

## **Financing Low-Income Borrowers in the Caribbean: Experiences from the Barbadian Microfinance Sector**

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### **I . Introduction**

Over the past three decades, microfinance services have captured the various financial needs of the poor and have emerged as a major component of development policies and practices around the world. By adopting microfinance as a core component in their development

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programmes, various governmental agencies and non-governmental organizations (NGOs) are reducing poverty and raising the status of women and disadvantaged communities (Hossain 2002; Hossain and Knight 2008). As a concept, microfinance pays close attention to the incentives that drive efficient performance (Morduch 1999) in the context of small transactions and large numbers of clients. Most of the institutions in microfinance are based on group based lending approaches and thus reduce the administrative costs of gathering information, contract design and enforcement of credit transactions, including loan recovery (Hulme and Arun 2009). Microfinance is used for the purpose of financing small and microenterprises (SMEs) and social obligations, emergency and home improvements and acquisition of household assets (Hossain and Rahman 2001; Christen et al. 2003; Hulme and Moore 2006), where small and microenterprises (SMEs) are “those businesses which produce good and services utilizing few employees and limited capital” (Hulme and Moore 2006, 2).

This article examines the policy challenges faced by the microfinance sector within the Caribbean, with an emphasis on the Barbadian context. The paper is based on our recent research on microfinance institutions (MFIs) and microfinance practice in Barbados. Empirical data and information of this research is based on the field study which was carried out in 2007. The research was conducted via the application of participatory methodological techniques, which were further supported by academic literature in the Caribbean region. As in other regions, microcredit is the most popular of the financial services provided under microfinance in the Caribbean and hence will be used interchangeably with the term “microfinance” throughout the paper. Despite varying levels of socioeconomic development within the region, reference to characteristics of microfinance in the Caribbean will be used in conjunction with Barbados, given the proximity between Barbados and other neighbouring Caribbean countries and resulting similarities in history, culture and standards of living, as well as the relationship of these characteristics to the common

advantages and disadvantages within the Caribbean microfinance sector. Indicators of Barbados and the Caribbean will be provided throughout the course of the study. This paper commences with an overview of the Barbadian microfinance sector, followed by a discussion on the advantages and the disadvantages of microfinance in the Barbadian context. The article concludes with recommendations for the advancement of the microfinance sector within the Barbados and the Caribbean.

## **II. Microfinance Sector: A Caribbean Perspective**

### **II.1. The Relevance of Microfinance in the Caribbean Region**

Barbados is a small English-speaking island, situated northeast of Venezuela. A former colony of the British Empire, it is the most easterly of the Caribbean islands and is located between the Caribbean Sea and the North Atlantic Ocean. It is a densely populated island, boasting approximately 284,589 people over an area of 431 square kilometers (CIA 2006; Caribbean Centre for Money and Finance 2009). The largest sources of foreign exchange are offshore finance and information services, leading to a dependency of the economy of Barbados on financial services (Lashley and Lord 2002; CIA 2006; Government Information Service 2007). General and social indicators of Barbados and selected English-speaking countries in the Caribbean have been provided in Table 1.

〈Table I〉 Social Indicators of Selected English-speaking Caribbean Countries

Country	Population (July 2009 est.)	Human Development Index		Life Expectancy at Birth		Combined Primary, Secondary, Tertiary Gross Enrollment Ratio		Labour Market-Unemployment Rate
		Value	Ranking	Years	Ranking	%	Ranking	%
Bahamas	309,156	0.854	49	72.8	68	71.8	102	8.7
Barbados	284,589	0.889	37	76.8	36	83.9	43	8.1
Guyana	772,298	0.725	110	65.8	119	83.9	42	8.2
Jamaica	2,825,928	0.771	87	72.3	75	78.1	66	11
Trinidad and Tobago	1,229,953	0.833	57	69.4	107	61.1	133	4.9

Source: United Nations Development Programme (2008); Caribbean Centre for Money and Finance (2009)

\* It is noted that the majority of the indicators are ranked out of 179 countries measured by the Human Development Report. The table reflects general similarities in levels of human and social development (with a few exceptions) despite varying population sizes.

Despite relatively good standards of living in Barbadian society, poverty dominates the rural parishes (Lashley and Lord 2002) and consequently, poverty eradication and entrepreneurial development have been prioritized in the Barbadian National Strategic Plan 2005-2025 (Ministry of Finance and Economic Affairs 2005). The social and economic development of the Caribbean region, while characterized by relatively strong economies, has suffered from widespread poverty, high levels of indebtedness, poor transportation networks to crucial sectors such as tourism and hospitality and a progressively weakening agricultural sector, the latter presenting severe implications for the rural poor (Caribbean Development Bank 2007; Bowen 2007). Additionally, several unique conditions within the region, ranging from environmental degradation and economic shocks to continuous exposure to natural hazards such as hurricanes, have exacerbated the vulnerability of the Caribbean's poor and hampered the social welfare in

the region (CIDA 2007; Caribbean Development Bank 2007). Of all of these conditions, poverty prevails as the most important challenge in the region where 30 per cent of the population is poor and a large number of people reside just above the poverty line (Bowen 2007; Caribbean Development Bank 2007).

The designation of the year 2005 as the International Year of Microcredit by the United Nations General Assembly aimed to emphasize the relationship between access to credit and the achievement of the Millennium Development Goals (Tejerina and Westley 2007). Therefore, given the positive impact of microfinance on poverty alleviation and other social indicators of development such as education and health, as well as the existence of numerous MFIs in the region (Wenner and Chalmers 2001; Chowdhury et al. 2004; Lashley 2004), it appears that microfinance provision is perceived as a key feature of development policy priorities in the Caribbean region.

With entrepreneurial development, the need for finance naturally follows (Arestis 2005) and as Wenner and Chalmers (2001) observe, most businesses in the Caribbean are small and microenterprises. In our study, microenterprises have five or fewer employees, small enterprises have between six and 25 employees and medium enterprises employ more than 25 individuals, according to Lashley's (2007) classification. This underscores the relevance of microfinance as a means of financing small businesses, thus creating new products and services, encouraging industry and innovation and improving employment opportunities and economic growth (Wenner and Chalmers 2001, Griffith and Brathwaite 2003; Lashley 2007). Despite the abundance of SMEs within the region, access to credit has been persistently low, thus negatively impeding their growth (Wenner and Chalmers 2001; Lashley and Lord 2002; Navajas and Tejerina 2006). As in other countries, this may be due to the inherent bias on the part of banking institutions to incur the high transaction costs and risks associated with the provision of financial services to SMEs. Consequently, only a small percentage of microentrepreneurs, approximately 3-5 per cent have

access to funding (Wenner and Chalmers 2001). In more recent studies on access to finance in the region, it was found that 44 per cent of applicants were able to access their required financing. (Brewster in Maurer 2008). Additionally, adverse operating conditions, demand for small loans with resultant high transaction costs and lack of collateral for guarantee purposes compromise their repayment capacity (Wenner and Chalmers 2001; Navajas and Tejerina 2006). These evidences have revealed a big gap in accessing the required finance for low income borrowers and institutions. How far the microfinance organizations are able to fill this gap in the Caribbean context is the central theme of this paper.

## II.2. The Major Microfinance Players in Barbados

The success of Latin American MFIs as financial services providers for microenterprises with limited access to finance has influenced the development of the Caribbean microfinance sector in the 1980s (von Stauffenberg 2000). In Latin America, microfinance is seen with a commercial orientation with respect to operations, financial performance, financing, and ownership (Berger 2006). In Barbados, the Barbados Development Bank was the sole source of funding to the micro and small enterprises until the mid 1990s, when new sources of public-private collaborations emerged.

These new institutions have become innovative in providing non-traditional finance and necessary technical assistance to their clients:

- *Barbados Agency for Micro Enterprise Development (Fund Access)* aims to enhance the development of micro enterprises via the provision of training, technical assistance and credit in businesses, self-employed and unemployed within the retail, tourism, agricultural, manufacturing and service sectors. Applicants' participation in training programmes is mandatory. Additionally, accounting services and technical assistance are provided within the first 6 months at no additional charge.

- *Urban Enterprise Programme of the Urban Development Commission* assists in the provision of employment opportunities and provides support to existing arrangements within the informal sector. Their aim is to decrease the urban unemployment and underemployment by enhancing sustainable microenterprise development.
- By financing microbusinesses, the *Rural Development Commission* promotes poverty alleviation, creates sustainable development within the agricultural sector and enhances rural agricultural product output.
- *Barbados Youth Business Trust* provides business development loans and training for youth aged 18 to 35 years, and supports the counseling provided by the Youth Entrepreneurship Scheme (Griffin and Brathwaite 2003).

A comparison of the various characteristics of Barbadian MFIs has been outlined in the following table (Table II).

<Table II> Comparison of Various Microfinance Organizations in Barbados

Organization	Public Sector/ Private Sector/ NGO/Other	Specific Organizational Purpose	Loan Ranges (US\$)	Repayment Arrangements
Fund Access	Private sector (Public sector affiliation)	Entrepreneurship	350- 50,000	1-10 year repayment period; collateral, guarantors required
Urban Development Commission	Public sector	Urban employment	Up to 12,500	Maximum of seven years collateral required
Rural Development Commission	Public sector	Poverty Alleviation	Up to 50,000	1-3 year repayment period; collateral required
Barbados NGO Youth Business Trust	Youth	Entrepreneurship	500-15,000	asset and character based lending

Source: Adopted by the authors

There are several other organizations and programmes that serve to support and promote development of the small and microenterprise sector in Barbados. These include:

- Small Business Act: The aim of this act is provision of a regulatory framework that enables the development of the small business sector. Griffin and Brathwaite (2003) classify small businesses as having fewer than 25 employees, with local ownership exceeding 75 per cent of its shares, less than US\$ 500,000 in paid up (stated) capital and US\$ 1,000,000 in annual sales.
- Barbados Small Business Association specializes in the provision of technical support to its small enterprise members via networking and coordination assistance.
- Barbados Small Business Development Centre of the Barbados Investment Development Corporation facilitates competition and business development via provision of business counseling, dissemination of information and technical assistance.
- Central Bank of Barbados has established a credit guarantee scheme for small and medium enterprises in Barbados, with the purpose of protecting commercial banks and other funding institutions against credit they provide to SMEs.

Finally, the following organizations serve to provide additional support to the Barbados microfinance sector:

- Caribbean Technological Consultancy Services has been established by the Projects Department of the Caribbean Development Bank to provide technical assistance, loans and grants to micro, small and medium businesses, as a means of support to the small scale private sector.
- The Youth Entrepreneurship Scheme equips young entrepreneurs with the skills and knowledge necessary for the business world via technical assistance, access to finance and business training. Similarly, the Business Development and Entrepreneurship Division of the Barbados Institute of Management and Productivity, as well as the Department of Management of the University of the West Indies'



Cave Hill Campus both provide management training for development of business skills (Lashley 2006).

- While not a microfinance provider, Enterprise Growth Fund Ltd assists with the provision of technical assistance and venture capital to small and medium (not micro) sized businesses, within the range of US\$50,000 to US\$750,000 via six funds which are venture capital fund, tourism loan fund, small hotels investment fund, agricultural development fund, industrial investment and employment fund and lastly, the innovation fund (Griffin and Brathwaite 2003). Similarly, the Caribbean Financial Services Corporation (CFSC) provides comprehensive financial and advisory services to small and medium sized businesses engaging in similar activities as in the aforementioned funds, with the aim of promoting sustainable business development within Barbados and the Caribbean.

### II.3. Analysis, Research Context and Findings from Barbados

Field research among various organizations within the microfinance sector was conducted in Barbados, utilizing participatory methodological techniques. Both formal and informal interviews were conducted in order to provide insight into how the microfinance sector operates in practice as well as to allow participants to present their opinions on the benefits, constraints and characteristics of Barbadian microfinance. Interviewees included representatives from MFIs (both existing and defunct), microenterprise owners, SME support/ regulatory organizations, commercial financial institutions (banks and credit unions) and an academic research institution.

The MFIs in our study were generally small, with an employee complement ranging from five to fifty employees. The particularly small size of Barbados has allowed easy access of MFIs for most clients, with institutions such as Rural Development Commission appropriately located in the rural parish of St. Peter in Barbados and other MFIs located in the country's capital. The mission statements of all of the MFIs interviewed

concentrated on the provision of financing to those who would not have otherwise had access to financing, with collective emphasis on the promotion of entrepreneurial spirit, SMEs and the self-employed. This may be attributed in part to the aforementioned Barbados National Strategic Plan 2005-2025 (Ministry of Finance and Economic Affairs 2005) which emphasizes the spirit of entrepreneurship. The participants in our study generally concurred on a high demand for microfinance, which was attributed to growing preference among the Barbadian workforce as a result of the increased focus on entrepreneurship by government policy as well as to its benefits, which will be discussed in more detail in the following section. Participants reported a greater level of enthusiasm and initiative in females and equally high confidence levels in male clients, resulting in only negligible differences between the sexes, as it relates to demand for microfinance.

Unlike global microfinance programmes such as those offered by the Grameen Bank<sup>1)</sup>, our study found that with the exception of now-defunct private sector microfinance programme, provision of microfinance in Barbados was not specifically limited to those below the poverty line of BDS\$ 6.032 per annum (Government of Barbados 2006) but encapsulated those within the low and medium income bracket as well. It is noted however that the aims of self-employment, job creation and entrepreneurship outlined in the mission statements of the Barbadian MFIs often indirectly encouraged poverty reduction and alleviation. This is further supported by the flexibility of the various MFIs towards provision of adequate finance to micro and small enterprises, given the higher range of

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1) In his native Bangladesh, Muhammad Yunus encountered several challenges in his efforts to increase provision of financial services to the poor via commercial banks. As a result, he founded the Grameen Bank, a separate bank specifically serving the rural poor. Grameen Bank, which is now owned by its borrowers, provides collateral-free banking to approximately seven million poor people via group lending (The Nobel Foundation 2006). Owing to the success of Grameen Bank, several adaptations of the Grameen model have been established around the world. Consequently, Muhammad Yunus and Grameen Bank were awarded the Nobel Peace Prize in 2006 (The Nobel Foundation 2006).

funding of BDS\$ 350-50,000 (see Table II) than the US\$ 300-700 range of “true MFIs” observed by Lashley and Lord (2002, 13) in other countries and the lower interest rates, ranging from 4-10 per cent when compared to the average rate of 12 per cent offered by Barbadian commercial banks at the time of the survey. Additionally, while in contrast to the Grameen Model, MFIs in Barbados require collateral in most cases, the requirements of the latter include equipment and are less stringent than in the commercial banking sector.

Globally, microfinance provision is not limited to NGOs but includes commercial and state-owned development banks as well as financial cooperatives and various licensed and unlicensed non-bank institutions (Christen et al. 2003). Within the Caribbean region, other prominent MFIs include the National Development Foundation of Jamaica and DFL Caribbean Holdings Ltd which comprises Microfin Caribbean Holdings Ltd (MICROFIN) and other subsidiary firms. Regional organizations that provide support to the microfinance sector include the Caribbean Microfinance Network and the Inter-American Development Bank and the Caribbean Microfinance Network. While Wenner and Chalmers (2001) observe current domination of the Caribbean microfinance industry by non-governmental organizations (NGOs) and credit unions (CUs), Table I shows that the role of government in microfinance provision in Barbados in particular is much more prominent, with the majority of Barbadian MFIs operated by government. Even microfinance providers operating in the civil society and private sector are usually affiliated with government, which may occasionally provide funding for the purpose of underwriting the loan portfolios, as occurs in the case of the Barbados Youth Business Trust (Lashley 2006). As a result while sustainability was a direct goal of many larger Caribbean MFIs such as MICROFIN in Trinidad, this was not the case for the Barbadian MFIs interviewed.

Additionally, the last 6 years have marked renewed commitment by the Barbados government to policy initiatives concentrating on the development of the small and medium enterprise sector (Griffin and Brathwaite 2003;

Ministry of Finance and Economic Affairs 2005). The aim of such initiatives is to both to evaluate and establish potential relationships between the small business sector and governmental financial institutions, as well as to provide support to existing policy initiatives. Included are potential increases in capital and decreases in interest rates of major MFIs, and in the case of small businesses, loan guarantees, technical assistance and reduced corporation tax, in addition to exemptions from withholding tax on earnings on investment, stamp duty and import duty paid on plant and equipment (Griffin and Brathwaite 2003). Other initiatives occur in the area of agriculture where the provision of funds for the development and implementation of products in the agricultural sector is prioritized (Griffin and Brathwaite 2003). Emphasis on agriculture has also been underscored by the high ceiling for loans provided by the Rural Development Commission which far surpasses the ceilings of 2 other MFIs (see Table I). Several of these proposed initiatives have since been implemented including the reduction in interest rate from 11.5 per cent to 6 per cent for loans provided by Fund Access.

While our study found that the microfinance institutions above contribute largely to meeting the financing needs of SMEs. It was also revealed that the support received by the above-mentioned support framework was critical to survival and development of the sector. However, a gap in access to financing for the low income persists as a result of several challenges of microfinance provision in Barbados. These challenges are also common in MFIs within other countries in the Caribbean. The advantages and challenges of microfinance provision in Barbados and the region and their relationships to the MFIs in our study have been discussed in the following section.

### **III. Scope and Constraints of Microfinance Sector in the Region**

With the benefits of microfinance firmly emphasized and its extensive support framework outlined in the discussions above, several factors further

serve to underscore its importance in the region. Several advantages of microfinance to Barbados and the region were identified by the participants of our study and can be classified according to benefits to the microentrepreneurs, surrounding communities and the economy.

- **Entrepreneurs:** Our study found that microfinance serves to fund the informal sector in Barbados, the majority of which would have had limited access to credit, thus operating businesses that would otherwise have been unsuccessful, particularly in the case of start-ups. It assists skilled individuals with little or no access to credit to rise out of poverty and also facilitates expansion of SMEs into larger businesses. This serves to enable livelihoods and to act as wealth creation mechanism, thus positively influencing their quality of life. Microfinance clients are therefore found to display increased self-sufficiency, confidence and empowerment.
- **Surrounding communities:** Microenterprises act as service providers in terms of meeting community needs and fostering an entrepreneurial culture, particularly as community members have increased access to markets, supplies, products and services that traditionally located in the country's capital. An increase in the number of SMEs is usually accompanied by infrastructural development and successful SMEs are often able to 'give back' to the community via participation in sponsorship opportunities. Additionally, even small SMEs often hire at least one additional person in close proximity, thus increasing community employment.
- **Economy:** Microfinance promotes entrepreneurial development and increased employment, as well as increased disposable income and opportunities for sale of products overseas, thus increasing foreign investment and foreign exchange.

Furthermore, Westley (2005) has noted the large untapped potential for the development of the Caribbean sector, given the presence of several

factors that naturally enhance its effective provision within the region. He further observes that the upper limits on interest rates are rarely enforced and the operational and client transaction costs are low, owing to small sizes of densely populated Caribbean countries. The costs in the Caribbean microfinance market are further reduced by well-established infrastructure such as road and telecommunications which are much more superior than in many countries that have achieved success in microfinance provision and are further supported by macroeconomic stability and well developed financial markets (Wenner and Chalmers 2001; Westley 2005).

However, despite these innate advantages, the microfinance industry in the region has been described as unripe and is characterized by poor marketing, weak financial performance, inadequate outreach to SMEs and disparate service expansion among the various countries within the region (Wenner and Chalmers 2001; Lashley and Lord 2002; Lashley 2004; USAID 2004, Westley 2005; Navajas and Tejerina 2006).

Some of the limitations of the Caribbean microfinance sector include:

- Poor repayment discipline: This stems from abundance of subsidies as well as laid-back tolerant attitude of government towards default (von Stauffenberg 2000; Lashley 2004; Westley 2005). This perpetuates the “handout mentality” that is common throughout several other countries, particularly regarding government loans and has compromised portfolio quality. Westley (2005) also notes that other clients begin themselves to exhibit poor repayment after witnessing the occurrence in others, thus reducing accessibility to funds and hindering expansion of the organization. It is noted that poor repayment attitudes are often directly linked to poor repayment incentives and enforcement by MFIs. As a result, the need for a change in attitude to repayment lies not only with the borrower, but with the lender as well.
- Insufficient technical cooperation between business and support

organizations: A study by Lashley (2002 cited in Lashley 2004) found that more than 80% of small businesses neglected to engage in networking or utilize support supplied by other organizations. This results in inadequate social capital and ineffective allocation of finances, both of which are important to the success of the microfinance sector (von Stauffenberg 2000; Lashley and Lord 2002). Adequate technical cooperation would strengthen linkages within the sector, thus increasing the efficiency of microfinance provision.

- Strong government intervention: Caribbean governments which have been described as highly interventionist, especially regarding the setting of interest rates, have distorted the market thus undermining demand for microfinance (von Stauffenberg 2000; Wenner and Chalmers 2001; Lashley 2004). It is recommended that governments move their concentration to alternative areas such as technical and entrepreneurial development (Lashley 2003). Given that the microfinance provision in Barbados is primarily run by government, the potential for this constraint is high, although this was not cited as a major concern in our study. This may be attributed to the fact that where such organizations were governed by a separate board, the potential for government interference was reduced.
- High social and economic development: As outlined in Table III (Appendix 1), countries in the Caribbean region generally enjoy a high level of social and economic development. This has reduced the demand for microfinance by encouraging more opportunities for informal or self-financing via family members or friends (Wenner and Chalmers 2001). As suggested by Westley (2005), owing to the macroeconomic stability of Caribbean countries such as Barbados, high interest rates may render borrowers unprepared and resentful.

These challenges while applicable to the general Caribbean were specifically identified in our study as appropriate to the Barbados

microfinance sector. Entrepreneurs in our study highlighted a need for greater marketing of the various services of MFIs, with one participant likening this lack of information to ‘walking in the dark, when you could be walking in the light’. MFIs also drew attention to the absence of adequate documentation and record-keeping in SMEs as a major constraint to efficient continued provision of funding. The need for technical assistance to accompany microfinance provision was also emphasized by the majority of the participants in the study.

Several other challenges are more common within the wider Caribbean have been discussed as follows:

- Small markets: Within the Eastern Caribbean exist smaller and more concentrated microfinance markets as compared to Latin America and other such areas that boast of successful microfinance sectors, thus reducing potential for expansion and hindering achievement of economies of scale (von Stauffenberg 2000; Wenner and Chalmers 2001; Lashley 2004; Westley 2005). As noted by Knight et al. 2009, partnership arrangements within the microfinance sector including those between support organizations and MFIs may allow these organizations to use their competitive advantages to compensate for the weaknesses of each other, thus addressing the issue of capacity for expansion. Such arrangements would also reduce the disadvantages of competition. Competition will be addressed in the following bullet point.
- Competition: The Caribbean financial sector is relatively developed, thus providing strong competition to microfinance providers and negatively impacting on its development potential (von Stauffenberg 2000; Lashley 2004; USAID 2004; Velasco and Marconi 2004). Poaching, the process which Lashley (2004) describes as pursuit of wealthier MFI clients by commercial banks, should be eliminated as it encourages premature graduation which can compromise potential of



a business particularly during times of economic difficulty. The occurrence of competition among the MFIs in our study in improving employment and enabling entrepreneurial development was not identified as a significant issue in our study and this may be attributed the fact that each MFI identified above has its own specific niche market among those requiring microfinance, whether it be youth entrepreneurship, agricultural development or urban employment.

- Poverty targeting: Lashley (2004) reveals insufficient insight into, and targeting of the undereducated, young, rural and female, with these groups constituting the specific characteristics of Caribbean poverty. In Barbados, targeting of the rural poor and the young is restricted to the Rural Development Commission and the Barbados Youth Business Trust, respectively and no Barbadian MFIs specifically cater to women. Our study has shown that while empowerment is a key element of microfinance provision in Barbados, there is a lack of emphasis on Caribbean women in microfinance endeavours as a result of their advanced role in society, in comparison with several other world regions. This has been supported by Table IV, which highlights the high rankings of the gender empowerment measure (GEM) in several Caribbean countries, showing a high level of participation by women in economic and political life.
- Overemphasis on collateral: Insufficient concentration on character assessment and household cash flow as an indicators of willingness and ability to pay has been compounded by fact that fixed collateral is usually limited in SMEs (Wenner and Chalmers 2001; Wenner et al. 2003), thus diminishing the appeal of microfinance in the Caribbean. This classifies many MFIs as small business (not microfinance) lenders (von Stauffenberg 2000). More frequent use of movable collateral such as guarantees would therefore serve to reduce transaction costs and risks. While presence of collateral proves to be a major constraint within the traditional banking sector, our study has

highlighted the flexibility of MFIs in accepting assets that are not eligible within the traditional banking sector, as previously mentioned. Although no collateral is offered in some countries, in light of the poor repayment culture, it serves as a just precaution.

- Divergent missions: Lashley (2004) has identified direct poverty alleviation, sustainability (self-sufficiency) and microenterprise development as the three main goals of microfinance in the Caribbean, with the latter involving a degree of poverty prevention. Execution of these three separate goals is not necessarily a challenge to the sector if key niche markets are sufficiently met in the process with little overlap or competition. However, he notes a distinct lack of clarity with regards to responsibilities and allocation of these goals among key players and this must be addressed via collaborative discussions and strategic planning.
- High subsidization presents a major challenge to sustainability: Heavy reliance on subsidies results when NGO MFIs lack both continuous technical assistance and sufficient time for the production of commercial sustainable microfinance (Wenner and Chalmers 2001). Westley (2005) notes increased access to funding from alternative sources such as governments, credit unions and donor programmes as further encouragement on dependency on subsidies. Subsidized interest rates also present one of the largest challenges to Caribbean microfinance as they serve to deter funding from international sources (Wenner and Chalmers 2001; Ffrench 2007). Traditional low stable interest rates within the Caribbean financial system have rendered MFIs hesitant to charge higher rates (Wenner and Chalmers 2001). While favourable to beneficiaries of microfinance, this serves to decrease funding availability (Wenner and Chalmers 2001).
- High transaction costs: Highly subsidized loans and high default rates have negatively affected the autonomy of MFIs regarding quality of the portfolios and cost of operation, so that interest income fails to

adequately cover operating investments (von Stauffenberg 2000; Westley 2005).

Griffin and Brathwaite (2003) have further identified as challenges, increased liberalization due to regional trade agreements, an absence of transparency in business operations and a lack of dedication within the small business sector. Donor withdrawal at critical instances, insufficient physical infrastructure in SMEs, unfriendly policy environments and inadequate access, both to strategic markets as well as to critical resources such as training and credit, have further compromised the development of Caribbean microfinance sector (Wenner and Chalmers 2001; Lashley and Lord 2002; Lashley 2004).

As outlined above, it is noted that the impact of several of the constraints listed above depends on the nature of microfinance institution and its source of funding. For example, where MFIs are owned primarily by government and are specifically focused on poverty reduction or alleviation (as is the Barbados experience), sustainability is not the aim of microfinance provision. Nonetheless, the disadvantages of overabundance of subsidies have been outlined above and as a result, a gradual reduction in the subsidies can be beneficial to such programmes.

Additionally, as proposed by Lashley (2004), inadequate consideration of context and strategic direction has resulted in several of the challenges presented above, which may also be responsible for the unsound operating models and some of the established micro lending methodologies. For example, Boxill (2003) and Punnett et al. (2006) have also noted the negative social psychological impact of colonialism, slavery and plantation economies on the management culture and success of the micro and small enterprise sector within the English speaking Caribbean. This may also have contributed to poor entrepreneurial participation and the absence of technical cooperation among MFIs and support organizations within the country. One example of the importance of consideration of context is the inclusion of the group lending phenomenon which is not practiced in

existing MFIs in Barbados. Despite benefits such as reduced risk and shared responsibility for loan repayment, the group lending phenomenon has been met with some hesitation by the majority of the participants in our study who see little potential for its use, given the individualistic culture of Barbados and its history of distrust and suspicion among Barbadian businesses (Lashley 2002a cited in Lashley 2003; Knight 2007). In a case study involving provision of microfinance by a commercial bank based on the Grameen model (Knight 2007), poor group dynamics contributed substantially to default. Group dynamics were unstable so that group members differed in the nature in which they honoured their obligations, thus placing an unfair burden on the other group members who were forced to pay on their behalf. Such non repayment caused a chain effect of default. Incompatibility of loan sizes, age ranges and customer needs with repayment potential of customers and organizational goals also contributed to the demise of the programme. Instead of group lending, our study revealed unanimous support for the establishment of partnerships and joint arrangements among the various players within the microfinance sector. Consequently, as noted by Knight (2007, 81), ‘microfinance methodologies cannot be inserted unchanged from one developing environment to the next. Social, cultural and economic adaptations of such programmes are crucial to their survival and effectiveness’.

As a result, while the response from the participants of the study suggests that the framework for microfinance provision meets the needs of low income, poor, unemployed, the extent to which this has occurred has been hindered by the above constraints. Nonetheless, despite the challenges outlined above, Barbadian MFIs were seen as a critical element of microfinance provision within the country and development of the sector in the country and the region is expected to improve as these challenges are sufficiently addressed.

#### **IV. Conclusions**

Microfinance has undeniable relevance to the Caribbean region and particularly in the Barbadian context, as demonstrated by its high demand (Knight 2007). The government policy initiatives discussed above are positive as they reflect a willingness to achieve real social and economic change within the Barbadian society. The emerging interest of the Barbadian microfinance sector in increased collaboration and networking between MFIs and related support organizations contributes to an enhanced technical knowledge in microfinance. However, habits such as the poor repayment attitudes and default within the Caribbean region must be revisited (Lashley 2004; Westley 2005). The appropriate development of MFI infrastructure, technology and other operating infrastructure are essential to the supervision of these emerging habits. Additional microfinance products such as leasing, crop insurance and deposits serve to lower transaction costs and improve risk management, as does reduced emphasis on fixed collateral via removal of financial regulatory and supervisory biases (Wenner and Chalmers 2001; Wenner et al. 2003).

Globally, microfinance institutions are in the process of transformation. The financial systems approach has gained momentum and the concept of microcredit has been viewed now as only a component of microfinance programmes. Although the Caribbean experience is firmly emphasized the roles of extensive support framework, one needs to take care of the possible negative consequences of commercialization principles in the new generation of microfinance programmes. With cultural, social and economic adjustment of traditional microfinance to the Caribbean context, the emergence of microfinance in Barbados and the Caribbean from the “infancy” (von Stauffenberg 2000, 3) by which it has long been characterized is highly possible.

## APPENDIX I

〈Table III〉 Economic Indicators of Selected Caribbean Countries

Country	GDP per Capital (US\$)		Growth Rates of Real GDP	Average Annual Inflation Rate	Average Exchange Rate (selling rate)	Commercial Bank Weighted Average Loan Rates
	Value	Ranking	%	%	National Currency per US\$	%
Bahamas	20,253	41	-1.7	72.8	1.0000	11.00
Barbados	17,497	46	0.7	76.8	2.0000	10.25
Guyana	2,782	125	3.1	65.8	203.8000	12.40
Jamaica	6,409	91	-0.6	72.3	72.9200	16.78
Trinidad and Tobago	14,603	59	3.5	69.4	6.2891	11.45

Source: United Nations Development Programme (2008); Caribbean Centre for Money and Finance (2009)

## APPENDIX II

〈Table IV〉 Measures of Gender Inequality in Selected Caribbean Countries

Country	Gender Empowerment Measure	
	Value	Ranking
Bahamas	0.73	22
Barbados	0.614	43
Guyana	0.586	55
Jamaica	0.526	71
Trinidad and Tobago	0.78	16

Source: United Nations Development Programme (2008)

This indicator of gender inequality of ranked out of 108 countries measured by the Human Development Report.

## Abstract

As an effective financial tool for socio-economic development, microfinance has gained prominence in the policy debates on poverty and the Millennium Development Goals (MDGs). Given the importance of microfinance to small business, agriculture, health and other development indicators, microcredit is crucial to poverty alleviation, which is a key feature of many Latin American and Caribbean government agendas. This article highlights how Caribbean governments have incorporated microfinance in their economic development efforts, reporting findings from our recent research conducted in Barbados. Drawing on contemporary practices, we examine the challenges faced by the Caribbean microfinance sector, with an emphasis on the Barbadian context.

Key Words: Microcredit, Microfinance Institutions (MFIs), Low-Income Borrowers, International Development, Caribbean, Barbados / 소액신용대출, 소액 금융대출기관, 저소득대출자, 국제개발, 카리브 지역, 바베이도스

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