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Microfinance Product Diversification: A Domino Effect of Opportunities or Vulnerabilities? A Case Study in Barbados

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ABSTRACT

This paper aims at gaining deeper understanding of the possible effects of combined microfinance (CMF) product delivery. By means of a case-study on the City of Bridgetown (COB), one of the leading credit unions in Barbados, it explores the possible opportunities and challenges dealing with CMF. This case-study suggests that CMF, especially the combination credit-savings, may enhance the cost-efficiency of loan delivery and that it can generate economies of scope for marketing purposes. Savings is at the heart of the growth strategy of the credit union and has contributed to its current large breadth of outreach. The case-study suggests that CMF can also lead to increased costs and new financial risks for MFIs. It brings forward the complex interaction dynamics between different financial products which can lead to a domino effect of cumulative access barriers. Especially unbankable clients, with limited financial capacity, a challenging risk profile and exposed to information asymmetry, are vulnerable to these elements if no appropriate measures are being taken.

Key Words: microfinance, combined microfinance, microinsurance, microcredit, microsavings, poverty, social inclusion, Caribbean

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INTRODUCTION

Today microfinance institutions (MFIs) have become instruments allowing access to financial services for unbankable populations. From a sustainability point of view, MFIs need to achieve economic performance to ensure that they can continue providing their services over the long term. A poverty outreach approach stresses the importance of social performance in order to ensure the mission of most MFIs: improving the living conditions of unbankable and low-income populations. While providing pro-poor financing plans, the various MFIs have extended their range of services beyond loan instruments to savings and insurance products. A key question is how the delivery of multiple financial services –or combined microfinance (CMF)– may influence the economic or social performance of MFIs. CMF may contribute to the achievement of various economies of scope but can also entail economic risks for the organisations. To the knowledge of the author, only limited literature has looked into the possible effects of multiple product delivery on the various MFI stakeholders.

Barbados is the easternmost English-speaking Island in the Caribbean and has a population of 294,000 inhabitants (UN Data online 2007). Its main sectors are agriculture, construction, financial services and tourism, but there is a strong presence of small and medium enterprises (Hossain, Knight and Arun 2009). Barbados has over the decades been able to develop a respectable level of human development (UNDP 2010), but is still confronted with varying levels of social vulnerability. The promotion of microfinance –and in particular the cooperative movement– is reported to have played a major contribution to the socio-economic achievements of the island. With a view to gain deeper understanding on the experience of CMF in this small island development state many questions come to mind; Is CMF actively practiced in the microfinance sector?; Does CMF contribute to the economic performance of microfinance delivery?; Does CMF play a role in enhancing poverty outreach?.

Previous empirical surveys have explored quantitative evidence on the possible effects of CMF on respectively the economic and the social performance of MFIs (Rossel-Cambier 2010a; 2010b). It is important to gain deeper understanding of what issues are at stake for CMF in Barbados and –from a broader perspective– get a better grasp in qualitative terms of some of the key assumptions and findings from existing literature. This paper aims at generating in-depth knowledge on the effects of CMF by providing qualitative data extracted from a case-study involving various stakeholders around the cooperative City of Bridgetown (COB) in Barbados.

This paper is organised as follows. The second and third sections describe respectively the methodology and the various research hypotheses. Section 4 reviews the presence and characteristics of CMF in Barbados. The following section reviews how the City of Bridgetown, a Barbadian credit union, applies CMF. Sections 6 and 7 review the possible effects of CMF on the respective economic and social performance of the COB. The final section proposes conclusions on the findings and offers a number of recommendations.

METHODOLOGY

This paper aims at providing qualitative evidence –from a case-study in Barbados– on the possible risks, challenges and economies of scope which are generated by the provision of multiple financial products.

Taking into account a stakeholders-oriented conceptual framework on combined microfinance (Rossel-Cambier 2010), this paper aims at gaining greater understanding of CMF and refers to three complementary research papers involving cross-sectional analysis of 250 MFIs in Latin America and the Caribbean. These papers deal with the presence and characteristics of combined microfinance (Rossel-Cambier 2009), the effects of CMF on the economic performance (Rossel-Cambier 2010a) and social performance (Rossel-Cambier 2010b) of MFIs.

This case-study aims at getting a better grasp and qualitative information on the issues and questions suggested in these three empirical studies the findings and –for the sake of transparency– presents them as hypotheses.

Findings in Barbados are relevant as the country is no exception to the microfinance and cooperative experience in the Caribbean region. Certainly, its characteristics of a small island development state with a relatively high human development and respectable level of public governance may deviate from other selected Caribbean and Latin American countries (Parks and Rossel-Cambier 2008). The City of Bridgetown credit union was selected for this case study because of its active involvement in multiple financial product delivery and its relevant focus on both social and economic results. The COB is one of the largest credit unions on the island and, contrary to other large unions which focus on wage workers, also includes a significant portion of self employed persons, both from low and middle income groups. As the credit union has reached a certain level of professionalization with staffing reaching over 100 employees, some of the findings may not be applicable for smaller or more informal MFIs.

The empirical data for this paper are derived from field studies carried out in Barbados during the period February 2010 to March 2011 and involves structured in-depth interviews with over 70 stakeholders including MFI managers, government officials, clients and promoters.

This case-study also refers to secondary data from the limited literature available on microfinance and credit unions in Barbados and the Eastern Caribbean. A number of country-wide assessments, corporate reports and relevant websites allow better understanding of the context and the functioning of the various MFI institutions and their products. The paper takes into account the legislation and the socio-economic literature about the overall context of MFIs and in particular credit unions in Barbados.

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HYPOTHESES

This paper aims at gaining greater understanding of three complementary research questions: Is combined microfinance a significant reality in Barbados?; What are the effects of CMF on the economic performance of the COB?; and; How could CMF influence the social performance of COB?

To what extent is CMF a reality in Barbados? A survey in Latin America and the Caribbean (Rossel-Cambier 2009) observes that the majority, 56% of the MFIs in Latin America and the Caribbean, combine various financial products. 17% of the schemes offer credit and savings, 18% offer credit and insurance (no savings) and 21% provide credit, insurance and savings products. The survey finds that cooperatives and banks actively apply CMF while NGOs are more oriented to microcredit only. Considering these findings as a first hypothesis (H1), this paper will explore if also in Barbados the majority of the MFIs are combined in nature and will comment on their main characteristics.

From a stakeholder's framework point of view, the organisation and the clients are the key players at the micro level. The second research question deals with the point of view of the MFIs and aims at gathering knowledge on the way CMF could influence its economic performance. A study using cross-sectional empirical data (Rossel-Cambier 2010), building on 7,500 observations from 250 MFIs from the fiscal year 2006, compares the economic performance of MFIs offering credit only with those combining credit with respectively savings and insurance. By using multiple regression analysis, the research suggests a positive effect of savings and insurance on the efficiency and productivity of MFIs. While reviewing this finding which can be considered as a second hypothesis (H2), this paper aims at providing knowledge and insights on the issues at stake in the case of COB in Barbados. Special focus will be put on the possible risks and economies of scope which are generated by the multiple delivery of financial services. The above-mentioned research didn't observe significant effects of CMF on the financial performance or the portfolio quality of MFIs (H3). This paper will gather evidence on how savings or insurance services could influence the financial performance and portfolio quality of COB.

The third research questions deals with the point of view of the clients. An empirical research (Rossel-Cambier 2010), involving 3,500 complementary observations, reviews the effects of CMF on the social performance of MFIs. The study suggests positive effects of CMF on the breadth of outreach of MFIs (H4). This paper will explore which possible elements of CMF may influence its outreach of COB. The same empirical study also suggests that the combination of credit with savings can lead to a relative decrease in the depth of poverty outreach, both viewed from gender- and income-related points of view (hypothesis H5 of this paper). This paper will gather deeper understanding on this issue by analysing the situation of the COB. It will explore if there are any income or gender related barriers related to the participation in savings or insurance products.

WHAT IS THE STATUS OF COMBINED MICROFINANCE IN BARBADOS?

Over the last three decennia, Barbados has graduated from a "developing" to a "highest developed" country status. It ranks number 42 in the human development index (UNDP 2010) and is the highest of all independent countries in the world with an –in majority– Afro-descendant population. Despite its socio-economic achievements and relatively sound governance, the country still grapples with various forms of vulnerability and social exclusion.

While recent figures are not yet available (a poverty assessment is being undertaken during the preparation of this paper), most countries in the Eastern Caribbean sub-region face between 14 and 40% of absolute poverty (CDB 2009). Young people, up to 24 years old, represent over 50% of the poor in all Eastern Caribbean countries (Rossel-Cambier, Olsen and Pourzand 2007). Many citizens are working poor and are highly vulnerable – in case of external shocks such as natural disasters– to poverty (Bowen

2007; Punnett *et al.* 2006).
Barbados has different players in the traditional financial sector such as banks, insurance companies and the off-shore financial institutions (USAID 2004). Private savings were estimated at 11.2% of GDP in 2006 (IMF 2009). The insurance sector is an important part of the financial system in Barbados. While informal savings and insurance systems, such as "sousous" still exist in certain communities, the formal insurance companies' penetration rate –the ratio of premiums to GDP– was equal to 10.3% in 2006, with 3.3% for life insurance and 7% for non-life insurance. This is the highest figure in the world with respect to non-life insurance and the 9th highest overall in total (IMF 2009) and is reflected by the high level of competition between the various players.

Defining microcredit as the extension of very small loans (microloans) to the unemployed, poor entrepreneurs and other unbankable populations (Labie 2009), one can identify three types of microcredit providers in Barbados: NGOs, non-bank financial institutions (NBFI) and credit unions. These players offer combined microfinance at varying levels.

An example of an NGO providing microfinance is the Barbados Youth Business Trust. Set up in 1992, the organisation provides counselling and training to young people and offers business microloans and grants. The organisation, despite its small size, is engaged in combining various financial products. Since 1998, for the cost of about 3% of the loan value, it applies credit life insurance through the Insurance Corporation of Jamaica. The NGO also deducts from the loan reimbursements a mandatory pension contribution to the insurance company Clico on an individual pension plan.

Examples of government supported non-bank financial institutions are the Barbados Agency for Micro Enterprise Development (FundAccess) and the Rural Development Commission. Also these have limited combinations between credit and insurance product delivery. Fundaccess, set up in 1998, provides to SMEs loan services combined with mandatory technical assistance. Since 2004, it also has a mandatory credit insurance covering invalidity, accident and life during the loan duration. This policy is subcontracted to the Sagicor insurance company. The Rural Development Commission runs a loan programme with concessionary loans to rural SMEs. There are no insurance or savings services linked to the loans, but proof of deposits or insurance policies by the client are considered as securities for loan approval.

In particular the cooperative sector is very active in combining multiple financial products. In fact the basis of their functioning is the linkage between credit and savings. Historically Barbados has an active cooperative sector, with over 35 unions serving today about 80% of its households. Much

Table 1. Selected social performance indicators of Barbadian microfinance providers

Organisation	Number of borrowers	Range of Loan size /GNI per capita	Number of female / male borrowers	Type of services	Interest rate (annual rate)	Target group
Fundaccess	844 clients with 971 loans between 1998 and April 2010	Between 3% and 411% with an average of 131%	NA	Credit and credit insurance	6% (5% subsidy government)	Micro business sector
Youth Business trust	364 between 1994 and June 2009	Between 4% and 124% with average of 26.7%	49%	Credit, credit insurance and mandatory pension contribution	10-12%	Those aged between 18 and 35. Physically challenged applicants are encouraged
Rural Development Commission	550 since start	Up to 206% with an average of 33.6%	NA	Credit – existing insurance policies are taken into account for loan approval	4-6%	Rural micro enterprises with fixed and moveable assets less than 200,000.00 USD involved in start-up and/or existing agricultural, fishing and other small businesses
Various Credit unions	Over 130,000 members with individual unions between 600 and 48,000 active members	NA	NA	Savings, credit and mostly credit insurance (external); some offer life, funeral and health insurance (external)	NA	Low and middle income groups, often brought together under occupational or area-based coherence
COB	47,337	Up to 2.053% with average of 18.06%	55%	Credit, Savings, life credit insurance (internal), life, funeral and health insurance (external)	6.5 to 16%	Low and middle income groups, initially because of their unbankable situation, but now open to a large public

of its interventions are of "microfinance" nature as the cooperatives have a social objective, deal mainly with small monetary transactions and continue their historical aim to include unbankable clients. Credit unions, by definition, are organized by a group of people to save money and make loans to each other at favourable interest rates (Ryder 2002). The sector remains highly concentrated with the two largest credit unions accounting for 71% of total assets. Credit union members usually have common interests such as their place of work, area of residence, professional organization or social group.[1] Examples are the media, police, public workers or secondary teachers co-operative credit unions. Most of the credit unions offer loan and non-loan insurance products (e.g. funeral, accident, disability or health care) through established insurance companies.

One can summarise –in support of the hypothesis H1– that combined microfinance is actively practiced in Barbados, especially if one considers the credit unions as microfinance providers. The NBFI and NGO managed schemes offer credit with low-intensity levels of insurance and little to no savings plans. The credit unions, on the contrary, are highly active in combining credit and savings. While direct delivery of insurance is forbidden by law, most of the unions offer indirectly different insurance products (middle to high intensity levels) through existing insurance companies which are well established on the island.

This case-study will focus on COB, one of the leading credit unions in Barbados. One can observe that some of the findings of this case study may not be extended to all types of microfinance providers in Barbados as they are different in nature. Knight and Hossein (2008) and Westley (2005) describe the NGO and government supported MFIs in Barbados as poor in marketing, financial performance and product diversification. The high level of subsidization would threaten the sustainability of the schemes (Wenner and Chalmers 2001). The situation may be different in the case of credit unions, which have low direct subsidisation and better economic performance.

THE CITY OF BRIDGETOWN CREDIT UNION (COB) AND COMBINED MICROFINANCE

General Overview

The City of Bridgetown is one of the leading credit unions in Barbados. The organisation has a historical focus on self employed clients and pro-

1 See: http://barbadoscoopleague.org/BCCULL1/ (consulted on February 2010).

poor financial services while in the same time achieving an impressive growth. Today it is the second largest credit of Barbados union, covering about 37% of cooperative clients, and combines various loan, savings and – to a limited extent– insurance products.

The COB was registered in 1983. Historical documents indicate that the genesis of the credit union was a result of members having difficulty accessing funds from other financial institutions. These formed a society allowing young professionals and peers to channel their limited resources (COB 2008). The objects of the COB refer to the combination of credit and savings and their affordability: '*to create out of the savings of its members and otherwise, a source of credit available to its members on reasonable terms and conditions*'. In its mission statement, it refers to product diversity '*delivering the most comprehensive and highest quality financial services that would attract membership*'.

Similar experiences to COB where credit unions have adopted more professional and business-like approaches can be found in other countries in the Caribbean and in Europe (Jones 2008). Many transformed their traditional approaches to development based on small common bonds, volunteerism and informal collective action (Fuller *et al.* 2006). Today, COB has over 47,000 members, 104 employees working from two branches and its total operating expenses just over 6 million USD. Its total assets in 2010 were over 150 million USD, its total income 15.2 million USD. Many activities of the COB remain largely "micro" in nature due to the low average amounts of the financial transactions. This is strongly linked to the profile of the members of COB which are mainly from low and middle income groups.

COB and Combined Microfinance

COB is involved in the delivery of both credit, savings and –to a limited extent– insurance product. The cooperative union has different approaches, activities and product for each of these financial product groups. This section gives an overview of the main loan, savings and insurance products that COB offers.

In 2010, the COB serviced a wide array of loans to its members for a total amount of over 120 million USD. While over half of these funds are borrowed for land and housing purposes, credit is also provided –in descending order– for vehicles, debt consolidation, personal purchases, business and investments. To be able to apply for a loan members must have a minimum of 75 USD in shares for at least thirty days. All members with loans in excess of their shares and deposits within the organisation must save a minimum of 12.5 USD monthly. Since 2006, the COB has a specific loan policy (COB 2006), which aims at ensuring that he member's savings and deposits are adequately protected, the Credit Union's investment in member loans are of high quality and that its return on investment is relative to the risk undertaken. The document reflects the diverse guidelines for its general policy, consumer loans, residential mortgage loans, its commercial loans and delinquency. The policy also refers to the conditions of the interest rates on loans which are determined by the Credit Union's Bye Laws. Interest rates on loans are linked to COB's prime lending rate with a risk premium being charged for the inherent risk in the loan transaction under consideration.

The COB offers both mandatory and voluntary savings products with a savings portfolio reaching over 131 million USD in 2010. A number of mechanisms can be considered as mandatory savings schemes such as the minimum mandatory participation of each member of 25 USD in "prosperity shares" as well as the defined savings conditions during loan delivery (see infra). The COB offers different voluntary savings products such as the "Prosperity Ordinary deposits" which allow clients to gain a variable rate of interest as determined by the Board of Directors. It also provides targeted programmes such as the C.A.R.E.S.[2] programme designed for children and young people from birth to 25 years. Developed in a 3-staged approach –juniors, teens and youth– it offers for each age group adapted savings incentives and scholarships.

Acknowledging that credit unions cannot offer insurance products by law, the COB is indirectly involved in the delivery of various insurance products for its clients. The COB has an internal "savings and loans" protection fund which could be considered as an internally managed credit and savings insurance scheme. The fund offers financial support in case of death of the lender or borrower. In collaboration with the Credit Union of the Public Workers and, it also indirectly enables its clients to enrol in the Guardian life insurance managed Co-op LIFE Advantage Plan designed to insure burial expenses for up to six family members. A similar product is the CoopMed Advantage plan, which includes a comprehensive package of primary and specialised health care services, at varying rates of reimbursement[3]. Different arrangements are available for individuals, small groups and large groups. While the COB doesn't internally manage these insurance programmes, it offers an office to the insurer facilitating easier access to its clients.

2 CARES stands for: Children Are Really Enthusiastic Savers.

3 See: http://www.coopmed.com/col/index.html

POSSIBLE EFFECTS OF CMF ON THE ECONOMIC PERFORMANCE OF THE COB

As mentioned in section 2, an empirical survey in Latin America and the Caribbean found that CMF has stimulating effects on the efficiency and productivity of CMFs (H2) but didn't find any evidence on its effect on the financial performance or portfolio quality of MFIs (H3). This paper builds on primary and secondary data to better understand the possible contributions of CMF on economic performance. During the semi-structured interviews (see questionnaire 1), the MFI managers reported various possible effects of CMF on the economic performance of their schemes.

Evidence on Possible Effects of CMF Influencing the Efficiency and Productivity of the COB

As presented in table 2, the COB has a high ratio of members per staff of 455 in 2010 which indicates a relatively high level of productivity in comparison with regional averages of 113 clients per staff (Rossel-Cambier 2010a). The Operational Expense Ratio (OER)[4] and the Operational Expenses per Loan (OEPL) values are relatively low at 4.6% and 6.01% in comparison with the regional averages of respectively 21.44% and 28.9%. These results suggest that the COB is relatively efficient in managing its funds. This observation needs to be balanced as COB's cost per borrower – also a measure for efficiency– has increased from 96 USD in 2005 to 128.5 USD in 2010.

The management of COB considers the delivery of credit, savings and insurance as: "*added value for the members and makes the functioning of the union more vibrant and relevant*". It may be difficult to attribute possible changes in the productivity and efficiency of the COB's to the delivery of multiple financial products. Still, the marketing value of CMF and the beneficial effects of deposits as source for loan delivery are economies of scope such which may positively influence the organisation's efficiency and productivity and hence support hypothesis H2.

4 The commonly agreed definitions of these variables are available in The Seep Network (2005).

Table 2. Performance indicators of the COB for the period 2005-2010

Economic performance indicators	2010	2009	2008	2007	2006	2005
Return on Assets (RoA)	2.48%	1.67%	2.16%	2.13%	7.51%	1.65%
Return on Equity (RoE)	23.89%	17.64%	22.05%	25.45%	76.91%	19.04%
Operational Self Sufficiency (OpSS)	101.77%	114.71%	125.85%	126.49%	128.99%	130.70%
Operational Expense Ratio (OER)	3.97%	4.30%	3.80%	4.10%	4.30%	4.60%
Operational Expenses per Loan (OEPL)	4.96%	4.89%	4.50%	4.92%	5.29%	6.01%
Cost per Borrower – CPB (USD)	128	128.50	108.00	109.00	103.50	96.00
Members/staff	455.16	472.08	466.05	478.27	442.25	454.35
Portfolio at Risk – PAR (90d)	7.00%	6.90%	5.10%	4.60%	4.80%	5.00%
Risk Coverage Ratio (+12 months)	68.3%	44.40%	48.00%	85.70%	85.20%	89.50%
Social performance indicators						
Number of clients	47,337	46,738	46,139	44,001	40,687	38,620
Average loan per member /GNI per capita	18.06%	17.55%	17.39%	18.56%	17.92%	16.15%
Average savings per member/GNI per capita	19.08%	18.64%	19.48%	19.86%	20.09%	20.47%
Female clients	55%	55%	55%	55%	55%	55%

Economies of scope: marketing

Product diversification is strongly linked with marketing, which can be defined as the process by which companies create customer interest in goods or services (Kotler *et al.* 2008). The classic components of marketing are often organised by the "Four Ps": product, price, place, and promotion (Cannon, Perreault and McCarthy 2009). This approach allows one to review how CMF can contribute to the marketing of MFIs.

Both managers and clients report that the combination of credit and savings has played a stimulating role in the popularity of the lending instruments (*product*). The ratio-based lending approach, often also referred as the "1-3 principle", allows that for every dollar saved, you are allowed to borrow three dollars without need for collateral. This practice, often extended up to "1-8" for specific loans (f.e. housing), is recognised by most respondents as an important marketing tool. The COB has through this lending approach been able to attract many low and middle income customers. Since 2004, in order to attract higher loans, the COB also applies the risk-based lending approach, which looks into the risk profile of the loan taker.

Both the COB corporate and the Government public policies influence the *price* of CMF. Recognizing the possible financial barriers participating in the credit union, the COB aims at keeping the costs of the transactions linked to deposits as low as possible at the expense of other financial transactions. In this way, the organisation aims at broadening its client and savings base. In the meantime, to encourage clients to save with credit unions, the government allows personal tax reductions for savings with credit unions. Until 2010, credit union members could claim up to 6,500 USD per year in tax-allowances in addition to 5,000 USD in contribution to a registered retirement savings plan.

We can also observe the stimulating role of CMF on the existing distribution channels (*place*). While persons visit the union to make deposits at the COB premises for example, they can receive information about the various other lending and insurance products. As insurance delivery by credit unions is not allowed by law in Barbados, an external insurance company, Guardian life, has a counter with an external counter clerk in the COB office premises. This allows both organisations to mutually benefit from direct contact with the visiting clients.

Marketing is also linked with all aspects of generating or enhancing product demand, including advertising (*promotion*). Often in promotional messages, the concrete role of CMF is explained highlighting the articulations between the various financial products. In one of the promotion brochures, one can find: "*When you borrow from a credit union, your savings remain intact so that while you pay your loan, your savings continue to grow*". Many interviewed clients indicated that they are more attracted to unions offering a wider choice of products. Hence the very nature of product diversification can have a promotional value.

In summary, the COB experience shows that financial product diversification can lead to economies of scope for marketing in various areas. As the number of promoted financial products increases, more people can be reached per dollar spent. This can be achieved by means of product design, distributional, promotional or price-related synergies.

Economies of scope: deposits as cost-efficient sources for loan delivery

The relationship loans-deposits lays at the heart of the business model of the COB. The management of COB expresses the importance of savings as follows: "*Savings lays at the heart of the growth strategy of COB*". Economies of scope can be achieved by the advantageous use of low-cost deposits for loan delivery. The element of savings allows the COB to offer more efficiently competitive interest rates on loans, as the main sources of funding are share capital and deposits. The interest rate of deposits is lower than the lending rate of external capital as indicated in table 3.

Table 3. COB Interest Rate Variances

Financial product	Value/Range in 2010	Value/Range in 2009
Cash	2.50%	3.00%
Members savings	2.50-4.00%	3.25-5.25%
Loans to members	9.00-16.50%	9.00-16.50%
Loan payable	5.50%	5.50%
Investments	3.00-4.00%	4.25-5.25%

The COB has two external loan agreements with the National Insurance Board totalling an amount of 12.5 million USD at a minimum rate of 5.5% per annum. The remainder of the loans are being funded with savings resources. When comparing the costs of the financial products, one can observe that the interest cost on member's savings (ranging between 2.5% and 4%; the latter being the dividend rate paid on the cooperative shares) is much lower in comparison with the interest paid on external loans.

The continued growth of the savings base has allowed the COB to significantly expand its loan portfolio. Between 2005 and 2010, the amount of savings has grown from 80.28 to 1,319.79 million USD (COB 2010). While relying on a limited amount of external borrowings, the COB has almost doubled its loan portfolio from 61.66 million USD in 2005 to 1,223.73 million USD in 2010. This observation can be generalised for Barbados at large. Between 1980 and 2009, the total assets of credit unions in Barbados have grown from less than 5 million USD to 635 million USD. In 2009, the total of the deposits of the credit unions is estimated at 346 million USD and the amount of loans totalled over 491 million USD (BCCULL 2009). Hence, at the national level, the increase of deposits has allowed the credit unions to grow in Barbados.

The reduced dependency on external financial products has shielded the COB partially from the international financial crisis. The credit union was not directly affected by the dropping shares of the financial products during the financial crisis of the years 2008-2010. Most interviewed managers and clients indicated that this aspect, linked with a strong savings base, has strengthened confidence in the COB.

Despite its advantages for loan delivery, the use of savings may increase the liquidity risk of the organisation. Relying on this source of funds, the COB is exposed to daily calls on its available cash resources from the savings and deposits resources as well as the possible withdrawal of shares. Similar reflections could be projected for insurance related activities. Therefore, a combination of external and internal resources for loan delivery may counterbalance to a limited extent this risk and avoid undue concentration.

What Are the Possible Effects of CMF on Other Elements of Economic Performance? (H3)

The economic performance of MFIs can be –beyond efficiency and productivity elements– considered from various other angles such as the financial performance and the portfolio quality (The SEEP Network 2005). Financial performance, referring to elements of profitability and sustainability, can be measured by indicators such as the return on assets (RoA), return on equity (RoE) and the operational self sufficiency (OSS)[5]. Portfolio quality is more associated with the risk elements of the portfolio and relates to indicators such as the portfolio at risk at 30 days (PAR30) and the risk coverage ratio (RCR). Empirical research –see hypothesis H3– didn't find any significant effects of CMF on these other economic performance elements. Observations in this case-study underline the difficulty to attribute elements of CMF to these specific areas.

Financial Performance

In general terms, as reflected in table 2, the COB has realised a relative sound financial performance during the period 2005-2010. The constant positive values for return on assets (RoA) indicate profitability. The gradually decreased but still positive Return on Equity (RoE) values indicate that the credit union continues to build equity through retained earnings. Increased equity enables the MFI to leverage more financing and can be considered as an element of sustainability. The Operational Self Sufficiency, which has been above break-even over the period 2005-2010 is gradually decreasing. This means that the COB over time is less able to cover its costs through operating revenues and needs to improve the costing structure of its loan delivery portfolio.

The leading question is: How can CMF influence financial performance in this context? Certainly, the low cost aspects of savings funds for loan delivery can be an element which could drive down the costs and hence increase RoA, RoE and OSS. Still, the management of deposits involves also transaction costs –higher than managing an external loan– which may reduce the difference in overall costs between both financing sources. In the current case study there is no disaggregated data available to enter more in detail on this issue.

The effects of the two existing insurance elements –credit insurance and health/accident insurance– on the overall financial performance picture may also be limited. The Savings and Loans benefit fund, acts as a low-intensity

5 For definitions of the various financial indicators: see the SEEP Network (2005).

insurance offering cash benefit in case of decease of a member. It has disbursed 84,250.5 USD and 14,050.6 USD in respectively 2010 and 2009. Still, these figures remain relatively marginal towards the total operating expenses (respectively 1.4% and 2.3%) and the overall loan portfolio (respectively 0.069% and 0.119%). Because of its financial risks, the credit union is considering replacing the Savings and Loans benefit fund by an external mutual benefits plan, offered by the Barbados Co-operative and Credit Union League (BCCULL) Co-operators General Insurance Company. The latter also offers life savings, loan protection and funeral insurance on comparable conditions (BCCULL and CGIC 2009). To participate in this plan, on a monthly basis, the respective credit unions need to pay a premium to the plan which is 0.038% for savings side and 0.030% for loans. When calculating the cost using this external insurance scheme, one can find that the costs are superior to those of the existing internal insurance scheme. Still, this alternative has to be weighted taking into account other often hidden factors such as additional transaction costs and financial risks.

The participation of clients in the Co-op LIFE, CoopMed Advantage plans, which are of high intensity insurance nature, could have an indirect positive effect on the costs related to decreased loan losses. Still, as these voluntary schemes have a low penetration rate in the overall membership of the COB (an estimated of 2% of all clients is enrolled in one of these schemes), the effect on the overall financial performance may be limited.

Portfolio quality

The increased level of loan delinquency is one of the main challenges of the COB and affects its portfolio quality. The value of all loans outstanding that have one or more instalments of principal past due more than 90 days has increased from 5.0% in 2005 to 7.0% in 2010 and can –following the management of the COB– be estimated at three times higher when expressed at 30 days. With a Risk Coverage Ratio from 89.5% in 2005 and 68.3% in 2010, the portfolio at risk coverage by the loan-loss allowance has decreased over years. In practice this means that the COB is less prepared to absorb loan losses in the worst case scenario. The increased expenses are linked with the increased allocation for loan-loss provisions (increase in provision for impaired loans from 500,000 USD in 2009 to 1,876,500 USD in 2010) which is a response to the declining loan quality.

In this context, can the presence of savings or insurance influence the high level of loan delinquency? From a general point of view one can observe that the effect of the life savings and loan insurance fund is only having a small effect on the portfolio quality. In the case of COB, this form of insurance only deals with non-payment of loans (or compensation for savings) in case of deceasing members, which is only a small portion of the all cases of loan delinquency. The decrease in the spending of the Savings and Loans benefit fund and the sharp increase in the provision for impaired loans between 2009 and 2010 has made its relative financial volume less significant. The ratio between the first and the latter has decreased from 28.10% in 2009 to 4.49% in 2010. With the 2010 figures, it is difficult to expect that the presence of the Savings and Loans benefit fund has a high significant effect on the current portfolio at risk.

Generally, one can imagine that the presence of savings mitigates the risk for non-reimbursement of loans. The COB set conditions for loan-taking linked to savings products. Clients need to have a minimum of 75 USD in shares for a minimum period of thirty days and –if one has a volume of loans larger than the sum of their shares and deposits– the need to save a minimum of 12.5 USD monthly may have little effect on the loan delinquency. Still, beyond side effects of continued savings, the financial volume of these saving conditions remains relatively small towards the average loan per member which was 2,788 USD in 2010. Moreover, the evolution from ratio-based to risk-based lending has decreased the linkages between savings and loans.

UNDERSTANDING THE POSSIBLE EFFECTS OF CMF ON THE SOCIAL PERFORMANCE OF THE COB

Do Savings or Insurance Products Contribute to the Breadth of Poverty Outreach of the COB?

Outreach can be appreciated in a number of ways. The most generally accepted indicator for the breadth of outreach of microcredit organizations is the number of active borrowers (Copestake 2007). The available data suggests that the COB has a wide breadth of outreach in Barbados. As reflected in table 2, the COB has the second largest client base of all credit unions in Barbados, with a growth from 38,620 in 2005 to 47,337 members in 2010.

Barbadian credit unions –in general– have been very effective in achieving breadth of poverty outreach. The island's credit unions have been growing in size from 10,000 three decennia ago to reaching over 130,000 members (BCCULL 2009). Hence, with a total population of 270,000 people, the unions may have almost universal coverage of the low and middle income

Barbadian households. The sector remains highly concentrated with the two largest credit unions accounting for 73% of the total membership. 19 credit unions have fewer than 600 members, while two have over 45,000 members. Interviewees observe that many smaller credit unions, involving often an ageing volunteer base, have been forced to close or integrate in the larger schemes. Hence, product diversification can be considered as an element to attract new customers, especially in the competitive environment amongst the various credit unions in Barbados.

One has to recognise that many other non-financial elements may also play an important role in this growing outreach. The COB has only two physical branches, but has concluded an agreement with the national CARIFS Network allowing their members to access their accounts through 100 ATMs and 5,000 points of sale in the island. It also has an agreement with the Barbados National Bank allowing its members to use its branches for selected transactions.

It is notable to observe that the COB –and the cooperative sector at large– has achieved a larger client base than the non-cooperative microfinance providers. Knight and Hossein (2008) suggest that there is inadequate outreach to SMEs by the NGO and government supported MFIs. As presented in table 1, one can observe that the breadth of outreach of the NGO and NBFIs remains relatively low, with the average number of new loans per organisation not exceeding 100 per year. While it is difficult to attribute this observation to the lower intensity of financial product diversification, it may seem logical that clients are attracted by organisations which allow them to save and borrow (and to a limited extent insure) simultaneously. Various sources in literature (Lee and Sawada 2010; Christen *et al.* 2004) underscore that savings is the most demanded financial service of low-income groups.

The COB –together with the Barbados Public Workers' Co-operative Credit Union– promotes the advanced CoopMed Advantage life and health insurance plan (see infra) which –with 2,000 enrolments– remains relatively modest in outreach (BCCULL 2009). Affordability, relevance, interest and knowledge are the main reasons why clients report not to participate in the insurance plans. Most interviewed clients recognise the advantages of the health insurance plan such as higher quality private health services, but consider it as an unnecessary cost as public health care is free of cost in Barbados.

In summary, learning from the case of the COB, one can support the hypothesis H4, suggesting that product diversification has a stimulating effect on the breadth of outreach of MFIs. While the situation for savings is relatively clear, it is more challenging to gather full evidence to support this statement from the credit-insurance angle.

Can Financial Product Diversification Influence the Depth of Poverty Outreach of the COB?

Possible effects of CMF on income-related depth of poverty outreach: the risk of a "domino" effect of relative disadvantages

The management of the COB estimates that: "*80% of COB clients earn less than 1,000 USD per month and could be considered as low income, taking into account the high costs of living for households in Barbados*". The financial access to membership of the COB is adapted to low income groups. The credit union managers claim that their products are pro-poor because the enrolment costs are minimal: new members are requested to pay an average of 25 USD in stakes as well as a small fee. The main costs are included in the interest rate linked to the loans which makes that almost no costs are charged for the basic savings services.

Our third research question is: Does the combined character of the financial product portfolio influence the outreach of the COB to the poor? Most interviewed clients underscore the relevance of the various financial products for their business and private development. Still, one can observe that various side-effects of the savings and insurance product delivery can lead to relative disadvantages for the poor and vulnerable clients.

One can observe that the COB's interest rates –indicators of the affordability of lending– vary between different kinds of loans, ranging between 6.5 and 16%. The union offers lower interest rates for loans which are secured. In certain cases for example, the availability of proof of insurance on goods or assets is considered as a plus (collateral) for loan approval. The cooperative also offers a combined loan-savings product which has a reduced interest rate of 7.25%. Hence, loans are more affordable for clients in case of CMF. Still, one can observe that increasing savings or purchasing insurance products requires financial means, which often only higher income groups can afford. Hence, product diversification can have the unfortunate effect where higher income groups have easier financial access to CMF and hence also to lower interest loans. Low income groups on the other hand, may have difficulty affording insurance or engaging fully in savings, and may –in these conditions– ultimately be charged higher interest rates when lending.

CMF characteristics of the COB can lead to other exclusionary effects.

One example is the shift of ratio based lending towards risk based lending. The ratio-based lending approach links the maximum amount of the loan with the current availability of deposits of the loan taker (see supra). In this case mostly no other collateral is required. The risk-based lending approach looks into the risk profile of the loan taker and can hence allow higher loan levels if the defined conditions are met, often involving collateral. The latter approach may implicitly entail an exclusionary effect, by setting stringent conditions often incompatible with lower-income or vulnerable population groups.

The conditions of the insurance policies also have conditions which can lead to social exclusion. The CoopMED advantage plan for example doesn't cover persons over 65 years in the general plan and has a mandatory medical examination for members of over 40 years of age. Similarly, the Co-op Life limits access to credit union members younger than 75 years. These conditions can be considered as possible factors for exclusion as they limit the plan's access in function of the risk profile of the client. Low access to insurance may also affect access to other financial services. A Barbadian woman expressed her vulnerable situation as following: "*Suffering from lupus, a chronic autoimmune disorder, I cannot have access to life insurance. Because of this and the lack of collateral, no bank or credit union wants to give me access to a mortgage to allow me to borrow money to have my own house*". In summary, while CMF offers different advantages for bankable clients, the "have-nots" are vulnerable to a "domino" effect of unfavourable conditions, which can lead to higher levels of relative exclusion.

Is the gender related depth of outreach of the COB influenced by the financial product diversification?

From a gender perspective, in the past, women clients, especially older females, were not considered as good business risks for loan delivery, as men were seen as more secure financially (Morgan 2010). Being 'unbankable', many of these females pooled their monies in 'meeting turn' groups or 'sousous'. These societies became formalised as savings societies over the years and connected workers of a specific plantation, business, or members of a church, service or charitable organisation. A promoter of the cooperative movement in Barbados suggests that: "*cooperatives have in an environment of many women-headed households, enabled many women of low and middle income earning to achieve greater financial security and consequently improve their lives, gain knowledge and self-esteem*".

COB reaches out to low- and middle income groups and is reaching men and women equally. The clientele of the COB reflects the gender distribution in society, with 45% male and 55% female clients. There are no reported difficulties for either gender to participate in the various financial schemes. The management reports a tendency for larger loans (housing) by female clients, while the smaller credits (consumption, business development, vehicles or equipment) have a more gender balanced clientele. The management of the COB indicates that the participation in savings is equal between men and women. With relation to the Co-op LIFE Advantage plan (Guardian Life), the use of funeral insurance (covering up to 6 persons) has a large majority of female clients (about 90%) as is the case with health insurance (about 70%). No gender disaggregated data is available on savings in the COB.

When reviewing microfinance and poverty in the Caribbean, Lashley (2004) observes insufficient targeting of the undereducated, young, rural and female. The findings of this paper support these statements partially. COB, in line with its social mission, aims at enhancing social inclusion through a number of social funds, and programmes for the social targeting of vulnerable groups. As these funds build on pooled resources and deal with social risks, their nature is strongly related to microinsurance interventions.

The Membership Assistance Fund for example, financed with predefined deductions from the surplus, deals with members who are deemed to be in a weak financial position. Annually, the equivalent of the lower of 2.5 USD per member or 2.5% of the surplus from operations is allocated to this fund. During the year ended on March 31, 2010, an amount of 54,753 USD was utilised under this fund. The COB Cares fund is a savings programme that provides the possibility to receive education scholarships for young people under 25 years of age. In the period 2009-2010, it disbursed 56,786 USD. The Common Good Fund, allows the C.O.B to engage in community and social responsibility work. 29,825 USD was spent in the period March 2009-2010.

In summary, women and men in Barbados are both vulnerable to a number of culturally influenced socio-economic risks. While females can be exposed in their role as single-headed households or teenage mothers, many males are affected by low levels of education linked with social marginalisation. In particular single-headed female households, almost half of all households, often find themselves in low-income situations. In the case of the CO-OP insurance plan, there is a tendency for significant larger use of voluntary health and life insurance by female clients, which can be linked to the cultural norms given to the female as responsible caretaker over children, elderly and dependents. Still, the marginal overall financial volume of the insurance in comparison with the savings or credit portfolio doesn't allow one to generalise these findings on a larger scale. While CMF may allow gender-sensitive products, one has to recognise that these come with an additional cost that many low-income female clients cannot afford. In this context, the findings cannot comfortably support or contradict the hypothesis 5.

CONCLUSIONS AND RECOMMENDATIONS

This paper aims at generating greater understanding of the possible effects of CMF on the social and economic performance of MFIs. It highlights the presence and characteristics of combined microfinance in Barbados. Referring to a stakeholders research framework (Rossel-Cambier 2010), it gathers knowledge including qualitative information from one of its leading credit unions, the City of Bridgetown.

The case-study contributes to the existing literature in a number of ways. By analysing the microfinance sector in Barbados, it offers better understanding how the majority of MFIs in Barbados –in line with regional observations– actively apply CMF. In particular the cooperative sector is most active in providing both credit, savings and –to a limited extent– insurance services.

Gathering knowledge from the economic performance of COB, this case study suggests that CMF can allow for a number of economies of scope which may enhance both efficiency and productivity outcomes. In the marketing field, one can observe stimulating effects on its design, price, distribution and promotion outcomes. The low-cost use of deposits for lending purposes can also enhance the cost-efficiency of its operations. The case study underlines the difficulty to attribute elements of CMF to the financial performance or the portfolio quality of COB. It also suggests that savings services have transaction cost elements which can reduce profitability. These findings are in support of a regional empirical survey on the issue, but offer deeper insights on the dynamics behind the economic indicators.

COB –as the cooperative sector at large in Barbados– has been most instrumental in achieving a large breadth of outreach. The presence of multiple financial products, especially savings, are reported to contribute to these achievements. COB serves mainly low and middle income population groups.

An interesting contribution of this case-study to the understanding of CMF is the identification of –what can be described– a "domino effect" of mutually influencing factors leading involving even relatively greater access barriers of unbankable persons to financial products. The additional financial requirements, higher costs, access barriers or missed discounts to participate in one type of financial product can be obstacles to full participation of vulnerable groups in other financial products. This can be in particular observed for loans linked to savings or insurance related collateral, where access or costing can vary in function of the combined nature of the portfolio of the client.

In particular female headed households, an estimated 44% of all households, are vulnerable to poverty in Barbados. Women heading these households are traditionally considered as caretakers and for this reason various financial instruments protecting socio-economic assets are most relevant for them. While information on savings isn't available, the case study finds that the large majority of the clients in the voluntary insurance schemes are female. This underscores the relevance of CMF from a women development point of view.

The findings from this case study offer more insights on the process dynamics how a cooperative union and its clients are influenced by multiple financial products. The gathered in-depth knowledge gives one the opportunity to make a number of recommendations, especially when considering how the demand and supply elements can be influenced in the context of a Barbadian MFI.

The case-study highlights the dynamics of tension between commercialisation and poverty outreach, and various design elements of CMF play an important role in this trade off. COB has changed its loan policy from a ratio-based approach to a risk-based approach. This has allowed the organisation to expand its loan portfolio and also reach out to higher income groups. The participation of high income groups can contribute to a reduction of the current high loan delinquency and offer efficiency advantages. Still, to reach out to unbankable populations, the COB could proactively encourage access to its product range to low-income groups.

Despite the availability of the supply of CMF, demand for financial products by vulnerable groups may decrease. The depth of poverty outreach leading to a domino effect of access barriers remains a most controversial issue. While insurance and savings have a natural social function in safeguarding or securing ones assets, cumulative barriers related to affordability and information asymmetry keep full participation away from the lower income groups. Future research could look deeper into the various ways how these barriers could be limited or inverted.

The marketing role of CMF may bridge to a certain extent supply and demand agendas. CMF enhances marketing, which one can define as '*the process by which companies create customer interest in goods or services*' (Kotler *et al.* 2008). This increased customer interest should stimulate the breadth of outreach, which is a social performance outcome.

Barbados has achieved significant levels of human development, and many stakeholders are convinced that combined microfinance and credit cooperatives have significantly contributed to this. MFIs, despite the different economic risks, may benefit in economic and outreach terms from CMF. Still, to be in line with the organisation's social mission, MFIs need to prioritise full participation of unbankable clients. They need to break the cyclical dynamics of cumulative financial access barriers and embrace adapted design mechanisms towards a "domino effect for socio-economic inclusion".

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