was established by the government for businesspersons in the lower economic brackets, it has more recently taken to acting like a commercial entity. According to him, the AID Bank undercuts the commercial banks with its lower interest rates and makes a point of attracting well-off clients who could and should be using commercial banks. While this means that the AID Bank makes money and stays sustainable, it also means that it is failing to provide for the poor who cannot use commercial banks. NP is concerned that if the NDFD begins to operate in a similar fashion, there will be no alternatives left for poor people.

NP also provided an example of how banks and microfinance institutions are too risk-averse and thus unable to adapt to the financial realities of small businesspersons. He once had a boat that he used to ship fruits to other islands, but it was destroyed in a hurricane. He is unable to replace it because he cannot get a loan without insurance, and he cannot get insurance because the only boats in his price range would be second-hand and past an insurable age. He would like to see institutions more willing to take risks by granting loans for uninsured boats.

5.7 Summary

Even though poverty alleviation is a specific target of the NDFD, they have been forced to up-scale away from this group. As part of their hidden transcript, the NDFD draw no lines as to who is allowed to be granted loans, although there are maximum asset limits that by no measure a poor person would have. These measures have been taken to attempt to attain some level of self-sufficiency. Some of the main problems faced by the NDFD include the following:

- Clients from the indigenous community of Caribs are considered to have a mentality of dependency, resulting in poor repayment rates and a tendency to assume that the government owes them everything. One officer remarked that to guarantee attendance at meetings they have to provide the Caribs with both transport and refreshments. It appears that non-Carib Dominicans have grown resentful of this perceived attitude from the Caribs. Nevertheless, high rates of poverty in the Carib community demonstrate that some assistance is needed.
- Clients who can afford to repay loans attempt to evade repayment until legal proceedings are started.
- Government involvement in financial institutions is high, resulting in coercion to keep interest rates low across the board to benefit small businesses.
- More and better-trained officers are needed as there are presently only two members of staff who are trained in project evaluation /appraisal.
- Conflicting signals from donors

Due to these problems experienced, up-scaling appears necessary, in a manner forcing the NDFD to deviate from its mission explicitly. In other words, the NDFD cannot meet its mission if:

- Default is 'encouraged', i.e. not punished, by the Dominican Government
- Donors send mixed signals
- Funding is curtailed and staffing suffers, leading to arrears and hence a need to up-scale to survive
- The interest rate is too low. However it appears that if the interest rate were higher, the NDFD would eventually cease to exist as other institutions would gain. Competition in the market is high
- Self-sufficiency is touted as achievable in the Caribbean setting

In relation to this last point, it appears that it will be a long time before this is achievable. Before MFIs in the Caribbean can begin on the path to self-sufficiency, a variety of needs must be met, including substantial investments in human capital, donor co-ordination and technological effort.

6. Identification of Main Experiences & Recommendations for Best Practice

The main experiences from the survey indicate that loans are not micro-loans, and that the majority of the MFIs in Barbados and Dominica are utilising assets-based lending, rather than the original MFI approach of character-based lending. More importantly, the clients are not poor, especially as assets and income are significantly above what one would consider the poverty line.

In addition to this there is a clear lack of institutional capacity within the MFIs, where staffing levels are insufficient to be able to screen, monitor, and develop the client base of the institution.

There is also a lack of networking between support organisations, a trend seen among their clients as well, which could perhaps be remedied by a greater dissemination of information about the availability of these support services.

Although BYBT utilises the services of mentors to guide their clients, there is a need to improve the selection process if their input is going to be effective. In addition to this, the institutions will need to try and avoid up-scaling away from the clients they were originally hoping to serve as this has led to increased competition as commercial banks scale-down.

In terms of the recommendations for best practice that have emerged from the study, it can be seen that the effect of the institutions on their clients has been positive, according to the responses of the clients. Although two negative issues arise, the fact that the loans are not micro-loans and that clients are not what, by international standards, can be considered poor, there are some positive lessons that can be taken from the study. These lessons include:

- The mix of character-based and asset-based lending utilised by BYBT can assist in successfully screening out potential defaulters as well as provide the truly constrained with an opportunity to access finance and avoid falling into poverty
- The community-based program established by PEFS, with a concentration on character-based lending, accessibility, and respect can successfully improve the human development of their clients in terms of both self-worth and financially
- The simplified application procedure used by PEFS needs to be used extensively as clients perceive the process as arduous elsewhere
- Programs need to be more integrated in offering business training that is relevant to the microentrepreneur, while allowing them to bear some of the cost of training will assist them in making sure the training is relevant, as seen in Dominica with the NDFD
- If the programs are seeking to alleviate poverty, they will need to be cognisant of the character of poverty, which in the Caribbean is female, young and rural. As there is little concentration in the Barbados sample on specifically women or the rural, this will need to be remedied
- Graduation to the commercial banking sector is needed, therefore loan officers will need to constantly assess their clients to determine when they are ready. To retain

them in a program when they are creditworthy will preclude opportunities for other not-so-creditworthy clients

- There is a need to disseminate to clients the opportunities available for training, grants and loans from other organisations so as to allow the client to develop in a variety of ways
- Overall, as demonstrated by PEFS, the development of social capital is extremely important for the success of both client and institution. The manner in which this can be achieved is however difficult to determine

Although these experiences and best practices are important to recognise, it is also important to determine what direction the policy-makers want to take. Policy-makers will need to outline the main goals and rationale for microfinance, whether it is poverty-alleviation or self-sufficiency for the institutions. These issues are the ones that will determine the type of best practice to be adopted, as if the goal is self-sufficiency, community-based lending is untenable, and the size of loans will undoubtedly increase as MFIs scale-up their operations to reach clients far above the poverty line, as seen in other Caribbean microfinance institutions.

This leads to an important point. Governments (and regulators), donors and MFI practitioners will need to decide on which point within the polarised perspectives in microfinance they plan to operate (see Table 1). If the goal is poverty alleviation, co-ordinated efforts must be made to:

- Increase the depth of outreach
- Adopt a welfarist approach
- Provide an integrated service- microfinance and human resource development
- Accept that subsidisation is needed
- Realise that higher interest rates are tenable and needed if the crowding out effect is to be avoided
- Reduce government influence in the practice of microfinance and increase their role in constructing an enabling environment
- Attempt to reach the ‘real’ poor who, in the Caribbean, are female, young, rural and undereducated, through directed programs

7. Main Policy Implications

In analysing the main policy implication of the current project, the issues important to the Caribbean will need to be addressed explicitly before the future direction of microfinance can be determined.

Most importantly, the mission of microfinance will need to be explicitly defined. There appears to be a divergence of views related to whether microfinance should be directed towards becoming self-sufficient or whether the primary objective should be to alleviate/reduce poverty. Implicit in a mission of self-sufficiency is that the resources should be directed towards enhancing entrepreneurship and consequently the profitability of microenterprises. However, this appears at odds with the original motivation of microfinance, which was as a weapon in the fight against poverty. If the Caribbean nations are seeking to alleviate poverty, the goal of self-sufficiency must take a back seat to encouraging a greater depth of outreach to the poor. Such an approach will need to be cognisant of several factors, including:

- Who are the poor?
- What are the main needs of the poor?
- How do we ensure that the poor benefit?

In answering these questions policy-makers will need to realise that the poor are not a homogenous group, and because of this their needs will be different. In this vein the poor can be classified into three grouping: (1) the very poor or indigent; (2) the poor; and (3) the marginally poor. Obviously these groups will have different needs, therefore, to ensure that all these groups benefit, perhaps a tiered approach will be needed, one where different MFIs cater to different segments of the poor.

In order for such an approach to succeed, Caribbean states will need to provide sufficient institutional capacity to enable MFIs to successfully means-test the different segments of the population to ensure that the correct segment of the poor benefit from the services available. Unfortunately, due to the lack of efficient means-testing and credit rating in the Caribbean, MFI clients who are members of the non-poor benefiting from low-interest loans and crowding out those persons that are in real need.

Another method of ensuring this crowding-out effect does not occur is the utilisation of higher interest rates so that those who have access to other sources of finance at a lower interest rate will not utilise the microfinance network. However, in the Caribbean this appears to present an ethical problem to microfinance providers and their donors. This ethical problem stems from a belief that it is 'wrong' to profit from the poor, and that the poor cannot afford market interest rates. However, it needs to be appreciated that the 'cost' of credit is not so much the problem as the availability of credit for the poor.

Until these broad issues are addressed adequately, the MFI movement in the Caribbean will continue to flounder without any real direction. If the poverty issue is to be addressed successfully it will need to be recognised that once these issues are addressed, a specific understanding of the poor is needed. It is known that the main characteristic of poverty in the Caribbean is rural, female, and young, with a strong link to low educational achievement. Therefore, if these characteristics are to be addressed, MFIs

will need to increase accessibility for rural populations, adopt explicit programs for the youth and females, and establish human resource development programs either internal to the MFI or in conjunction with other able organisations. However, and in relation to the tiered approach mentioned earlier, the very poor will have different educational needs to the marginal poor, so an approach that is appreciative of this will need to be adopted. This is especially in relation to programs that provide minimalist microfinance service to marginally poor microentrepreneurs, and integrated programs that provide both microfinance and human resource development services to the poor and very poor.

In relation to the very poor, an important characteristic that policy-makers will need to be cognisant of is that the very poor have been characterised as:

- Very risk averse (not entrepreneurial) and therefore more likely to be employed rather than self-employed
- Likely to be excluded from microcredit due to selection bias (self de-selection, excluded in group initiatives)
- Lack collateral
- Include mainly the youth and females

Due to these characteristics the very poor would probably benefit more from human resource development that can increase their employability rather than approaches that increase their entrepreneurial ability. This approach to the very poor is not to preclude their opportunities to undertake entrepreneurial activities, just as recognition that their opportunities are constrained by their poverty status.

As can be seen there are several implications emerging from the current study. From experience and recent observations by the Project Team, the problems experienced and potential solutions for the Caribbean can be categorised as follows:

- **Small size:** to alleviate this problem one of the potential paths is regional co-ordination to achieve economies of scale perhaps through the use of an apex institution in conjunction with community banks as well as the formation of regional credit checking agencies
- **Inefficient MFIs:** need to train managers and staff to increase efficiency and increase the number of loans per loan officer to reduce costs
- **Lack of Savings-led Strategies:** need to reform the financial environment to take advantage the benefits of savings-led approaches- source of cheap capital and the provision of a natural client pool
- **Bias towards small enterprises:** need a change in mind-set to realise the poverty alleviation and employment generation potential of microenterprises
- **Heavy reliance on subsidies/government intervention:** shift towards the creation of efficient NGOs where hard budget constraints can maintain efficiency if subsidies still utilised, or the formation of trans-regional apex MFIs to achieve economies of scale and potential self-sufficiency

- **Network Co-ordination between donors, governments and MFIs:** if the goal is poverty alleviation, governments must realise that interference in the operations of these MFIs will be detrimental to their long-term survival. This is especially in relation to pressures to keep the interest rate low so as not to “*persecute the small man*”.

In summation, Caribbean MFIs, governments and policy-makers will need to decide explicitly what direction they intend to follow. If the decision is that poverty alleviation is the primary goal, then steps need to be taken to ensure success. These steps include, firstly, ensuring that the poor benefit, secondly, that the support offered is relevant in terms of their needs and characteristics, and finally, constant review to ensure the systems continue to operate to the benefit of the target population to avoid scaling-up.

8. Appendices

Table A1: Main Poverty Indicators for Barbados and Dominica

Country	Total Dependency Ratio 1991 (1)	Head Count Index (2)	Poverty Gap (3)	Poverty Severity (4)	Annual Per Capita Poverty line (US\$) (5)	Integrated Poverty Index (severe poverty > 0.40)	Basic Needs Index (very needy < 0.50)	Human Develop ment Index (6)
Barbados	72	8.8	2.3	1.0	2751.00	0.057	0.926	0.864
Dominica	73	33.0	n.a.	n.a.	n.a.	0.501	0.782	0.798

n.a.: Not available

Unless otherwise indicated, all data and tables have been adapted from: Baker, Judy L. *Poverty Reduction and Human Development in the Caribbean: A Cross-Country Study*. The World Bank, Washington, D.C., 1997

(1) Total Dependency Ratio: the balance between the number of persons working per 100 and the population in the dependency age groups (under 15 yrs and over 65 yrs). From National Censuses.

(2) Head Count Index: Dominica poverty estimates from the IDB as reported in Green, E. *Reducing Poverty in the Caribbean by Interventions in Health and Education*, PAHO, 1994. Barbados data from *Poverty and Income Distribution in Barbados: 1996-1997*, IADB, October 1998; Source: Statistical Service Department, 1996-1997.

(3) Poverty Gap, (4) Poverty Severity, (5) Annual per capita poverty line: Barbados data from Statistical Service Department, 1996-1997.

(6) Human Development Index (1999) for Barbados taken from the UNDP Human Development Report 2001. HDI (1998) for Dominica taken from the UNDP Human Development Report 2000

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