Building Up Business

MICROENTERPRISE DEMAND FOR CREDIT IN THE CARIBBEAN

FOMIN
Multilateral Investment Fund
Member of the IDB Group

Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577
www.fomin.org
mifcontact@iadb.org

This report, commissioned and funded by the Multilateral Investment Fund (MIF) through the Caribbean Microfinance Capacity-Building Program II (CARIBCAP II), was done by Barbara Magnoni, Derek Poulton, and Danielle Sobol of EA Consultants Inc. The following people at the MIF participated in the review process: Winsome Leslie, Ryan Tang, Elizabeth Terry, and Xuan-Trang Ho.

May 2014

Contents

Executive summary

Microfinance, as practiced worldwide, is relatively new to the English-speaking Caribbean. The CARIB-CAP I and II projects[1] have made significant efforts to promote microcredit outreach and raise the capacity of microfinance service providers (MFSPs), which include credit-only non-profit organizations, credit unions, cooperatives, and commercial banks. Despite these efforts, uptake of microcredit has lagged behind expectations in many cases. Meanwhile, anecdotal evidence shows that many microentrepreneurs continue to use informal financing alternatives, such as rotating savings and credit associations (ROSCAs), moneylenders, and supplier credit. Why do some microentrepreneurs still turn to informal mechanisms instead of formal microcredit to finance their business? What characteristics of financing are most important to Caribbean microentrepreneurs? In this study, we explore the nature of demand for microfinance in four Caribbean countries—Belize, Guyana, Jamaica, and Suriname—using a quantitative market survey complemented by qualitative interviews with microentrepreneurs as well as formal and informal providers of financial services to low-income segments. These case studies reveal that preferences are clearly delineated between savings and credit, where microentrepreneurs typically finance their businesses through both formal and informal savings. Additionally, we find that the relationships between formal and informal finance are often complementary rather than competitive.

Our investigation uncovered five major themes about the region's market for microfinance:

- **Savings orientation.** Nearly all microentrepreneurs surveyed saved, and business needs were the most common reason for saving. A majority saved in formal accounts, while ROSCAs were used to varying degrees in each country. Saving and borrowing are not mutually exclusive and most borrowers also saved. This strong savings culture may create less incentive for seeking loans for business investment. This contrasts strongly with many Latin American countries, where low-income people typically save at low rates (and mostly informally) and often borrow instead to finance their needs.

1 The Caribbean Microfinance Capacity-Building Projects I and II—CARIB-CAP I and II— are two phases in a USD 5.7 million regional program funded by the Multilateral Investment Fund (MIF), member of the Inter-American Development Bank (IDB) Group, the Caribbean Development Bank (CDB), the European Commission (EC) and Citi Foundation. These projects seek to improve the financial performance of microfinance institutions in the Caribbean and to increase their client outreach, thereby fostering a more developed microfinance industry in the region.

- **Preference for low-cost, flexible financing.** In every country, low costs and flexibility were respondents' top priorities for financing. They want low interest and fees, repayment schedules that match their cash flows, and some lenience for late payments. Respondents' borrowing and saving methods reflected these preferences. Perceptions about which providers matched these preferences varied, though informal financing methods usually ranked higher than formal institutions on important dimensions.

- **Risk aversion.** Many microentrepreneurs were cautious or pessimistic about business prospects and have experienced slow sales since the global economic crisis of 2008, particularly in Jamaica. Even where economic growth has been more buoyant, microentrepreneurs were cautious, perhaps due to their own lack of enterprise skills. This attitude bolstered reliance on savings (for those who can) and discouraged borrowing for fear of difficulty with repayment, even among respondents whom we estimate would benefit from a microloan.

- **Information asymmetries.** Many microentrepreneurs were unfamiliar with microcredit products or providers, or did not even know what microcredit was. Others held mistaken beliefs and generalizations about products and providers that prevented them from seeking accurate information.

- **Supply-side constraints.** While microentrepreneurs' preferences and perceptions are important factors in uptake, major supply-side constraints also hinder outreach. The cost per loan is high, populations are dispersed, and some institutions are unwilling to risk capital on expansion and outreach.

Savings-oriented microentrepreneurs, low rates of borrowing, and preferences for low-cost, flexible financing were common to all four countries. Each market, however, manifests these trends in different ways and microentrepreneurs in each place had different perceptions and preferences concerning financing sources:

- Belize is a country of savers who strongly prefer formal institutions, especially credit unions. Belize had the highest percentage of credit eligible firms that would benefit from microcredit, and the lowest rates of borrowing, showing significant opportunities for expansion.

- Guyana had the highest rates of informal financing, mainly through ROSCAs and suppliers. Guyanese were interested in formal credit, but pessimism about the economy kept many from borrowing, especially in more rural areas.

- Jamaica's weak economy has undercut demand for enterprise microcredit in favor of consumer loans, which both "legitimate" MFSPs and less scrupulous formal money lenders offer. These moneylenders have damaged the reputation of microfinance in the country. Debt was concentrated in the hands of risk-takers, though not always the most likely to pay. Meanwhile prudent microentrepreneurs opted out of borrowing, saving in ROSCAs and formal accounts instead. The smallest microenterprises were especially underserved.

- Suriname's microcredit market is underdeveloped due to inconsistent government support and risk aversion among MFSPs. However, Suriname's microentrepreneurs showed a preference for borrowing from formal institutions. They are largely unaware of the limited microcredit products or providers available and also do not trust ROSCAs or informal sources.

Overall, we estimate that roughly 120,000 potential clients would be eligible for and benefit from microcredit, and MFSPs could reach them with greater capacity and focus on demand-driven products. More importantly, we find that many microenterprises in the region may benefit from having access to credit. We apply a rough analysis of the expected return on a business loan and find that 71% of businesses would see positive net gains from borrowing at typical market rates in their home country.[2] Low levels of leverage and a strong savings discipline, often with substantial savings balances contribute to the "math" and highlight the complementarily between credit and savings. Demand and potential for microcredit is not homogenous. We find untapped potential among the tiniest microenterprises as well as larger microenterprises, or "very small enterprises" (VSEs). To date, formal financial service providers have not always been able to match the needs and preferences of microentrepreneurs, who are not comfortable with excessive paperwork, collateral requirements and the high cost of borrowing, among other issues. Furthermore, we find that tiny microenterprises often need loans smaller than the minimum offered by MFSPs, while VSEs struggle to acquire usefully large loans due to apex lender restrictions or a lack of sufficient cash, asset or land collateral. Informal mechanisms have played a role to date, filling the gap that the formal sector has left behind, particularly for tiny microenterprises.

To reach this underserved market, microfinance service providers must innovate products and processes to reduce costs and more closely match preferences. Adapted group and savings-led methodologies along with branchless banking, such as mobile banking or rural kiosks, could be part of the solution, particularly for the lower and middle range of microenterprises. VSEs could be better served by strengthening financial analysis and broadening product offers to allow for investment loans with longer tenors. The need for differentiated strategies for serving upper and lower niches may require MFSPs to specialize or train separate teams by target market. Financial inclusion efforts must be respectful and value the hard work and discipline that microentrepreneurs in the region have contributed to their economies to date and offer complementary products with sufficient information and client protection. Regulators should also consider specific frameworks for microfinance that provide sufficient certainty and legitimacy for providers and customers, without creating excessive compliance burdens in an already costly business line. With a little ingenuity, the region's relatively sophisticated MFSPs, regulators, and savings-oriented microentrepreneurs can foster financial inclusion while avoiding the debt dependency characteristic of other microfinance markets, creating a healthier and more rational mix of financial services that catalyze micro and small business growth.

2 The percentage is of the majority sub-sample of respondents who provided sufficient hard data to apply the analysis.

Introduction

The present study investigates the role that formal and informal savings and credit mechanisms play in the financial lives of microentrepreneurs in the Caribbean, partly as an attempt to explain the relatively low outreach of microcredit in the region to date. Informal financing mechanisms studied include friends and family loans, moneylenders (unregulated "loan sharks"), store credit, and rotating savings and credit associations (ROSCAs). These informal financing sources are often characterized by relatively low requirements, quick disbursements, and no regulatory oversight. Formal financing institutions include third sector microfinance institutions (MFIs), cooperatives and credit unions, and retail commercial banks, as well as formal payday and quick cash lenders. Throughout this paper, we use the term MFI to refer strictly to non-profits and regulated financial service providers specialized in microfinance, while we use the term microfinance service provider (MFSP) to refer to any formal institution that offers small loans to the low-income market,[3] including microcredit products.

The desk review (see Appendix 2) conducted to frame this study revealed that although many microentrepreneurs in the Caribbean are formally banked, informal mechanisms play a larger role in financing their businesses. Relevant academic and practitioner literature posits that microentrepreneurs prefer informal credit mechanisms for a variety of reasons. First, providers believed that microentrepreneurs either cannot or do not wish to comply with complicated loan requirements. Registering asset collateral and producing paperwork are often regarded as an unnecessary hassle, and some potential borrowers also fear losing their prized collateral. Related to requirements; providers also claimed that borrowers prefer fast disbursements. Low ambition and risk aversion were two more major themes in the literature. Many microenterprises serve to diversify household risks and/or generate supplementary income, and the owners of these businesses may prefer to keep their business small and thus have little use for microenterprise credit (Verrest 2013). Others may wish to grow their business but are unwilling to risk falling into debt if they perceive a challenging economic environment. Finally, familiarity and trustworthiness influence financing choices. Low-income people may be more comfortable dealing with known community members than with cold, faceless institutions. They may also avoid formal financing due to perceived ethnic or class based discrimination, or rumors of political ties within the institution (Hossein 2012). Thus, in many cases, informal financing sources such as ROSCAs or moneylenders align better to these preferences than formal loan products. Our preliminary interviews with MFSPs supported these hypotheses—that microentrepreneurs generally distrust formal providers and prefer financing methods that are convenient, low risk, low hassle, and have few requirements in terms of collateral and documentation.

3 Including MFIs, cooperatives and credit unions, and retail commercial banks, as well as formal payday and quick cash lenders that provide microcredit.

In addition to these demand preferences and perceptions, the literature cites several supply-side issues that prevent MFSPs from reaching microenterprises effectively. First, financial sectors in the region are highly formalized. Financial institutions are very rooted in traditional banking practices, such as asset-backed lending, and also have a preference for very well documented loans (Wenner and Chalmers 2001). Many low-income people, however, either cannot or do not wish to comply with such heavy security and documentation requirements. Furthermore, many Caribbean countries currently have or previously had interest rate caps, and even where caps were lifted, the market has an expectation for low rates (Vargas 2013; Wenner and Chalmers 2001; Lashley 2004). These interest rate trends limit financial institutions' ability to take on risk or issue loans that may have high operating costs, including for microloans. The literature also points to a lack of government support through effective regulation or funding. In fact, none of the four countries studied has specific microfinance regulation, and while Jamaica and Suriname have subsidized apex funds, these were not always active or effective in the past (Vogel and Schulz 2011; Wenner and Chalmers 2001). The perception of political sources of this funding may have also contributed to high delinquency rates (Lashley 2004). Furthermore, some observers postulate that high dependence on remittances, especially in Jamaica, may have reduced demand for microcredit. Finally, the urban concentration of financial institutions has made credit scarce outside the capital of most Caribbean nations.

Our research focuses on four Caribbean countries—Belize, Guyana, Jamaica, and Suriname—to test these hypotheses uncovered in the desk review. In general, we seek to understand microentrepreneurs' current usage of formal and informal financial services as well as their preferences for financing sources, and the connection of those preferences to common barriers that MFSPs face in serving low-income clients. This paper presents the results of an 18-week study in these four countries in several sections, organized as follows: Section 1 briefly describes the methodology of the study. Section 2 broadly describes microentrepreneurs and microenterprises and points to some specific trends across the region. Section 3 profiles specific microentrepreneurs interviewed that illustrate the key trends and shed light on the nuances of their context, preferences, and needs. Sections 4, 5, 6, and 7 offer specific details about our findings in Belize, Guyana, Jamaica and Suriname. Section 8 offers some concluding remarks and general recommendations.

1. Methodology

The study began with a brief desk study to frame and focus the design of study instruments. We employed mixed quantitative and qualitative methods to profile and analyze both demand and supply sides of the market for microenterprise finance in each of the four markets.

- The **desk study** scanned macroeconomic data and existing academic and practitioner literature about microfinance and microentrepreneurs in the English-speaking Caribbean. While sources were scarce and often outdated, the desk review revealed the main theories about demand for microcredit (or a lack thereof) and helped frame and focus our subsequent inquiry (See detailed literature review in Appendix 2). To compensate for unclear or unavailable information, we complemented with phone interviews with CARIB-CAP participants and other experts.

TABLE 1: SAMPLE COMPOSITION FOR QUANTITATIVE SURVEY

	TOTAL	BELIZE	GUYANA	JAMAICA	SURINAME
Total sample size	656	117	178	202	159
Urban	50%	49%	38%	52%	62%
Semi-urban	39%	42%	62%	48%	0%
Rural	11%	9%	0%	0%	38%
Women	49%	50%	57%	51%	37%
Men	51%	50%	43%	49%	63%

- **Quantitative microentrepreneur surveys** were the main source of information for the study. A total of 656 respondents were surveyed, with 117 in Belize, 178 in Guyana, 202 in Jamaica and 159 in Suriname (see Table 1 for geographic and gender breakdowns). The survey questionnaire asked about the basic economic profile of the microenterprise (aimed to simulate a rough cash flow assessment by a microfinance loan officer), took inventory of savings and borrowing behaviors, and asked about preferences for and perceptions about different business loans and lenders. The same base survey was adapted to the local context in each of the four countries. The surveys were applied to a wide variety of microenterprise owners. Target communities were selected to reflect the real proportion of the population in urban, semi-urban and rural areas while also prioritizing areas of current or potential outreach for microfinance providers. Surveyors targeted men and women with a target proportion of 1:1 (to allow for cross-gender comparisons) and a maximum limit of 70% for either gender if one predominated within the population. Sampling did

not specify firm size aside from a maximum of five employees, but did exclude the most transient businesses, including those without a steady location. Farmers were excluded from the study due to their distance from existing microcredit providers and the unique nature of agricultural lending. Illicit activities were excluded as well.

- **Qualitative microentrepreneur interviews** were conducted to supplement market survey data with a deeper and more detailed inquiry into patterns of borrowing and saving, and perceptions of lenders and reasons for using or avoiding each one. Random respondents were selected for in-depth interviews during field audits by the core study team. After completing the quantitative survey, respondents were asked if they are willing to answer a few additional questions by the consultants, who proceeded to interview willing subjects. The interview questions were usually asked immediately after the quantitative survey, to avoid repetition and maximize leverage of the responses, although sometimes the study team included additional qualitative questions throughout the application of the quantitative survey with respondents who were particularly dynamic from the onset. For the business profiles section, out of 38 microentrepreneurs who participated in an in-depth qualitative interview, we profiled 19 in this study. These best reflected the main trends identified through the quantitative analysis.

- **Quantitative microcredit provider surveys** of CARIB-CAP participants were used in the desk study to review market supply in terms of product types, terms, and outreach.

- **Qualitative supply-side interviews** were conducted during our in-country visits to gain a supply-side perspective on major market trends, regulatory issues, and institutional constraints. We interviewed microcredit providers of all types as well as ROSCA bankers, formal moneylenders,[4] and shops that sell on credit. We also interviewed representatives of apex lender Suritrust in Suriname, the Caribbean Microfinance Alliance, Development Options, Ltd. (implementing agency of the CARIB-CAP projects), MIF specialists, and consultants (see Bibliography for references).

- **Statistical analysis** was used to generate descriptive statistics and independent means tests on the overall sample and important sub-segments. We also applied financial analysis to estimate Simple Credit Eligibility (SCE) and expected return on investment (ROI) of a microloan (see Box 1). We conducted a complete analysis for each country and a macro-analysis of major indicators for the combined sample. Some respondents did not provide sufficient hard data to apply these analyses, thus they were performed on a sub-sample of 595 individuals.

4 All informal moneylenders approached declined our request for a quick interview.

BOX 1: METHODS FOR MEASURING POTENTIAL DEMAND FOR CREDIT

"Simple Credit Eligibility" segmentation

To determine potential demand for microcredit, we used our Simple Credit Eligibility formula, designed to mimic rapid appraisals that loan officers conduct in the field using survey data. The formula is:

Capacity to pay = (Business sales + Other HH income – Business expenses – HH expenses – Savings)

Respondents with a positive capacity to pay are eligible for credit, while those showing zero or negative capacity to pay are ineligible. The example table compares cash flows between ineligible and eligible respondents. Negative net cash flows were often due to respondents' cross-subsidizing business and household expenses, or propping up the business with other household income.

EXAMPLE:

MONTHLY CASH FLOWS FOR CREDIT ELIGIBLE AND INELIGIBLE RESPONDENTS, USD

	ELIGIBLE	INELIGIBLE
Business sales	+ 700	+ 500
Other HH income	+ 100	+ 100
Business expenses	- 400	- 300
HH expenses	- 300	- 300
Savings	- 50	- 50
Capacity to pay	+50	50

Return on Investment (ROI) analysis

To calculate the marginal benefit (or detriment) to respondents of taking out a microloan, we developed the Return on Investment (ROI) analysis. ROI analysis utilizes microenterprise profit margins, household income, and expenses in a typical month to determine if the average microcredit product at current terms and rates would increase respondent income, and if so, by how much. If a respondent's ROI result is positive, we conclude that they would likely benefit from a loan. If negative, we conclude borrowing would be a burden.

This is a static analysis. We cannot assume exponential growth from many loans over time due to limits of demand for business outputs, skill limitations, and capital constraints.

ROI = Excess Income After Loan – Excess Income Before Loan

Excess Income After Loan	Excess Income Before Loan
=	=
Net business income + (profit margin * loan amount) – monthly loan payments + other household income – household expenses	Net business income + other household income – household expenses

Throughout the study, we employed EA Consultants' CLEAR Framework to analyze and understand the multiple dimensions of credit access and how they interact. Figure 1 below outlines the Framework's components.

FIGURE 1: ELEMENTS OF THE CLEAR FRAMEWORK FOR ASSESSING FINANCIAL ACCESS

C	COST	Interest rate, fees, opportunity costs, etc.
L	LOCATION	Distance to branch/meeting place/payment point, etc.
E	EASE	Speed of disbursement, flexibility of payments, documentation and financial records for application, etc.
A	AWARENESS	Client's knowledge about product and terms, lending institution, borrower rights, etc.
R	REQUIREMENTS	Collateral, guarantors, forced savings, etc.

We also considered the overall economic and regulatory context as determining factors throughout. Additionally, we applied a segmented approach to the survey and interview data to detect important trends by gender (male or female), region (urban, rural, or small town), ethno-linguistic group, business size, savings and borrowing history, and level of credit eligibility (utilizing the SCE methodology). Using this comprehensive methodology, we were able to approach the topic and test hypotheses from multiple angles, yielding highly contextualized and nuanced results.

2. Regional findings

Defining the target market

Microenterprises are impressively diverse in the Caribbean, spanning a range from tiny small goods sellers to sophisticated "informal commercial importers" (herein ICIs) who regularly travel abroad to buy coveted electronics and apparel and then sell them from shops or vehicles or even via social media at home. Our sample of 656 microentrepreneurs in Belize, Guyana, Jamaica, and Suriname reflects this diversity. We concentrated our sampling on urban and semi-urban areas, which skewed our sample towards businesses operating in commerce, trade, and services (82% of the total sample). On average, these were longstanding enterprises (8.8 years old on average) with average sales of USD 989 per month.[5] Table 2 summarizes the basic overall profile. The age and maturity of the surveyed businesses partially validates the hypothesis that an underserved potential market for microfinance services exists in the region.

TABLE 2: PROFILE OF MICROENTERPRISES SURVEYED

	AVERAGE	STD. DEVIATION
Average years in business	8.8	0.57
Average monthly business sales (USD)	989	386
Net margin of "good" performers (% net revenue over sales)	48%[6]	6%
% Services[7]	33%	7%
% Commerce	48%	9%
% Manufacturing	23%	6%

The profile of microenterprises in the region holds important implications for the development of demand-driven microfinance services. For instance, firm size and profitability vary widely, implying a need for providers to meet demand and achieve efficiency through segmentation or specialization. Growth in outreach may also be limited by the preponderance of unprofitable

5 This figure was slightly skewed by the higher average sales of firms in Belize, where the currency peg to the dollar inflates prices. Without Belize, the average is USD 839.

6 This figure excludes firms with incalculable, zero or negative net margins, with which the average is 14%.

7 Some businesses self-identified in multiple sectors (services, commerce, and manufacturing) hence the total of these percentages exceeds 100%.

firms. On the other hand, the concentration of high turnover services and commerce means that there is a potential for microcredit to compete with or complement firms' existing methods of financing work capital.

Potential market size

Before delving into the details of microentrepreneurs' financial behavior and preferences, it is useful to know how many of them exist. Table 3 summarizes the estimated potential market size by country.

TABLE 3: POTENTIAL MARKET SIZE

	% OF ALL INFORMAL WORKERS	RANGE (# OF PEOPLE)
Belize	42%	7,408 - 10,733
Guyana	27%	18,842 – 28,929
Jamaica	17%	54,667 – 95,307
Suriname	19%	10,602 - 15,707
TOTAL	**25%**	**91,518 – 150,676**

The above ranges were estimated by multiplying the percentage of interested respondents who would be eligible for and would benefit from a loan (see Box 1 for a description of the methodologies used) by the estimated number of self-employed, informal workers in each country.[8] The percentage of respondents who already had formal loans out was also taken into account. As we shall explain further on, the small size of the target market will hold important consequences for the development of sustainable microfinance services in the countries studied.

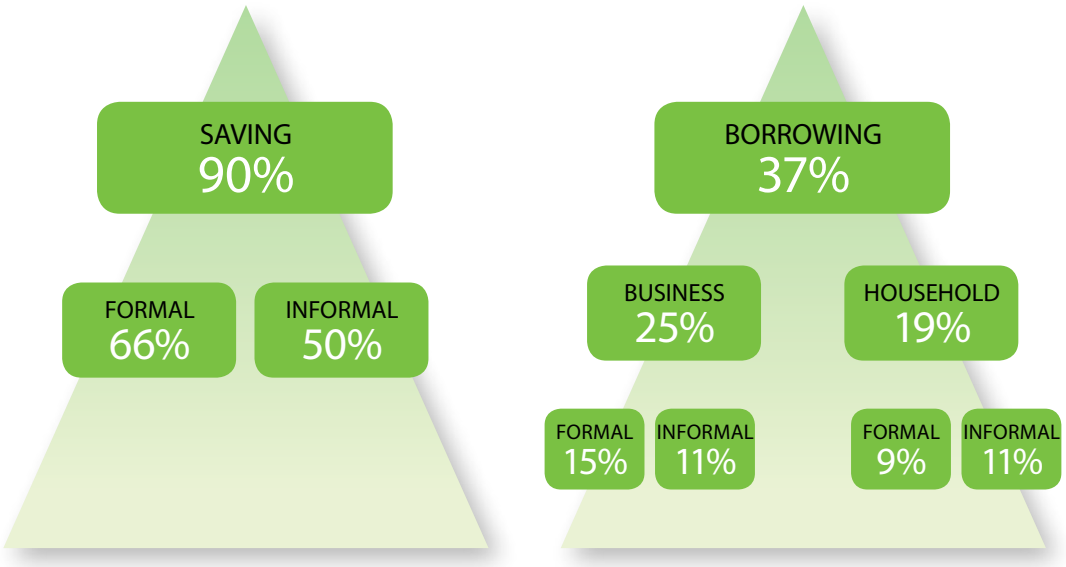
Market challenges for credit providers

Despite the small size of economies in the region and microcredit's short history there to date, there is a potential market for microcredit in our case study countries, which remains largely untapped. In addition to microentrepreneurs' general preferences, we identify six main constraints to expanding credit outreach:

- Savings orientation
- Weak or uneven consumer demand
- Business skills and training needs
- Preference for low-cost credit products with lenient terms
- Information asymmetries
- Supply-side constraints

8 Numbers of informal workers per country come from the ILO's LABORSTA database.

FIGURE 2: BORROWERS AND SAVERS, % OF OVERALL SAMPLE



Rather than competing with informal loans, microcredit in the region appears to be competing with a strong ***savings orientation*** among low-income people, based on their usage and preferences. Microentrepreneurs ***were primarily addressing their financing needs through savings.*** The data show that 90% of survey respondents saved, of which 66% used formal accounts, 50% used informal methods, and 28% used both.[9] Saving is not always regular. While the majority of savers (33%) save monthly, a high percentage (23%) reports saving only occasionally. Banks are the most popular formal savings method, followed by credit unions, while ROSCAs are the most typical informal method, followed by hiding money at home. Business needs were the most commonly cited reason for saving, and 54% of savers reported using savings to reinvest in their businesses, the most common source of business financing after earnings. The strong savings orientation of Caribbean microentrepreneurs sharply contrasts the low individual savings rates in peer countries. According to the latest Global Findex[10] data, only 26% of the general population in Latin America managed to save any money in a year, and only 34% of the population in other upper-middle income countries did so. The prevalence of savings must be considered within efforts to develop microcredit markets in the region.

9 Some businesses save and borrow both formally and informally; hence the sums of these percentages exceed the total percentage that save and borrow.

10 Global Findex 2011. We use this data only as a rough comparison, since Findex surveyed from the entire general population, while our data consider only microentrepreneurs.

TABLE 4: INSTITUTIONS USAGE BY BORROWERS AND SAVERS

INSTITUTION TYPE	% OF TOTAL BUSINESS BORROWERS	% OF TOTAL HOUSEHOLD BORROWERS	% OF TOTAL SAVERS
FORMAL			
Bank	35	34	63
Cooperative/credit union	11	11	15
MFI	13	2	-
Credit card	3	2	-
INFORMAL			
Friends/family	19	21	2
ROSCA	4	3	29
Moneylender	4	2	-
Supplier credit	24	33	-
Pawnshop	1	2	-
Home	-	-	37

Most microentrepreneurs hesitate to borrow. Few respondents had borrowed to finance their business in the last year (25%), whether formally (15%) or informally (11%). Among these, banks were again the most popular formal source, followed by credit unions and MFIs, while friends and family and suppliers/retailers dominated informal methods. Moneylenders were seldom used. Caribbean microenterprises tend to use savings instead of credit for working capital and cash flow management, in stark contrast to Latin American microenterprises, which tend to rely on credit. Our sample's credit usage is slightly higher than national averages in international peer countries. While 37% of sample respondents took out any loan in the past year, just 25% of Latin Americans and 30% of upper-middle income country citizens did so, although we can assume that lending among low-income segments is higher in both groupings. Figure 2 above shows the percentage saving and borrowing, formally and informally, in the overall sample, while Table 4 summarizes the most common types of providers of formal and informal financing.

Reasons for aversion to credit are varied. They include a ***reliance on savings, risk aversion, and weak consumer demand.*** The reliance on savings and low level of borrowing has likely limited the pace of growth for microenterprises. Additionally, several respondents in our survey expressed satisfaction with current financing mechanisms or a fear of debt. Behind the fear of debt deterring many from borrowing is weak consumer demand. Low GDP growth, weak prices of some agricultural commodities and depreciating currencies appear to be driving microentrepreneurs' concerns about their own repayment capacity in some countries. This is particularly the case in Jamaica, but it is also exhibited in pockets of otherwise robust economies, for example the sugar-growing regions of Guyana. Weak demand also explains the importance respondents placed on low interest rates (to avoid squeezing profits, especially for less profitable firms) and lenience (in case they struggle to

repay). We find that some businesses are thriving, nonetheless, and consider that there may be other factors influencing business uncertainty. These might include ***low levels of skills and training*** in the sector, which may also hamper prospects of some businesses. Diversification of business revenue was common rather than expansion of one business, as was saving for business needs. Both reflect a lower risk and lower cost mechanism of investing for many microentrepreneurs. Overall, the reliance on savings and low levels of formal credit due to weak demand and low firm capacity have seriously limited the growth of microenterprises in the region. Combining credit with capacity building efforts for clients could help overcome some of these challenges.

Overall, respondents rated low costs and flexibility as the most important factors for them when seeking credit. This manifests in a ***preference for financing with low interest and fees, and payment terms that conform to their irregular cash flows,*** such as the ability to prepay, and some lenience for late payments. These preferences closely match the level of concern over weak demand. However, savings and informal borrowing relationships, rather than formal loans, may best fit respondents' preferences. For example, Table 4 shows that ROSCAs and suppliers or retailers—all flexible, low commitment sources—are more common sources of borrowing than credit unions or MFIs. Yet informal sources are unlikely to drive micro and small enterprise growth to any scale in the region. In some countries, we identified larger loan sizes as an important competitive advantage of formal providers, suggesting that there is a role for formal credit in boosting growth of "very small enterprises" (VSEs) and small and medium enterprises (SMEs). Additionally, while trust did not rank as a top priority, it is an important background consideration that was often mentioned in qualitative interviews. Contrary to desk study findings, respondents generally had high levels of trust in formal institutions across the board. While this was often associated with banks (and in some cases credit unions), which may not offer microcredit, we consider that microentrepreneurs do not distrust formal institutions unless there are specific reputational issues taking place (i.e. bankrupt credit unions, predatory lenders, etc.). In a similar fashion, microentrepreneurs also tend to trust informal providers except when specific, negative experiences or hearsay change their perceptions. This refutes our initial hypothesis that distrust of formal lenders was keeping microentrepreneurs away from microcredit. Rather than outright distrust of formal finance, what we find instead is a general disbelief that formal lenders are able or willing to match the needs and preferences of microentrepreneurs. Table 4 above shows the actual usage of different financing sources by type.

Our analysis suggests that there is both unmet demand and potential for microentrepreneurs to benefit from credit (and other services) that formal providers could fill. Of the combined target market of 569,040 informal microentrepreneurs, we estimated that just 16,735 are accessing formal credit. The rest depend on savings, ongoing earnings, or informal financing sources. This latter group represents a significant opportunity for MFSPs to increase outreach with a variety of demand-driven services. On credit specifically, a large portion of our sample (66%) was interested in a loan, and we estimate that many (53%) would be eligible for a loan based on reported cash flows. An even larger proportion (71%) would enjoy positive marginal returns from investing a microloan (at current, average market terms) in the business. This amounts to 91,518 – 150,676 eligible potential beneficiaries of loans.

There is particularly attractive untapped demand among larger microenterprises (VSEs) needing larger cash injections for investment. For these firms, apex lenders' caps on loan sizes or insufficient collateral can prevent access to usefully large loans. On the other hand, microenterprises seeking working capital or cash flow smoothing are more able to cover their smaller cash flow needs with cheaper savings or more convenient informal credit sources.

Table 5 below presents overall usage and preferences of financial services for the four samples combined, as well as our estimate of credit eligibility.

TABLE 5: FINANCIAL PRODUCT USAGE AND PERCEPTIONS BY MICROENTREPRENEURS

	% OF TOTAL N=656	% OF BELIZE N=117	% OF GUYANA N=178	% OF JAMAICA N=202	% OF SURINAME N=159
Average GDP growth rate (2010-2012)[11]	NA	3.8	4.9	- 0.1	4.5
Saves regularly	90	89	90	90	91
Saves informally	50	22	64	58	45
Saves formally	66	72	60	71	63
Borrowed in the last year for BUSINESS	25	22	20	35	19
Borrows informally: BUSINESS	11	10	10	15	7
Borrows formally: BUSINESS	15	13	10	22	13
Borrowed in the last year for HOUSEHOLD	19	25	11	20	20
Borrows informally: HOUSEHOLD	11	13	8	14	8
Borrows formally: HOUSEHOLD	9	12	3	8	13
Microenterprise is creditworthy*	53	76	66	42	37
Interested in a loan	66	73	66	56	72
Would benefit from a loan	71	92	73	53	77
Repaid loans on time always/usually	59	54	51	51	90
Expresses risk aversion**	15	8	15	26	8
Trusts a ROSCA	46	47	60	70	21
Trusts a formal inst. (bank, CU, or MFI)	77	91	77	76	69
Thinks a ROSCA is cheap	62	73	76	77	23
Thinks a formal institution is cheap	46	84	39	47	21
Thinks a ROSCA is flexible	58	60	69	76	21
Thinks a formal institution is flexible	51	79	38	62	26

*Calculated by our "Simple Credit Eligibility" formula (See Box 1 on page 11).
** Those who do not borrow for fear of having too much debt, dislike of credit, or not knowing enough about microcredit.[12]

11 GDP figures taken from World Development Indicators database.

12 This question was only asked of respondents uninterested in a microloan. If asked of all respondents, figure would undoubtedly be higher but the meaning would be altered—some are uninterested due to risk aversion, while others are still interested in spite of risk aversion.

Information asymmetries between providers and potential clients are also hampering microcredit outreach. While we found generally high levels of trust in formal financial institutions among respondents, there were specific instances of distrust, often associated with inadequate information available to differentiate between providers. In general, we found respondents to have limited knowledge and understanding of the products and requirements of these providers. Microentrepreneurs lacked knowledge (or often have mistaken knowledge) about loan terms, availability, requirements, and the potential advantages of borrowing. Many respondents held deeply ingrained beliefs about formal credit as a "hassle," keeping them from seeking real information. As one Jamaican MFI manager said, "Many don't know they just need their ID and TRN,[13] so they get turned off completely." Hearsay or negative experiences with one provider often discourage potential borrowers from seeking alternatives. In Jamaica, there also exists the serious problem of fast and loose formal moneylenders posing as microfinance providers, damaging the sector's reputation. The lack of information has undercut laudable efforts by CARIB-CAP I and II to improve available products.

BOX 2: GENDER

Gender did not emerge as a major determinant of financial behavior or business size in our data. Nonetheless, we did uncover a few noteworthy differences between male and female respondents.

Business size. Business sizes were comparable between genders in Suriname and in Belize. In Guyana, however, women's businesses were 30% smaller than men's, and in Jamaica they were 29% smaller.

Savings amounts. Overall, women had 13% less savings than their male counterparts. The largest discrepancy appeared in Guyana, where women had 21% less money saved.

Savings behavior. Men and women saved at similar rates, except in Jamaica, where men were more likely to save at all and more likely than women to save formally. Overall, women were more likely to save using a ROSCA than men, with 35% of all female savers and 17% of all male savers belonging to a ROSCA.

Credit behavior. There was no appreciable difference in credit behavior between genders in Suriname or in Belize. Men in Jamaica were more likely than women to borrow formally, while in Guyana men were more likely than women to borrow informally.

On the provider side, there is a gap in understanding the needs of potential microcredit clients. Microcredit providers generally believe that their products are attractive to potential clients, both in terms of cost and flexibility. However, respondents' use of savings and preference for lower interest rates suggest that clients are more price sensitive than most providers believe. While current microcredit users may be borrowing at drastically different real

13 Taxpayer registration number.

rates (see Table 17 on page 57), those who do not borrow may be opting out precisely due to high real or perceived costs. Our findings also suggest that ***flexibility is not understood in the same way by providers and by clients.*** While providers have improved the flexibility of credit products by expanding eligibility and offering more flexible collateral requirements, potential clients are asking for "flexibility" of payment terms and lenience with repayment dates. These mismatches between supply and demand might explain why microentrepreneurs rated formal loans poorly on their main financial product preferences: cost and flexibility. Meanwhile, informal ROSCAs, friends and family, and supplier credit were rated highly. ROSCA bankers in particular appear to understand these preferences; they usually charge only modest banking fees and offer highly flexible, customizable ways of participating.

While demand-side factors and information asymmetries are important, ***supply-side constraints,*** such as low financial and human capacity, also present limitations to improving the size and quality of microcredit portfolios. In some institutions that we included in our study, only one or two dedicated loan officers cover the microcredit portfolio, substantially limiting the potential for building scale and monitoring quality. MFSPs are still hesitant to risk their own capital on the microenterprise market. Supply-side constraints exist to a lesser degree in Jamaica, where the active involvement of the Development Bank of Jamaica since 2009 has spurred the supply of small loans to actively court the potential market through a combination of bank downscaling, MFI growth, and a surge in formal moneylending. Nonetheless, their success is dampened by the demand factors mentioned above. Within this context, Jamaican credit unions struggle to offer microcredit sustainably due to regulatory limits on risk.

Despite the gaps between supply and demand, some microentrepreneurs are already using microloans successfully—approximately 15% of our sample is using formal microcredit to finance their businesses. Some begin to use microcredit after positive experiences with other formal loans (e.g. home loans) or informal financing, while others persist and obtain loans even after initial rejection by a bank. Most borrowers are also active savers. While these pioneering individuals differ from non-borrowers in many ways, their experiences can provide additional clues on how best to offer tailored credit to the target market.

In the following section, we illustrate the trends summarized above through specific stories and personal testimonies of the microentrepreneurs interviewed for this study. They cover a broad range of experiences in the four countries of study. In line with our broader sample, most are savers and a small number are borrowers, including microcredit clients. We include some testimonies from providers to highlight that supply-side challenges are an important constraint on the development of this market as well.

BOX 3: ROSCAs

Rotating savings and credit associations (ROSCAs) are a strong cultural feature in the Caribbean. To understand ROSCAs, one must know their terminology and how they work. Common ROSCA terms include:

- "HAND" – The fixed amount that every participant must contribute per round, or sometimes, the round itself. Hands can occur daily, weekly, or monthly, although weekly is most popular.
- "THROW (A HAND)" – To contribute the fixed amount required for a round.

BOX 3: ROSCAs

- **"DRAW"** – To take the sum of all the hands in a round, when it is one's turn, or sometimes, the turn itself.
- **"BANKER"** – The person who administers the ROSCA, usually for a per-cycle fee equivalent to one hand.

Caribbean ROSCAs vary in complexity but follow the same general pattern. In each round (usually weekly) all members throw their hand with the banker, who collects the money and passes the total, minus her fee, on to that round's drawer. This continues until all members have taken their scheduled draw. ROSCA bankers fix the number of rounds based on member needs, but most said 20-25 was short enough to prevent boredom.

ROSCAs permit varying levels of flexibility for amounts, draw timing, and punctuality.

- **AMOUNTS.** Some schemes allow participants to throw half hands (usually if they pair up with another half hand thrower) or multiple hands, with each person's draw being proportional to the number of hands s/he throws. This allows people with different economic means to participate in the same scheme. In one Jamaican "Partner," a large local grocery store owner was throwing 40 hands alongside poorer members throwing half hands, each with a proportional draw.
- **DRAW TIMING.** Most schemes allow participants to state a preferred time for their draw, and some allow members to reschedule their draw if their needs change. This makes them especially attractive to parents planning for school fees, or microentrepreneurs restocking their inventory just before major holidays.
- **THROW PUNCTUALITY.** ROSCAs also vary in their lenience towards tardiness and how they deal with it. One Jamaican "Partner," run by a former commercial bank employee and MBA student, tolerated "no foolishness." In more flexible schemes, the banker may compensate missing hands from her own money, or may ask the drawer to wait a few days or even two weeks until all hands have been thrown.

Most think of ROSCAs as saving; in reality for some, they act more as loans. For members who take their draw toward the end of the cycle, it resembles savings. For members who draw early, it more closely resembles a loan. Whichever the case, ROSCAs are a popular way of accumulating "usefully large lump sums" for business or household needs.

3. Illustrative business profiles

From a pool of 38 in-depth interviews with microentrepreneurs, we selected the following 19 cases, which best illustrate the regional trends revealed in the quantitative data and described in Section 2.

Business profiles: Savings orientation

As much as 90% of all microentrepreneurs surveyed save, and 54% used savings to reinvest in their business. Respondents save in various places, whether at home (37%), with a ROSCA (29%), at a bank (63%) or credit union (15%), or any combination of these, and often have significant funds accumulated. Average balances were USD 645, including zero balances and excluding major outliers. They explain that savings best match their needs. For most, savings is a preference; for others it is a fallback or a complement to loans. Active saving does not necessarily predispose microentrepreneurs against borrowing (90% of borrowers also save), but may give some less incentive to seek credit.

Notmoya, a grocer in Linden, ***Guyana,*** combines a daily ROSCA with a bank account. She says the bank's daily withdrawal limit helps keep her money safe from temptation. She makes a profit of USD 393 each month after business expenses, and as she is single and lives in a family home, she is able to save a large portion of her profits. Natasha has sold makeup, jewelry and hair products in Berbice, ***Guyana*** for seven years and aims to expand her business soon. Like Notmoya, she saves in a ROSCA and at a bank. She also saves at home. She likes the ROSCA because the "banker" visits her daily to collect the small hand, which helps her with savings discipline. She uses the bank as well because it is more secure and depositing the money keeps her from spending it. Despite Natasha's commitment to saving, she barely breaks even every month, with business expenses that amount to USD 44 more than what she estimates her monthly sales to be. Return on investment analysis (ROI) reveals that Notmoya's business would benefit from a loan, but Natasha's would not.

NOTMOYA IN LINDEN, GUYANA

Nadra used her savings to open a barbershop in Ocho Rios, ***Jamaica*** ten years ago. She struggles to retain staff since they often leave to work independently once they build up a customer base. She makes nearly no profit and instead relies on her savings at a credit union and remittances from her husband in New York to pay the bills and keep the barbershop afloat. She says, "I'm a saver. That is why I am surviving until now." Despite her use of savings, she does not use or trust ROSCAs, explaining that they only make sense if one has a goal a few weeks or months down the line. Though Nadra has never borrowed for her business, she is credit eligible, according to our Simple Credit Eligibility (SCE) criteria, primarily because of her outside remittance income. Nadra believes borrowing from her credit union would be easy, since "it's my money," referring to her member shares and savings. Given her low profit margins (most months she makes zero profit) Nadra's business would not benefit from a microloan, and she herself explained she would need a very large investment to make her business profitable again. For her barbershop, incrementing her inventory through working capital loans is unlikely to have much effect. She is thinking about closing the barbershop soon and using the space for a more lucrative enterprise.

Nadra says that she wouldn't borrow from an MFI in Jamaica because they charge excessive interest. "Them a thief," she explains.

Lucy runs a small restaurant stall in a market in Belmopan, ***Belize***, and has sales margins of 66%. She saves at a credit union and with a ROSCA. She currently has a home improvement loan from the Development Finance Corporation (a public development bank) and recently used savings to purchase a new stove for her business. According to our analysis, Lucy is credit eligible and her business is profitable. Given experience with savings and loans, Lucy would likely make effective use of a larger microloan for her business.

Some microentrepreneurs' cases suggest that savings may be an inefficient mechanism for re-investing in the business. Gladston worked in Canada for several years, and then used his savings to open a small bar upon his return to Ocho Rios, ***Jamaica***. He has no access to credit and saves in a sealed shoebox, refusing to count the money until he needs it, presumably to

avoid the temptation to spend it too soon. He also uses a round robin[14] system to support his business. He tried to open a bank account once but says the line was too long. He would have preferred taking a loan to open his business instead of using savings but notes that he never had the opportunity. Already accustomed to saving, he likes the idea of "block savings"[15] and believes that recuperating them at the end is a good motivator to repay. With high sales margins and a monthly profit of USD 1,331, ROI analysis shows that Gladston could grow his business faster with a microloan than with his informal savings.

Jacq is a 49-year old butcher in Paramaribo's central market in ***Suriname***. In addition to saving at home, he has saved with the same ROSCA for 26 years with fellow market vendors. Jacq insists that he would not trust another ROSCA, as he believes most people are "jokers and thieves." Familiarity and trust among vendors make this market ROSCA particularly strong. He also saved in a commercial bank for several years until he had enough to make a down payment and take a loan for his house. Saving for large household goals was common in our sample. Despite his strong savings orientation, Jacq expressed interest in microcredit, which he had never heard of before. Our ROI analysis, however, reveals that his business would not benefit from a loan.

JACQ IN PARAMARIBO, SURINAME

Melony from Belmopan, ***Belize*** runs a beauty salon, has a weekend catering business, and sells DVDs on the side. She wants to grow the salon business significantly, although most of her income comes from the occasional large catering job (currently Melony's profits from the salon are USD 120 a month, almost all of which gets reinvested in the business or is used to pay for her children's needs). She used a ROSCA once to buy some household goods, but currently either saves with her aunt when she expects to use the money soon, or in the bank if she does not want to touch it. Melony recently attempted to get a business loan from Belize Bank but her guarantor did not qualify, so she borrowed from her aunt instead. She likes the idea of an MFI loan but says she does not have time for their paperwork and inspections. In any event, ROI analysis reveals that Melony's businesses would not benefit from microloans.

14 In a Jamaican round robin, several local business owners take turns holding events at their bars or restaurants. At each event, the other members commit to consuming a minimum amount, or paying that minimum in cash.

15 The local term for cash collateral required upfront for some microloans.

Like Nadra above, her beauty salon would likely not benefit from increasing inventory with a working capital loan. She might, however, benefit from diversifying her activities further.

Savers are by far the most important segment in the region. As the above cases show, informal and formal savings are often used side by side (26% of all respondents did so), and while some savers have also successfully accessed credit (25% overall took a business loan), others have not yet had the chance.

Business profiles: Weak consumer demand

A third of microentrepreneurs in our study were uninterested in microcredit, primarily for fear of being unable to repay or for a general dislike of borrowing. Such risk aversion was expressed by 44% of those uninterested in a microloan, or 15% of all respondents. High interest, real or perceived, also keeps microentrepreneurs away, since they believe their businesses cannot support the payments. When they need money, they often borrow from suppliers who offer low interest and flexible terms. Credit-adverse microentrepreneurs experiencing slow business often have conservative attitudes towards money and prefer saving (see previous section for profiles of savers).

Karen opened a beauty salon, which she began running with her two sons in Berbice, ***Guyana*** after her husband died. She sustains the business by reinvesting nearly all of her earnings (USD 365 monthly profit) and prides herself on the fact that she accesses no outside business financing. She believes there is no reason to grow her business since demand in Guyana is stagnant and highly seasonal. She believes that her small, irregular income prevents her from using both ROSCAs (since she has no extra money to save) and formal loans (since she has no extra money for payments). While Karen's cash flows make her ineligible for credit, ROI analysis indicates that Karen would benefit from a loan. In any case, she believes that "getting a bank loan is as hard as getting an American visa."

KAREN IN NEW AMSTERDAM, GUYANA

June and Beryl, two snack vendors outside adjacent schools in Georgetown, ***Guyana***, echo Karen's concern over slow business – June brings home around USD 59 a month, and Beryl brings home around USD 79. Neither woman has plans to expand and both finance

all inventories from daily revenues. June does not trust ROSCAs, but Beryl saves in one for consumption—"a little something extra or special for my family"—since she does not like to borrow. In our assessment, both June's and Beryl's businesses would benefit from small business loans.

Esie is a 53 year-old woman who has been selling juice to bus drivers and vendors outside the main market in Paramaribo, ***Suriname*** for 20 years. She is an active saver who hides money at home and uses ROSCAs for easy access to cash. She also saves money in a formal bank to accumulate larger amounts, though she currently has a zero balance in her account and no savings at home. To meet her cash flow needs (her expenses often equal or are higher than her sales), Esie sometimes buys groceries on credit for her household because her friends and family are unable to loan her money and she believes she could not access a personal loan. She explained that her cash flow is too irregular to take out a formal loan and that she would be nervous about her ability to repay. Indeed, according to ROI calculations, Esie would not benefit from a microloan.

ESIE IN PARAMARIBO, SURINAME

Kreetje (along with several competitors) sells fish in a parking lot near the market in Paramaribo, ***Suriname***. Unlike Esie, she does not trust ROSCAs. She has an account at a cooperative bank (like Esie's, it has a zero balance) and says she only trusts regulated providers because one has no legal recourse against informal savings or loan providers. Kreetje is not interested in a formal loan and states that she does not know anything about formal loans and doubts her ability to repay. Our eligibility and ROI analyses categorize her as credit ineligible and as someone who would not see marginal gains from a loan, thus she would probably struggle to repay.

KREETJE IN PARAMARIBO, SURINAME

Gladys runs a tourist shop in Ocho Rios, ***Jamaica***, and complains of a stagnant economy and diminishing, irregular income, saying "Me don' know how me work it out sometimes, but I work it out." She makes about USD 60 in net business profits each month, all of which goes towards her rent and household expenses. She used to belong to a ROSCA and bought goods on credit, but her current income is too irregular to throw hands or make payments. When asked about borrowing, she asks, "Why should I put myself in that trouble?" Gladys is, however, open to the idea of borrowing depending on the terms. She would borrow from a moneylender she knew and trusted, and she would prefer taking a formal loan from Jamaica National with asset collateral over an MFI like Access that requires block savings. Nonetheless, in our assessment, Gladys would not benefit from a microloan.

GLADYS IN OCHO RIOS, JAMAICA

Slow economic growth in the region (2010-2012 GDP growth averaged 1.7% between the four countries), particularly in Jamaica (which averaged -0.1%), is affecting many microenterprises, limiting their demand and potentially their need for loans. Nonetheless, many businesses would benefit, and perhaps spur economic growth through their success.

Business profiles: Information asymmetries

A large proportion (71%) of microentrepreneurs in our sample would benefit from microcredit, yet many have never heard of microcredit or are unclear on the details. Others hold outdated or mistaken beliefs about product terms or requirements. Lack of access to accurate information about products bars these people from taking microcredit. This was an especially acute problem in Suriname, though it was observed in all countries. Many CARIB-CAP II participants have just recently launched new products with simplified terms and reduced collateral requirements, but most respondents' beliefs about microcredit or formal loans still reflected older, collateral and documentation-heavy products.

Killion sells shaved ice from a cart in downtown Paramaribo, ***Suriname***, and makes a brisk business with students after school, taking in a net profit of around USD 500 a month. He says he only saves money at home because he wants immediate access to it if needed. Killion did not have detailed knowledge about formal financial services, having never used them. He believes that taking credit from retailers is a convenient option, while banks are too slow and have too many requirements. He has never heard of microcredit but would be interested in taking out a loan to grow his business. He believes he would qualify since his business is healthy and he successfully paid back a loan from a relative in the past. Our ROI analysis confirms that he would indeed benefit from microcredit.

KILLION IN PARAMARIBO, SURINAME

John is a taxi driver in Morant Bay, ***Jamaica***. He recently inquired about a microloan at the local credit union, which requires borrowers to first become members. They handed him an application and asked him to return it with a photo, references, a copy of his identification and several other documents. John exclaimed, *"I got no time to collect all these things after I spent half an hour there! I got to work!"* This experience was enough to discourage John from exploring other sources. He assumed that requirements would be similar for all lenders, even though non-credit unions do not typically require as much documentation. Such generalized or mistaken beliefs often prevent microentrepreneurs from informing themselves about all options available to them, including the more demand-driven products introduced by some providers under CARIB-CAP II.

MFSPs are constrained by limited resources, and advertising and outreach are too limited to reach many of these potential customers.

↘ Business profiles: Pioneering borrowers

While most microentrepreneurs surveyed were not currently using any formal credit, 15% had taken out formal loans to finance their businesses within the last year. Among them we found many successful business owners. Some graduated from informal sources, while others persisted even after being initially rejected by formal providers. As in the overall sample, 90% of them were active savers as well.

Hyacinth has run a small grocery in the front of her home in Kingston, ***Jamaica***, for 40 years. She belongs to a small business association through Jamaica National Bank (JN) and currently has a small business loan, which she always pays on time. She has been loyal to JN since they gave her a home loan 40 years ago, and plans to continue to work with them in the future. Brand recognition and loyalty garnered from non-microcredit products is an important factor for early adopters of microcredit.

Wilfred is 28 years old and just entered the second year of ownership of his restaurant in Belmopan, ***Belize***. After being rejected for a bank loan, Wilfred borrowed start-up funds from the Development Finance Corporation and recently refinanced in order to upgrade his restaurant facilities. He saves at a credit union and explains that banks have better customer service but credit unions are cheaper. Successful borrowers like Wilfred persist even after being rejected. His preference for low costs led him to use a credit union, although he might have preferred a bank for both savings and loans.

Jeune runs a small grocery store out of her home in Berbice, ***Guyana***, in which her best-selling item is bread that she orders from Georgetown every evening. She started her business buying goods on credit from a businessman at her church and using money she had originally saved to visit the United States. Jeune no longer borrows informally and recently took out an MFI loan, which she successfully paid off seven weeks early and rolled over into a new loan. Her success as a borrower may be partly due to the fact that she uses profits only to repay her loan and reinvest into the business, and does not divert them for household needs. Income she earns from a side job as a midwife helps to pay for household expenses.

Maureen runs a hot dog stand in downtown Paramaribo, ***Suriname***, and deploys a fleet of several more stands for special fairs and festivals. Her business could be considered a VSE, or "Very Small Enterprise"—on the larger side of a microenterprise, or on the smaller side of a small/medium enterprise (SME). After failing to obtain a microloan from a cooperative

bank because she lacked a personal guarantor, she took out a microloan offered to her by a microloan officer at her credit union. She was happy to report that she obtained the funds in only two days. Her success has been tempered by the fact that she occasionally makes payments late and incurs penalties. Despite these difficulties, she says she is interested in borrowing more. However, her credit union will only lend a maximum of USD 769, and she needs more to upgrade and expand her hot dog business. Meanwhile, she is building up her savings. She uses a ROSCA to save up, and then deposits the full draw in the bank.

MAUREEN IN PARAMARIBO, SURINAME

Provider perspective: Selected interviews from the supply side

Demand factors are certainly a key driver of low microcredit uptake, yet we find that supply-side constraints are just as important to the generally low uptake in loans. These constraints have limited MFSPs' ability to increase outreach and offer customers products that best meet their needs. ***Constraints include prudential and regulatory requirements, high costs of delivering products, and generally limited capacity and resources of providers***.

Most MFSPs that we interviewed complained that the cost of lending to microentrepreneurs was high, especially given the small scale of most programs, thus limiting their ability to make smaller loans. Minimum loan sizes were typically fixed at USD 300-400. Some lenders consider small loans a drag on profitability and tried to focus on higher amounts. In other cases, larger loans are avoided due to risk aversion. For example, in ***Suriname***, the apex lender caps the

maximum size of loans made with subsidized funding, making it difficult for some MFSPs to lend to larger microenterprises without risking their own capital, which they hesitate to do. This was especially an issue for institutions that had stricter prudential regulations and other lines of business competing for resources, such as banks and credit unions. NGO MFIs sometimes maintained a different equilibrium between financial and social goals, even accepting losses on a client's first few loans.

The General Manager at one credit union in ***Jamaica*** told us of a variety of problems stemming from low internal capacity. ***Processes and systems*** are a challenge. A system glitch had been hiding some delinquent accounts, causing lags in follow-up and a growing portfolio at risk. Today they have a new and improved system, but the learning curve for using it is steep. ***Finding capable loan officers*** is also a challenge. After a difficult experience using regular loan officers, the credit union hired two specialized microloan officers, and still struggled when they realized that one was not skilled in interacting with the target market. Furthermore, ***regulations*** can be a major obstacle for credit unions offering microfinance. Legally required documentation to register members is onerous, deterring potential borrowers, while unsecured lending is limited to ten percent of overall portfolio, effectively limiting the scope for microcredit.

Saskia is currently the only microfinance loan officer at a credit union in Paramaribo, ***Suriname***. She used to work with another colleague, but since he left she has taken on the entire microfinance portfolio. Saskia recruits clients individually and relies heavily on word of mouth and referrals. Her busy marketing schedule often impedes her from doing sufficient loan monitoring, but she tries to do drop-in visits with existing clients when she happens to be in the neighborhood. She says clients become nervous if she is not constantly present. *"If I don't visit a market for two or three weeks, the next time all my clients ask me where I was, what happened, is everything okay?"* In addition to testing client's confidence, ***spotty monitoring*** also has the consequence of ***increasing portfolio at risk***, which is high in Suriname and much of the region compared to global averages.

Some of the supply-side constraints will need to be addressed if expanding credit access is to be successful in the region. While some microentrepreneurs are inclined to stay away from formal microcredit, many providers are also limited in their ability to reach out to them.

In the following sections, we will describe the local markets for financial services for microentrepreneurs and summarize the key trends in each of the four countries studied.

4. Belize: Weak economy, conservative providers suppress credit demand

The smallest country in our study, Belize, has a population of just 324,060, divided between Creoles, Mestizos, Mayas, and several minority groups. The Belizean economy has suffered weak demand and economic growth since the onset of the 2008 global economic crisis, given its dependence on commodity exports, including petroleum, crude oil, industrial minerals, sugar, bananas, and tourism. On the other hand, Belize's currency peg to the U.S. dollar has had an inflationary effect on prices relative to the other three countries. Financial infrastructure in terms of bank branches and ATMs per capita is the most developed among the four study countries, although this is concentrated in major towns. Credit unions are widespread, yet they have only recently begun expanding outreach into rural villages surrounding their branches.[16]

TABLE 6: ECONOMIC INDICATORS[17]

	BELIZE
Population 2012	324,060
GDP 2011[18] (millions of USD)	1,493
GDP growth 2010-2012 (%)	3.9% 2.3% 5.3%
Employment rate 2012 (%)	60.4%
GNI per capita 2011 (USD)	4,490
Estimated target market[19]	7,408 - 10,733

16 Vargas, Albino (of La Inmaculada Credit Union). Interview by Derek Poulton.

17 Economic and financial sector data from World Development Indicators database.

18 2012 GDP and GNI per capital for Belize were not yet available in the database.

19 Estimated as the percentage of informal self-employed who would be interested in, eligible for, and benefit from microcredit.

Supply side: Providers of microfinance services in Belize

Respondents in Belize overwhelmingly use formal providers of savings, specifically banks, credit unions, and the Development Finance Corporation, a government development bank. In a small country like Belize, these providers draw business from all segments of the population, including low-income groups and small businesses. As a result, we found supply side constraints of formal financial services to be relatively limited in Belize. Informal ROSCAs called "syndicates" are also prevalent, though less than in other countries, such as Guyana or Jamaica. Belizean syndicates work much like the ROSCAs in our other study countries, with flexibility in the number of hands thrown by each member and the timing of draws. One Belizean syndicate banker explained she herself throws three hands in the syndicate. This allows her to easily accommodate members who need to swap their draw time, or make up for members who cannot throw their hands on time. Thus the banker often resolves the mismatch between the desire for enforcement of savings discipline and the need for flexibility. Such measures may reflect an effort by ROSCA bankers to overcome many people's lack of trust in the system (one interviewee said that her ROSCA banker disappeared before she could receive her draw) and make ROSCAs more attractive, since they compete with banks and credit unions that are just as accessible as informal savings.

Belize's strong credit union movement, started by Jesuit missionaries in the 1940s,[20] serves about one third of the population. While credit unions mostly focus on savings and consumer lending, two major credit unions—La Inmaculada (LICU) and St. Xavier's—have begun offering microcredit. Competition is scarce for these pioneering credit unions, and there appear to be attractive opportunities, yet the market for borrowing is limited. LICU's Quick Credit product (developed under CARIB-CAP I) is offered by staff that are separate from the rest of the credit union's operation, and has successfully brought credit to previously unbanked populations. LICU began in 2010 with conservative terms of 20% block savings,[21] 10% compulsory savings, a personal guarantor, and 5% interest per month. After a positive experience, however, LICU reduced block savings to just 10% and interest rates to 2% a month on a declining balance—double the 1% rate for personal or regular business loans. These rates are exceptionally low compared to prevailing rates in the other countries studied, although processing fees add to the upfront cost. LICU still requires non-cash security in the form of asset collateral or a guarantor, although this is not always mandatory for regular business loans. LICU sees Quick Credit as a doorway to mainstream credit and business culture. To apply for a second Quick Credit loan, clients must present a ledger of business revenues and expenses, and after an average of three Quick Credits, clients can transition to traditional loans at the lower interest rate.

Belize also has one NGO MFI, Belize Enterprise for Sustainable Technology (BEST), which is primarily an enterprise promotion program that also offers credit. Currently, limited resources prevent BEST from increasing its portfolio, but the NGO plans to expand and make its microenterprise lending sustainable in the next four years. Previously, other NGO MFIs existed in Belize as well, but today most are defunct.

20 The movement's Jesuit roots show up in credit union names, which bear the names of Catholic saints.

21 Block savings refers to cash collateral that borrowers must deliver upfront and deposit at the lender for the duration of the loan, in contrast to compulsory savings which are accumulated along with loan payments throughout.

Informal lenders play a tiny role for Belize's microentrepreneurs, perhaps because informal lenders typically offer smaller sums at high interest and thus cannot compete with savings as a financing method. Pawnshops and moneylenders (including regulated providers) offer small and costly loans for school fees, emergencies, or consumption. They are used infrequently yet may compete with formal providers, such as credit unions, for consumer loans to savers, (much less so for microcredit loans for business purposes).

↘ Microenterprises and microentrepreneurs in Belize

Basic profile of microenterprise survey respondents

TABLE 7: PROFILE OF BELIZEAN MICROENTREPRENEURS

		STD. DEVIATION
Average years in business	8.7	6.9
Average monthly sales (USD)	1,692 [22]	1,658
Average net margin (%)	46 [23]	22
Saves regularly (%)	89	
Saves informally (%)	22	
Saves formally (%)	72	
Borrowed for business in the past year (%)	22	
Borrowed informally for business (%)	10	
Borrowed formally for business (%)	13	
Borrowed for household in the past year (%)	25	
Borrowed informally for household (%)	13	
Borrowed formally for household (%)	12	
Is creditworthy (%)	76	
Is interested in a loan (%)	73	
Would benefit from a loan (%)	92	
Repaid prior loans on time always or usually (%)	54	
Expresses risk aversion (%)	8	
Is close to a formal institution (%)	35	

22 This number excludes seven outliers, with whom average sales were USD 2,725.

23 This figure excludes firms with zero or negative net margins, with which the average is 30%.

Our Belize sample consists of 117 microentrepreneurs, including 57 in the commercial hub Belize City, 49 in the small capital Belmopan, and 11 in the rural village of Roaring Creek outside Belmopan. The average respondent was 40 years old and had 11 years of formal education. Our sample was evenly split between men and women. Table 7 above shows some basic characteristics of the respondents.

Most businesses surveyed were mature, with an average age of 8.7 years. Unlike in other surveyed countries, we found very few Belizean informal commercial importers (ICIs). They varied in size, most with monthly sales between USD 600 to USD 1,200 (monthly sales ranged widely from USD 60 to USD 28,000 including outliers). Most Belizean respondents had modest goals, as most aimed for modest growth or to maintain their current business size, while just 37% wanted to grow their businesses "a lot." Many interviewees complained that business had slowed down considerably in recent years and that money was tight.

Only 22% of respondents had a second income of their own, just over half came from a side business, and formal employment was rare. Thus few microentrepreneurs would have access to formal salary-based credit through formal lenders. Twenty-four percent of respondents received remittances on a regular basis. Nearly all respondents financed their inventories through earnings (91%), and several complemented this with savings (34%), other personal income (7%), or household income (7%). A few borrowed from friends and family (6%), but store credit (5%) and ROSCAs (3%) were seldom used.

Of 117 respondents, we consider 76% "credit eligible" according to our Simple Credit Eligibility (SCE) criteria (see Box 1 on page 13). Men and women were equally likely to be "credit eligible," and respondents outside of Belize City were slightly more likely to be eligible.

See Appendix 1 for a detailed breakdown of their socio-economic profile.

Savings behavior and preferences

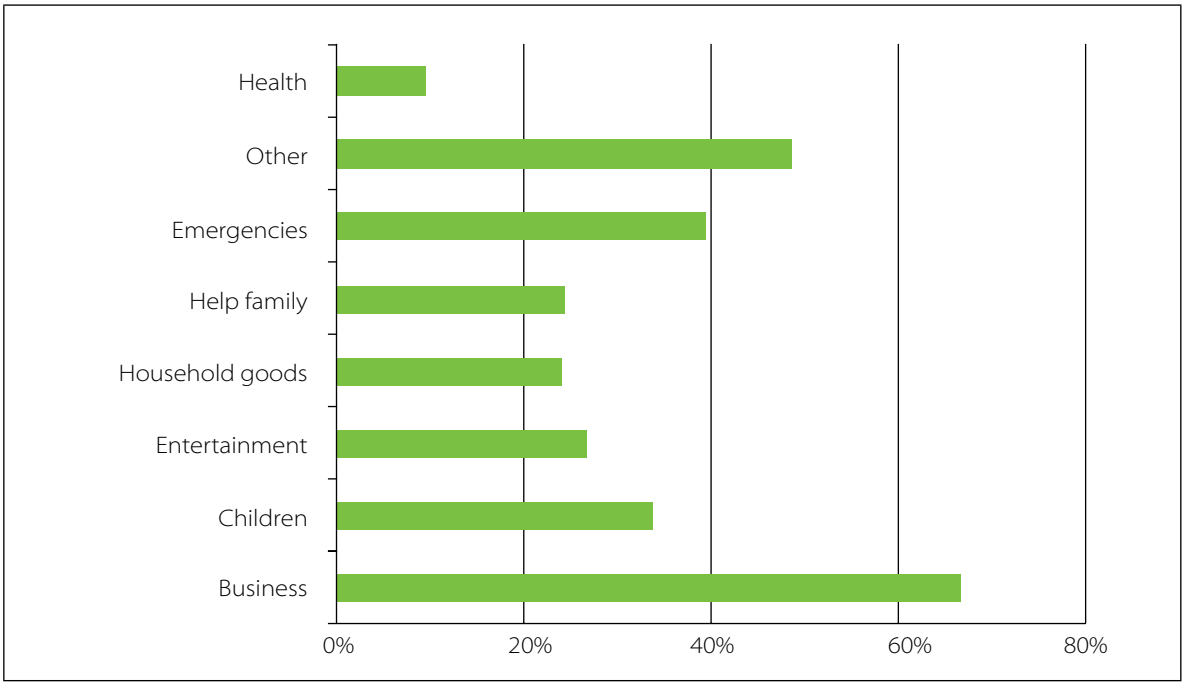
Saving is very common among Belizean microentrepreneurs, with 89% percent saving on a regular basis. Belize had the highest percentage of formal savers (72%) among the four countries. Twenty-two percent saved informally with ROSCAs or at home, but only 7% did so exclusively, despite the fact that ROSCAs were on average much closer (within 5 minutes) than banks or credit unions (within 15 minutes). Table 8 below shows the percentage of all savers using each common savings method. Respondents in the Hispanic-dominant Belmopan and surrounding villages had a higher incidence of regular saving, which is interesting given the very low savings rates in Latin American countries. Respondents utilized ROSCAS at similar frequencies across ethnic groups. Respondents typically had significant balances, USD 502 total on average, with about USD 395 in formal accounts and USD 124 at home, excluding outliers. Just 10% reported zero balances in their savings accounts. Figure 3 shows typical reasons for saving, which were mainly business or miscellaneous needs.

TABLE 8: SAVING METHODS, BELIZE[24]

INSTITUTIONS	BANK	CREDIT UNION	FRIENDS/ FAMILY	ROSCA	HOME
% of Savers	38	19	8	4	77

Despite high uptake, many respondents (47%) reported problems with formal saving. These included receiving too little interest (15%), excessive fees (13%), not having access to money whenever needed (9%), high minimum balances (6%), and lack of trust (5%). These issues did not seem to discourage savings in formal institutions, but left some room for informal savings. Some respondents saw informal savings as offering easier access (33%) and lower fees (36%) than formal accounts, in addition to helping with savings discipline (20%) and protecting money from temptation (21%). On the other hand, 28% said informal savings had no advantages and 7% did not know.

FIGURE 3: REASONS FOR SAVING, BELIZE



Credit behavior

In the past year, 47 respondents had taken out a loan. Twenty-six percent of respondents had borrowed for a household need (mainly large goods and home improvements) and 22% for a business need (primarily stock, followed by equipment), of whom 9% borrowed for both needs. Figure 4 summarizes the reasons for business borrowing. Formal institutions including banks, credit unions, and the Development Finance Corporation (included under banks) are the primary source for both household and business borrowing (45% and 58% respectively), followed by purchases on credit from shops or suppliers (42% and 38% respectively). Informal borrowing through friends and family or ROSCAs is uncommon. Table 9 summarizes the prevalence of credit sources among business and household borrowers. However, the formal

24 Due to overlapping use of multiple sources, columns do not add up to 100%.

sector only reaches a small portion of the potential market for microcredit. While prevalent, formal and typically conservative institutions have lacked the capacity, and perhaps interest to develop loan products for microentrepreneurs, focusing on higher credit segments using traditional lending methodologies. Microentrepreneurs feel this lack of interest; as one explained, *"To imagine a bank helping is impossible…No one is interested in helping to develop the small business area. I don't believe it."*

FIGURE 4: REASONS FOR BUSINESS BORROWING, BELIZE

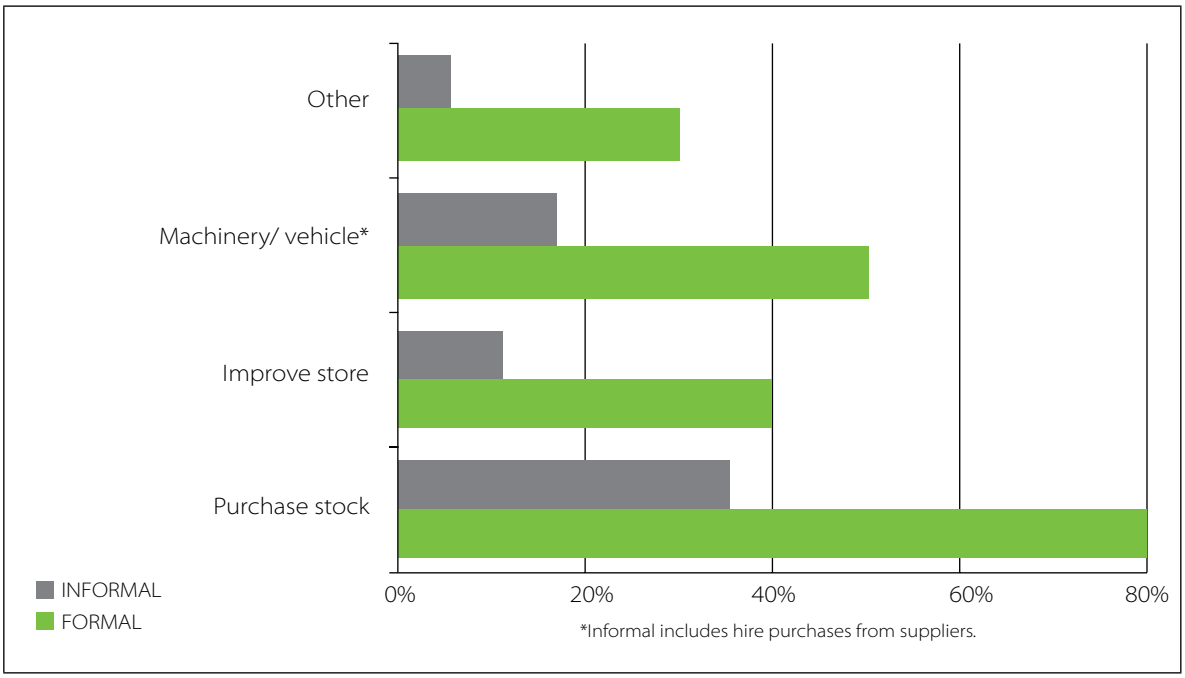


TABLE 9: BUSINESS AND HOUSEHOLD BORROWING SOURCES, BELIZE

INSTITUTIONS	BANK	CREDIT UNION	MFI	FRIENDS/ FAMILY	ROSCA	SUPPLIER
% of Businesss Borrowers	38	19	0	8	4	77
% of Household Borrowers	24	21	3	10	9	45

Though few respondents borrow, 78% believed they were eligible for a loan and 73% expressed interest in a microloan, mostly to expand or improve the business. Of the 27% who were not interested, most either did not need a loan (40%) or were afraid of debt (28%). These attitudes reflect a cautious approach that could be limiting microenterprise development, since our analysis estimates that 92% of respondents would enjoy net benefits from investing a microloan, while just 55% were also eligible and interested.

Lack of collateral, licenses, and accounting documents were the main reasons cited by individuals for either possibly not qualifying for microcredit or actually being rejected for

25 Due to overlapping use of multiple sources, columns do not add up to 100%.

a past loan (15% had been rejected). Interestingly, respondents deemed credit eligible by our cash flow criteria were often rejected for microcredit due to a lack of collateral. Of the respondents rejected for microcredit, 39% could not obtain funds elsewhere, and the rest mainly found funds by borrowing from friends and family (22%) or a moneylender (11%), or by using their own income (11%).

Financing preferences

Table 10[26] below shows that Belizean microentrepreneurs value low cost, lenient/flexible[27] terms, and few requirements above all other factors. ***These preferences may be restricting their use of credit, particularly in large amounts.*** The best matches for their preferences are friends and family, followed closely by credit unions. The near unanimity that Belizean respondents showed in highly rating friends and family and credit unions is striking, as 68% or more of respondents rated both favorably in every dimension. ROSCAs ranked second or third on the top dimensions.

Many respondents appreciate the low prevailing credit union rates of 1-2% per month, and their relatively low requirements and high flexibility. Friends and family also scored fairly well on these dimensions. Credit unions scored highly on lower priority dimensions like trust and speed, but their loan sizes (ranking 4th in terms of preferences) were limited, most likely because credit unions are constrained to lend based on deposit funds. In contrast, banks offered exceptionally high amounts but were seen as slow, costly and inflexible. On the other end of the spectrum, ROSCA draws were low in terms of size, and also suffered from low scores on trust and speed. MFIs scored very low on all dimensions except for loan amount and proximity. This gap contrasts starkly with other countries studied, most likely because MFIs are rare and unfamiliar to respondents in Belize.

26 Table 10 shows respondents' preferences for financing and which providers they believe do or do not conform to each preference, in order of strength in response. We asked whether each provider was cheap, lenient/flexible, trustworthy, nearby, fast, had good loan amounts, and had low requirements. Providers with a high relative percentage of "yes" responses are in the "Who is?" column, and those with low percentage are in the "Who isn't?" column.

27 "Lenient" and "flexible" were concepts used interchangeably by survey respondents.

TABLE 10: BELIZEAN MICROENTREPRENEURS' CREDIT PREFERENCES AND PERCEPTION OF WHO DOES OR DOES NOT FIT THEM

TRAIT	RANK	WHO IS?	WHO ISN'T?
Cheap	#1	1. Friends/family 2. Credit union 3. ROSCA	1. Bank 2. MFI 3. Pawnshop
Lenient/flexible	#2	1. Friends/family 2. Credit union 3. ROSCA	1. Bank 2. Pawnshop 3. MFI
Low requirements	#3	1. Friends/family 2. ROSCA 3. Credit Union	1. Bank 2. MFI 3. Store Credit
Amount	#4	1. Bank	1. ROSCA
Trustworthy	#5	1. Credit union 2. Friends/family 3. Bank	1. Pawnshop 2. ROSCA 3. MFI
Fast	#6	1. Credit union 2. Moneylender 3. Friends/family	1. Bank 2. MFI 3. ROSCA
Nearby	#7	1. Friends/family 2. Bank 3. Moneylender	1. MFI

Respondents' perceptions of providers contrast somewhat with their actual usage. Banks are used slightly more often than credit unions for both savings and credit, suggesting that despite their popularity, credit unions may not be very easy to access, perhaps due to distance or a lack of appropriate loan amounts. Furthermore, while friends and family and ROSCAs rate highly on important dimensions, both informal sources of financing were seldom used by respondents, again suggesting that they are somehow difficult to access or provide insufficient amounts of financing. In the case of ROSCAs, a lack of trustworthiness may have been a deal-breaker for many microentrepreneurs.

Key findings: Savings drive financial inclusion but there is room to expand credit

The developed financial sector of Belize has been a boon for developing financial inclusion, primarily through low-income savings. However, this has not yet translated into a strong offer of or demand for microcredit. Innovative approaches are needed to improve outreach and match customer preferences.

- **Savings culture and infrastructure are strong but credit supply does not match demand in scale or terms.** Widely available savings in Belize has allowed microentrepreneurs access to the formal financial sector, which has in turn stimulated savings. These savings are often used to invest in business as well as cover a range of household needs.
- **Informal finance is not a major factor.** ROSCAs exist in Belize but are used much less often, when compared to other countries like Jamaica or Guyana, while informal moneylenders or purchasing supplies on credit are used even less frequently. A lack of trust in informal arrangements, weighed against the surprising agility of formal savings institutions, seems to have left them out of favor.
- **There is both interest and potential in the microenterprise sector for microloans.** We find that respondents are not always able to access loans at the price, speed and amounts that they need through existing providers. Instead, they invest their savings in their business (a sign that the return on investment is likely positive). Those who do borrow buy goods on credit from stores, or turn to banks and credit unions when they can. These lenders cater to most, albeit not all of their needs. Our analysis shows that 92% of respondents would grow their business profitably with a "typical" microloan[28] and more than half would double their net revenues. Additionally, 73% would be interested in taking a loan, suggesting that there is work to be done on the supply side.
- **Providers could leverage savings to boost firm growth through credit.** Microentrepreneurs' savings balances are a ready form of collateral, and whenever possible should substitute for asset collateral and formal guarantors, which add to the complexity of loan application processes. Banks and credit unions can leverage their existing trust relationships with savings clients to make microcredit easier, more flexible, cheaper, and with lower requirements than might otherwise be the case. Credit unions in particular should capitalize on the high esteem Belizeans afford them.

28 In Belize, we assumed a USD 2,500 loan for 18 months at 1.7% flat monthly interest.

5. Guyana: A slow path toward formal business borrowing

Guyana has a small yet dynamic economy with a population of approximately 795,369 residents and GNI per capita of USD 3,410. The majority of the population consists of Indo and Afro-Guyanese, with significant mixed and indigenous minorities. The country, whose economy is led by the agriculture and mining sectors, has experienced robust, albeit uneven growth despite the financial crisis of the late 2000s. Mining has been strong, with mineral prices reaching record highs in recent years. However, declines in agricultural commodity prices in particular have depressed some rural areas. Sugar, for example, contributes 16% of Guyana's GDP, and its prices have fallen by nearly 50% since 2011.[29] Financial outreach is low and infrastructure underdeveloped, with only eight bank branches and 15 ATMs per 100,000 adults.

TABLE 11: ECONOMIC INDICATORS[30]

	GUYANA
Population 2012	795,369
GDP 2012 (millions of USD)	2,851
GDP growth 2010-2012	4.4% 5.4% 4.8%
Employment rate 2012	48%
GNI per capita 2012 (USD)	3,410
Estimated target market [31]	18,842 – 28,929

29 Hecht, Andy. "One Sugar Price Indicator is Signaling an Imminent Reversal." CQG News. http://news.cqg.com/commentary/2013/04/one-sugar-price-indicator-is-signaling-an-imminent-reversal.html. (Accessed Dec. 15, 2013).

30 Economic and financial sector data from World Development Indicators database.

31 Estimated as the percentage of informal self-employed who would be interested in, eligible for, and benefit from microcredit.

Supply side: Providers of microfinance services in Guyana

Savings accounts are accessible to low-income people in Guyana, and popular savings institutions include the Bank of Nova Scotia and Republic Bank. While the country has 47 registered credit unions (27 of them active), many are charged with poor management and have limited reach with informal sector workers. Thus informal savings methods are still prevalent. These include ROSCAs (called "box hands"), which tend to have frequent hands (daily or weekly) and short durations (2-6 months), offering an attractive mechanism for financing inventory and other business or household needs. As in other countries, ROSCAs offer flexible draw times and are mostly used to enforce savings discipline or to pay small expected expenses. Access to box hands depends on who you know, and one interviewee who had recently moved from Georgetown to Berbice complained that "high riding" ROSCA members in her community made it hard for new people to join.

Credit availability is scarce, especially through formal institutions such as banks, credit unions, and MFIs. Microentrepreneurs tend to borrow from friends and family or suppliers instead. Guyana has a small microcredit sector, which is dominated by one player—The Institute of Private Enterprise Development (IPED). Competitors have remained small or exited the market entirely. IPED, founded 27 years ago serves approximately 4,500 clients, while other providers, such as the Small Business Financial Development Trust (founded by a former IPED employee), the government-run Small Business Bureau, and local credit unions have small microcredit portfolios. IPED is widely recognized among its target population and is generally viewed favorably, thanks to its proactive marketing strategy and popular business training program. The institution has played a role in building credit awareness and credit readiness among potential clients (See Box 4).

IPED's relative success in penetrating the market suggests that there is scope for more formal lending. On the other hand, informal finance methods continue to exist, particularly ROSCAs and supplier loans. These are able to offer attractive features, such as greater flexibility and lower cost, which challenge IPED's competitive advantage.

BOX 4: The Institute of Private Enterprise Development (IPED) in Guyana: Promoting financial inclusion of informal workers

IPED, a 27-year old Guyanese nonprofit focused on business lending, offers two microcredit products for microentrepreneurs:

The Micro Boost Loan product is a small (USD 500 maximum) loan, paid weekly for no more than 20 weeks and requiring only 20% cash collateral and proof of operation. Micro Boost is easy to access, especially for women, who represent 90% of its borrowers. IPED does not profit from this product, but sees it as part of a strategy to generate future clients and boost financial inclusion in Guyana. As clients build a credit history, they are able to access IPED's microloans. This product is expensive, at 39% flat annual interest, or 71% APR, 98% including heavy processing fees.

The Micro Loan is a traditional working capital (up to 12 months) or investment (up to 36 months) loan for microentrepreneurs for up to USD 3,750. It has more stringent requirements, including physical collateral and proof that the loan was used for enterprise development. Rates for this product vary from 8% to 42% flat annual interest, or 15-67% APR.

Small and medium enterprise loans of up to USD 100,000 are also available for larger enterprises.

Microenterprises and microentrepreneurs in Guyana

Basic profile of microenterprise survey respondents

Our survey sample for Guyana consists of 178 microentrepreneurs. We surveyed in the capital, Georgetown, and the small towns of Corentyne and New Amsterdam in Berbice region, and Linden slightly inland. The semi-urban to urban proportion of roughly 6:4 was designed to reflect the actual population. Unlike in Suriname, the sparsely populated Guyanese interior is not considered a major opportunity area for future financial expansion. The average respondent was 41 years old and had 10.5 years of formal education. Despite the cultural predominance of men in business ("Men generate income, women manage it," IPED's director explained) our sample includes a slight majority of women. Table 12 summarizes the sample profile.

TABLE 12: PROFILE OF GUYANESE MICROENTREPRENEURS

		STD. DEVIATION
Average years in business	9.2	7.9
Average monthly sales (USD)	676[32]	528
Average net margin (%)	47[33]	29
Saves regularly (%)	90	
Saves informally (%)	64	
Saves formally (%)	60	
Borrowed for business in the past year (%)	20	
Borrowed informally for business (%)	10	
Borrowed formally for business (%)	10	
Borrowed for household in the past year (%)	11	
Borrowed informally for household (%)	8	
Borrowed formally for household (%)	3	
Is creditworthy (%)	66	
Interested in a loan (%)	66	
Would benefit from a loan (%)	75	
Repaid prior loans on time always or usually (%)	51	
Expresses risk aversion (%)	15	
Is close to a formal institution (%)	37	

32 This number excludes 12 outliers, with whom average monthly sales were USD 923.

33 This figure excludes firms with negative or zero net margins, with which the average is -13% due to high incidence of highly unprofitable firms.

Most businesses surveyed were mature, with an average age of 9.2 years. They varied in size, most with between USD 500 to USD 1,000 in monthly sales (and USD 30 to USD 8,000 including outliers). We found general optimism about Guyana's economy, although this varied by region, where semi-urban respondents were more likely to want to maintain, shrink, or grow their business "just a little," while respondents in Georgetown were more likely to want to grow their business "a lot." Few microentrepreneurs would have access to formal salary-based credit through formal lenders, as few were formally employed. Only 28% of respondents received remittances on a regular basis. Nearly all respondents financed their inventories through earnings (90%), and a few complemented this with savings (24%), ROSCAs (7%), or supplier credit (6%).

In line with an overall positive economic picture, of the 178 respondents we interviewed, we consider 66% "credit eligible" according to our Simple Credit Eligibility (SCE) criteria (see Box 1 on page 13). In Guyana, the family unit appears to play an important joint role in the financial stability of households. Eligible respondents have higher sales margins and claim to contribute more to the household than ineligible respondents; however, the significantly higher contribution of other household members is truly what keeps the economic unit afloat. Credit ineligible respondents report coming up short at the household level on an average month. For this segment, other family members do not contribute enough, so we can assume they deplete business cash reserves or reduce inventory to cover the household shortfall.

See Appendix 1 for a detailed breakdown of their socio-economic profile.

Savings behavior and preferences

Saving is common among Guyanese microentrepreneurs, with 90% percent saving on a regular basis. Formal (60%) and informal (64%) savings were used almost equally, with about 33% combining formal and informal mechanisms. As Table 13 shows, formal savings was almost exclusively in banks (99% of formal savers). Hiding money at home (40%) and ROSCAs (30%) were the main informal saving methods. Semi-urban respondents were equally likely to save in a bank but much less likely to use a ROSCA than urban dwellers.

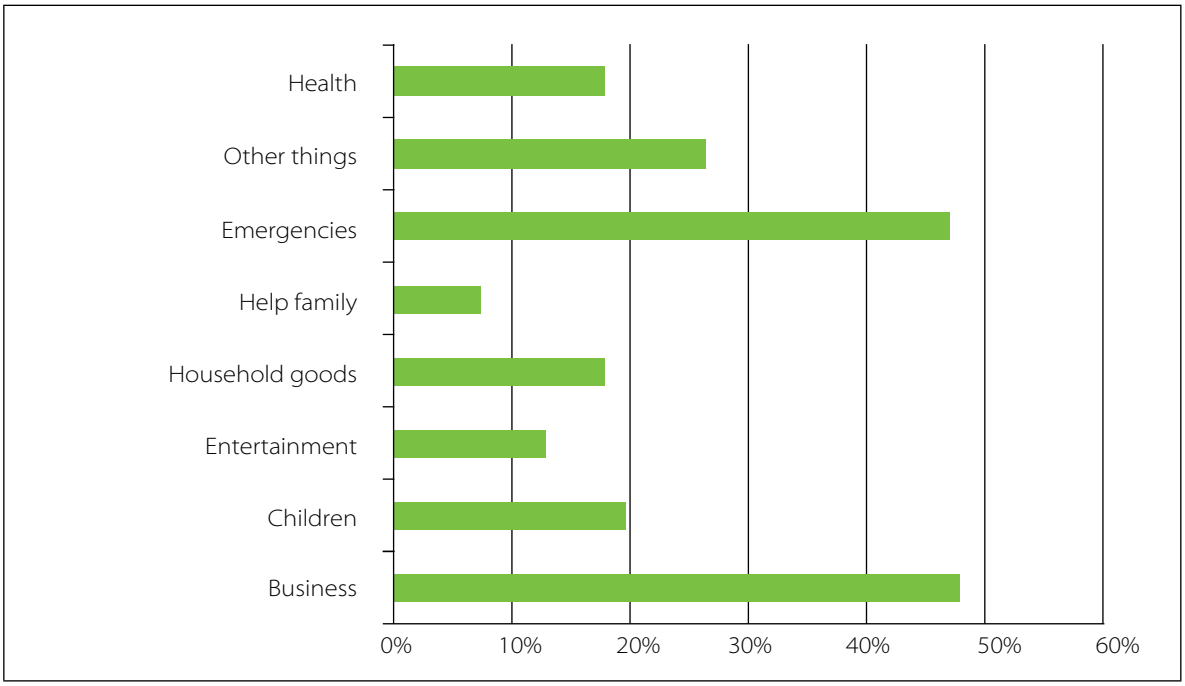
TABLE 13: SAVING METHODS, GUYANA[34]

INSTITUTIONS	BANK	CREDIT UNION	FRIENDS/ FAMILY	ROSCA	HOME
% of Savers	65	1	1	34	44

Savers typically had significant balances (about USD 198 excluding outliers), divided more or less evenly between formal and informal methods, though 23% had zero balances in their bank accounts. Figure 5 shows typical reasons for saving, which were similar between formal and informal savings—dominated by either business or emergency needs. The one major difference is that home savings were much more commonly used for restocking the business. Those who used both ROSCAs and banks found them complementary, for example, depositing their ROSCA draw in their bank account. This allowed them to combine the discipline of the ROSCA with the safety of a bank, exemplifying the complementary nature of these two mechanisms.

34 Due to overlapping use of multiple sources, columns do not add up to 100%.

FIGURE 5: REASONS FOR SAVINGS, GUYANA



Most respondents (74%) reported no problems using formal savings. Among the other 26%, issues cited varied widely, although the most commonly mentioned were not having access to money whenever needed (4%), excessive fees (3%), and paying too little interest (2%). Respondents noted that lack of easy access to bank accounts relates not just to the hassle of going to the bank but to daily withdrawal limits as well. Respondents saw three major advantages to informal savings such as ROSCAs. They help one save regularly (35%) and keep money safe from temptation (20%), yet one can also access money whenever needed (16%), referring to the flexibility in draw timing. Only 10% said there were no advantages to informal saving at all. ROSCAs were not without their problems, however. One qualitative interview revealed that ROSCAs can be harder to join in rural areas. This may be because one's reputation is more highly valued in small communities and thus groups are more conservative about who they admit. A small but vocal minority held negative views on ROSCAs. One woman remarked, "We don't do [box hand], we would be robbed!" even though she successfully used box hands in the past, and explained that her son lost money in a box hand before. One bad experience can cut off usage of ROSCAs completely.

Credit behavior

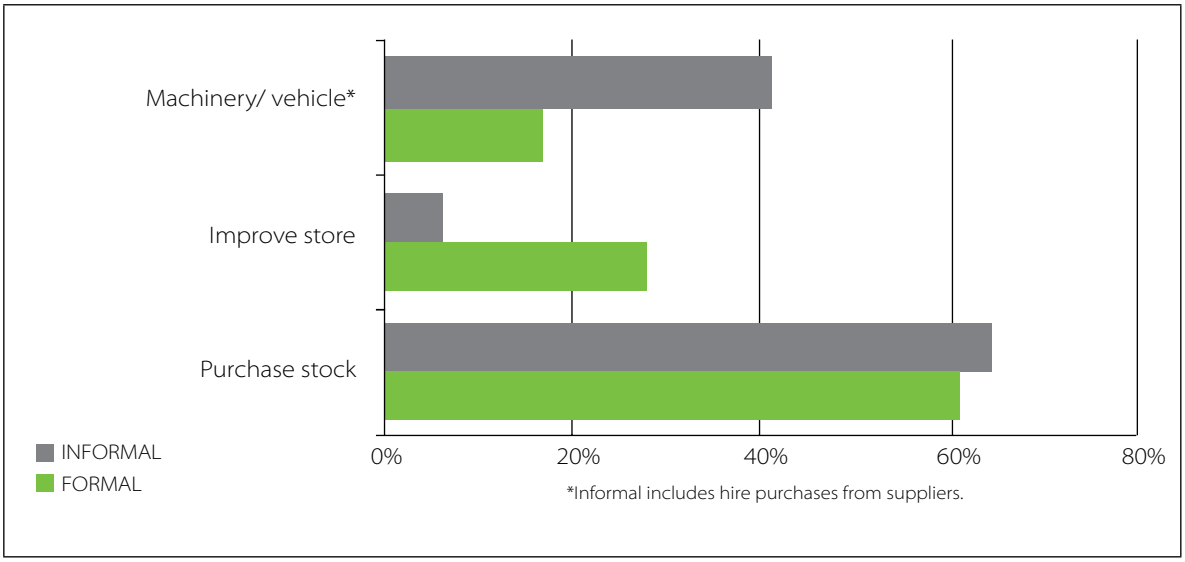
Few respondents had borrowed for either household (11%) or business needs (20%) in the past year. Just 12% had taken a bank or MFI loan, and 15% had taken an informal loan from a supplier or friends/family. No respondent had taken both formal and informal loans. Contrary to expectations, rural and female respondents were slightly more likely to use formal credit, while urban and male respondents used more informal credit. Table 14 shows the breakdown of borrowing sources.

TABLE 14: BUSINESS AND HOUSEHOLD BORROWING SOURCES, GUYANA[35]

INSTITUTIONS	BANK	CREDIT UNION	MFI	FRIENDS/ FAMILY	ROSCA	SUPPLIER
% of Businesss Borrowers	20	3	29	20	3	26
% of Household Borrowers	30	0	0	35	0	35

Loans were most frequently used to purchase large items for the household, to make home improvements, or to restock the business; although a handful also borrowed to purchase equipment or improve the place of business (see Figure 6). Repayment was a common problem, as half of respondents borrowing for business reported paying on time "sometimes" or "rarely/never." Fees were the most common consequence; in just three cases flexibility was given and just one respondent was publicly shamed for not paying back a loan he took from an auto dealer to buy a vehicle for his business.

FIGURE 6: REASONS FOR BUSINESS BORROWING, GUYANA



35 Due to overlapping use of multiple sources, columns do not add up to 100%.

Despite the low incidence of business borrowing, 66% believed they were eligible for and 66% expressed interest in a microloan, mostly to expand the business. Interestingly, these individuals only overlap partially with our estimate that 75% of respondents would benefit from a microloan.[36] It appears that some people interested in a microloan would not actually benefit at current turnover rates, while many uninterested individuals would benefit greatly. Of the 30% who were not interested, most were either afraid of debt (35%) or did not need a loan (28%). Lack of collateral was the main reason cited for either possibly not qualifying for microcredit or actually being rejected for a past loan (16% had been rejected). Interestingly, respondents deemed credit eligible by our cash flow criteria were often rejected for microcredit due to a lack of collateral. Lack of necessary documents was not a major issue. Most respondents rejected for microcredit could not obtain funds elsewhere (66%); the rest mostly received money from another financial institution (14%) or a ROSCA (10%).

Financing preferences

Table 15[37] shows that Guyanese microentrepreneurs value flexibility, low cost, and low requirements above all other factors, and that informal providers—especially ROSCAs—best fit respondents' priorities and preferences. In contrast, respondents complained of the high cost of bank and MFI loans, including those from IPED. Banks and MFIs are not considered flexible, and one interviewee said that "A relationship with a bank is like a marriage vow—you have to follow through." While actual usage of ROSCAs, friends and family, and store credit reflects the positive perception of these informal mechanisms, many respondents are also using banks and MFI loans, undeterred by unfavorable terms and possibly motivated by trust considerations. Nonetheless, qualitative interviews did reveal that some former clients stopped borrowing from formal institutions due to inflexibility and high costs, reverting to ROSCAs or savings instead.

The relationship between fees and flexibility is noteworthy. Clients are charged fees when they pay late, which many borrowers have done, according to our survey. Some complained of fees for late payments at banks or IPED. The flexibility of ROSCAs, in terms of requirements, deposits, draws and fees, continues to be attractive to the sector. Similarly, financing from friends and family also aligned well with respondents' preferences, since they are likely to give low or no interest loans with flexible repayment and with little or no requirements. Friends and family are also close by, though interestingly less so than ROSCAs and also seen as less trustworthy. Access to friends and family financing may be limited, however, to the availability of extra cash for lending, as this method was not deemed fast. In the same vein, many microentrepreneurs interviewed for this study also considered store credit flexible, cheap, with low requirements, and trustworthy.

36 In Guyana, we assumed a USD 1,800 loan over 6 months at 2.2% flat monthly interest.

37 Table 15 shows respondents' preferences for credit, and which credit providers they believe do or do not conform to each preference, in order of strength in response. We asked whether each provider was cheap, flexible, trustworthy, nearby, fast, and had low requirements. Providers with a high relative percentage of "yes" responses are in the "Who is?" column, and those with low percent are in the "Who is not?" column.

TABLE 15: GUYANESE MICROENTREPRENEURS' CREDIT PREFERENCES AND PERCEPTION OF WHO DOES OR DOES NOT FIT THEM

TRAIT	RANK	WHO IS?	WHO ISN'T?
Lenient/ flexible	#1	1. ROSCA 2. Friends/Family 3. Store Credit	1. Moneylender 2. Pawnshop 3. Bank/CU/MFI
Cheap	#2	1. ROSCA 2. Friends/Family 3. Store Credit	1. Moneylender 2. Pawnshop 3. Bank/CU/MFI
Low requirements	#3	1. ROSCA 2. Friends/Family 3. Store Credit	1. Bank 2. CU/MFI 3. Moneylender
Fast	#4	1. ROSCA 2. Pawnshop 3. Store Credit	1. Bank/CU 2. MFI 3. Moneylender
Trustworthy	#5	1. Bank 2. Store Credit 3. ROSCA	1. Moneylender 2. Credit Union 3. Pawnshop
Nearby	#6	1. ROSCA 2. Bank 3. Friends/Family	1. Credit Union 2. MFI 3. Moneylender

Respondents also disliked the "red tape," especially collateral, involved in formal loans. One woman complained about IPED's practice of taking small household goods as collateral and the time it takes to inventory all of it. One interviewee deemed MFIs inflexible based on mistaken information; she complained that an IPED loan officer told her she could not pre-pay loans, yet IPED does in fact welcome prepayment. Credit unions are seen as unstable and not trustworthy.

Key findings: Cautious microentrepreneurs want credit on their terms

Guyanese microentrepreneurs' preferences reflect social, economic and financial trends that make business investments risky.

- **Low-income people in Guyana have a preference for savings, and prevalently use informal methods.** While some save in banks, many continue to rely heavily on ROSCAs for their large capital needs as well as business and household cash flow management. While some are skeptical of ROSCAs, they manage this skepticism by complementing ROSCA savings with bank savings, or sometimes replacing it especially after a breach of trust.

- **Formal financial institutions are far from winning over low-income clients.** Credit unions are often unregulated and poorly managed, which has damaged their reputation in the sector. MFIs do not take deposits, and are thus associated mostly with high costs, restrictions, and severe penalties for non-payment. Formal banks, in contrast, have begun to make headway in instilling trust in the low-income community, however, they are primarily used to deposit long-term savings, and have not been a reliable source of credit access for microentrepreneurs. While there is some evidence that low-income people value banks for their stability and MFIs for their focus on the business, many entrepreneurs find informal services adequate. Adapting the Jamaican formal Partner Plan model or similar commitment savings products is one potential strategy for attracting more clients to the formal financial sector in Guyana. Such a product would be particularly attractive to ROSCA skeptics. To compete with current ROSCA users, providers should use creative marketing and incentive strategies while increasing access through multiple service points.[38]

- **While many entrepreneurs may benefit from loans, many are meeting working capital needs through savings.** Recent economic growth has been impressive, and our analysis of potential returns estimates that 75% of respondents could receive net gains from investing a microloan, although many of them expressed a lack of interest in borrowing. Respondents note that demand for goods and services is seasonal and low overall, making investment and expansion risky. There are also a large percentage of unprofitable businesses, thus making loans unattractive. Rural microentrepreneurs, in particular, have suffered from volatile remittances and lower sugar prices. They have responded to irregular business cash flows by actively saving and reinvesting earnings.

- **Targeting high-potential businesses would be more effective than reaching a broad spectrum of microentrepreneurs.** Some microentrepreneurs would benefit from larger investments into their businesses, given the strong economy and their relatively healthy financials. We find that firms with higher than average sales are more likely to benefit from microcredit. A segmentation strategy for providers that focuses on larger loans for high potential businesses (including VSEs) would be useful to leverage a relatively well-capitalized sector. This may require a stronger focus on financial analysis and lowered collateral requirements.

- **For smaller borrowers, flexibility and innovation will be key to offering financial solutions.** Respondents express an interest in credit, but most formal products do not meet their need for lenience, flexibility, and low costs. IPED recently launched a microloan that responds

38 Martin, Xavier. "Keys to Success for Commitment Savings."

to the demand for low requirements and no collateral, for example, but its scale is still limited and it offers only credit without any savings link. Product innovation, including products that combine credit and savings characteristics, products aimed at cash flow management, and features that introduce greater flexibility of draws and deposits, can be attractive to this market. Successful case studies, such as Grameen 2.0 in Bangladesh or Self-Help Groups in India, could have useful lessons for Guyana. For instance, Grameen Bank successfully introduced flexible loan terms and top-ups alongside passbook savings to help clients better manage their irregular cash flows. On the other hand, Indian Self-Help Groups usually start as ROSCA-like savings groups, then later leverage those savings to access bank loans, an interesting model for piggybacking microcredit distribution onto existing informal groups.

- **Promoting formal financial services requires offering improved information about their role in the economy and their benefits for businesses.** Some existing microfinance products in Guyana could help microentrepreneurs improve their businesses, but a lack of experience with credit likely holds some back. While IPED offers a business training program and education about products, including a weekly television show, it is likely that a broader-scale intervention is needed to effectively educate businesses about how and when to use loans. This is especially urgent since scale is a continued challenge for providers, due to low demand. Better information and education at a country-wide level about the role of loans in a business' growth could help stimulate interest in the formal sector as well as business loans. Offering adequate business training will prove difficult for IPED's still smaller competitors, and this represents an opportunity for the government to step in with support.

- **Possibly, the lack of competition has stifled innovation in Guyana thus far.** IPED is a successful, socially-driven MFI with high visibility and regard in Guyana. Nevertheless, some healthy competition could spur exciting innovation in the sector. If the government heeds IPED's call for clear regulatory guidance, more players could join the sector.

6. Jamaica: Untapped savers and overstretched borrowers

GDP growth in Jamaica has turned from negative to weak since the 2008 global crisis, registering an estimated 0.1% in 2012. Annual inflation and unemployment are also fairly high, at 10.2% and 14.9%, respectively, as of year-end 2013. As in the other study countries, major industries include bauxite mining and agriculture (including animal husbandry, forestry, and fishing), however, garments and tourism also play important parts. Remittances play an essential role, representing 13.8% of GDP. GNI per capita is mid-range at USD 5,120. Jamaica's population of approximately 2.7 million people is about half urban and half rural, concentrated on the eastern half of the island. Unlike the other three study countries, Jamaica's rural towns are generally well connected to infrastructure and financial services are locally available in most locales.

TABLE 16: ECONOMIC INDICATORS[39]

	JAMAICA
Population 2012	2,712,100
GDP 2012 (millions of USD)	14,755
GDP growth 2010-2012	-1.5% 1.5% 0.1%
Employment rate 2012	54.7%
GNI per capita 2012 (USD)	5,120
Estimated target market[40]	54,667 – 95,307

39 Economic and financial sector data from World Development Indicators database.

40 Derived as the percentage of informal self-employed who would be interested in, eligible for, and benefit from a loan.

Supply side: Providers of microfinance services in Jamaica

Jamaica's microcredit market is the largest, most dynamic and most complex of the four countries studied. The boundaries between "true" microfinance and professional moneylending have become blurred, and today over indebtedness and abusive lending and collections practices are increasingly worrisome, as frothy credit (along with remittances) props up consumption in this ailing economy. Savings in Jamaica is prevalent, and a majority of Jamaicans have a formal bank or credit union account. Credit unions have a strong localized presence, and Jamaica National (a building society) is the most popular nationwide savings institution among low-income individuals, partly due to the success of its small business lending arm.

Informal savings is also popular. ROSCAs, or "Pardnas," are a quintessential feature of Jamaican financial culture, used by nearly every segment of society. While the most common uses include programming savings for school fees or accumulating funds to buy a house or vehicle, Jamaicans often use Pardnas to finance microenterprises as well. Jamaican Pardnas are also the most sophisticated version of ROSCAs in the region, allowing for various levels of flexibility (see Box 3 on pages 22-23 and Box 5 below). Pardna bankers tend to have several years of experience and are astute managers of both money and members. In many cases, Jamaicans who migrate abroad continue to participate in their community Pardna, "throwing their hand" via international remittance transfers. Most people think of Pardnas as savings, though they recognize that they function like loans for early drawers. Given Pardnas' overwhelming popularity, many banks and credit unions now offer "Partner Plan" savings products that mimic the informal mechanism while offering a small return on the deposits instead of charging a banker's fee. The tradeoff for interest paid on Partner Plan deposits is reduced flexibility in the timing of throws. Informal Pardnas will often tolerate delays up to two weeks or allow members to throw in installments, but formal Partner Plans require fixed throw frequencies (although with daily, weekly, or monthly options) and make users forfeit interest for late throws. Formal Partner Plans, on the other hand, do benefit from the safety of regulation, while the security of informal plans is based purely on the trust of the participating community.

BOX 5: The diversity and flexibility of Pardnas

We spoke with the bankers of three Jamaican Pardnas, each with its own unique terms.

1. Ms. C. took over her mother's Pardna a few years ago. As a former bank employee and now an MBA student, she tolerates "no foolishness," meaning no late payments, and every member is responsible for new people they refer. Members receive written slips with cycle terms and draw dates. Targeting a draw of JMD 150,000 or more, she keeps the membership small (under 20) and hands large (JMD 2,000-4,000) so the cycle ends sooner (20 weeks or less) and members retain interest. Her Pardna permits split and multiple draws; one small business owner throws 40 hands per week. She charges a fee of just JMD 2,000 per 150,000 draw—1.3% of the total. This was the strictest and most sophisticated Pardna.
2. Mrs. P. runs a small clothing shop. Most people throw a fixed amount weekly, but she allows some members to split their hand daily, or prepay on a monthly basis. The target is 25 weeks. Unlike Ms. C., she puts in a hand herself so she can tolerate when members make late payments (one or two weeks late). Her Pardna permits up to four hands per person, avoiding the concentration of risk. This was the most flexible Pardna.
3. Mrs. S. has been a Partner banker for over 30 years. Her current Pardna lasts 31 weekly hands for a draw of JMD 62,000. She permits half or up to three hands per person. She complained that some "undisciplined" people pay weeks late, but that "you just have to wait"—sometimes she uses her own money to avoid arguments with other members. Mrs. S. sometimes uses clever tactics to recover outstanding debts, such as inviting the last cycle's delinquent members to the new cycle, and automatically deducting their debts when it comes their turn to draw. This Pardna was the most tolerant on payment, with less flexibility.

Unlike the other three countries studied, Jamaica has a vibrant credit culture, thanks in part to the Development Bank of Jamaica's intervention as an apex funder since 2009.[41] Credit unions have a historical record of banking low-income segments, though they have been slow to fully integrate microfinance products into their offerings. This is due partly to lack of knowledge about microcredit methodologies, and partly to regulations that restrict credit unions' unsecured lending to just 1% of the portfolio. This rule has sometimes led to hasty mergers of credit unions. Revisions to the Cooperative Act made group lending difficult, since now credit unions can only lend to other cooperatives, and groups would have to formally register as such before receiving credit.[42] Thus, most credit unions focus on collateralized consumer lending, although today at least three major credit unions offer microcredit products: St. Catherine's, St. Thomas, and City of Kingston.

41 Interview with Maureen Webber and Villet Bennett of Development Options, Ltd.

42 Interview with Simeon Lyons of St. Thomas Cooperative Credit Union.

Jamaica also has numerous licensed moneylending[43] entities that serve the low-income market, including with business loans. Among the moneylending entities are MFIs affiliated with major banks (such as Jamaica National Small Business Loans, or JNSBL) as well as independent providers such as Access, a major provider, and Microcredit Limited (MCL), a smaller player. These MFSPs have at least some degree of social focus and target informal sector workers with business loans and sometimes personal loans as well. National People's Cooperative Bank, owned by the Development Bank of Jamaica, has a strong focus on rural and agricultural lending but also recently joined the microfinance sector.

Nearly all products are individual loans; only MCL, motivated by its strong social mission, still offers loans to small groups, which constitute the majority of the portfolio and actually have better repayment rates than individual loans. MCL explained that for very low-income Jamaicans with no asset or cash collateral, group liability is the only option. While some providers noted that group lending had been unsuccessfully tested in the past, others believed there is potential for group loans, especially in tight-knit rural areas. Most microcredit products are for business purposes, although the level of enforcement varies by institution. Many MFSPs also offer consumer loans alongside enterprise microcredit.

Average loan sizes of microcredit products vary significantly, ranging from USD 200 to USD 2,000. Yet some players appear to be specializing in different ends of the market. JNSBL offers a maximum loan size of USD 10,000 through its microloan product, and can also graduate clients to its SME product, offering up to USD 30,000. On the other hand, MCL claims to have "no minimum" and has given loans as low as USD 20. While there is demand for both tiny and larger loans, most providers believed that overall clients were exerting pressure to offer larger rather than smaller loans. Multiple borrowing is increasingly common, presumably because clients cannot access the desired amount from one lender.

Most providers have recently shifted from monthly to weekly repayments, usually on the same day of the week. While all MFSPs lend at or just below 1% a week, this standard rate obscures often significant price differences among providers. Some products accrue interest on a declining balance, while others charge flat interest, causing APRs to vary wildly from 39% p.a. to 91% p.a. Additional 2-5% processing fees, 20% block savings, and 10% obligatory savings lead to an extremely high end cost to clients. Table 17 illustrates these costs, using an APR analysis of rates for eight sample products. Given these discrepancies, price transparency is a serious client protection issue. Many clients or potential clients are simply unaware of the differences in rates, but feel them through high payments.

43 In Jamaica all non-bank lending operations are subject to the "Moneylending Act," including payday lenders, professional moneylenders, and microfinance institutions. Institutions are licensed, regulated, and supervised under the act, though supervision is much less stringent than for banks, focusing mostly on the protection of credit consumers. A 40% per annum interest rate cap applies, but lenders with a social focus (such as microfinance institutions) may apply for an annual exemption.

TABLE 17: APR INTEREST RATES FOR JAMAICAN MICROCREDIT PRODUCTS[44]

PRODUCT	A	B	C	D	E	F	G	H
APR interest rate	89%	89%	91%	48%	48%	71%	48%	39%
+ Processing fees	94%	94%	106%	59%	60%	98%	60%	66%
+ Block, obligatory savings	94%	144%	169%	99%	104%	169%	95%	120%

While collateral was once a major obstacle to credit access for low-income communities in Jamaica, this is less the case today. Many of the MFIs participating in the IDB-MIF's CARIB-CAP Project have recently introduced new products that substitute block and obligatory savings for asset collateral, and guarantors are typically only needed to access lower interest products or higher loan amounts. Many MFIs now typically start with small loan sizes and gradually increase them to control risk. While lenders avoid analyzing cash flows in the interest of efficiency, this has resulted in less awareness of clients' true capacity to pay. The basic documentation required by most MFSPs includes a completed application, two passport-size photos, the taxpayer registration number (TRN), an official identification card (passport, driver license, etc.), and in some cases a proof of address (e.g. utility bill) and business registration. For larger loans, character references are also sometimes required. While these standard requirements represent a major improvement over previous ones, MFSPs still usually take 3-7 days to disburse business loans to new clients. Personal loans tend to be slightly faster.

Other moneylending providers are more commercially oriented, offering personal consumer loans, including very popular payday loans for low-income segments. These providers often use the term "microloan" and the pro-poor language of microfinance, contributing to some confusion in the market as to the difference between their products and those of MFSPs. They offer fast, easy cash, usually just requiring ID, a reference, and photos, as well as pay stubs or other proof of income. More prudent entities in this category work exclusively through employers or unions to reduce both sales costs and risks. Rates are not widely advertised and vary widely, but tend to be high. Some charge a flat monthly base rate of 8-10% (147% APR for a one-year loan) while others charge a flat percentage near 20-30% of the principal regardless of the term. Additionally, some employ aggressive collections practices that are typically discouraged with microcredit. Some of these entities have opportunistically donned the social mantle of microfinance to justify requesting exemption from interest rate caps under the Moneylending Act. Many of them manage tiny portfolios of microenterprise loans to justify their exemptions while focusing business on more lucrative personal loans for consumption, usually backed by collateral or salary deductions. The relatively loose credit methodology and aggressive collections practices of some of these entities have sullied the name of microfinance in Jamaica. Most Jamaicans have heard of microcredit, though they are typically unable to distinguish "true" microfinance from masquerading moneylenders.

Competition for the same pool of clients is high among this broad range of providers, especially during the busy pre-Christmas season. Concerns about multiple borrowing and over-indebtedness have arisen as a result. In response, the Ministry of Finance has recently made it increasingly difficult to receive exemptions for the interest rate cap under the Moneylending Act, causing an outcry from formal moneylenders. So far, however, this has

44 APR interest rates calculated according to Microfinance Transparency's recommended method using product data provided by lenders.

not halted the oversupply of credit. MFSPs interviewed said that according to official reports, less than 20% of moneylending entities had obtained a current exemption. Furthermore, the Ministry of Industry, Investment and Commerce recently issued a draft for discussion of new rules for the microfinance sector, focusing on tighter supervision, higher levels of price transparency, and the elimination of aggressive collections practices. Nonetheless, many providers believe the government has been slow to act. In light of this situation, some MFSPs are also pushing for stronger self-regulation through the Caribbean Microfinance Alliance (CMFA) or JamFin, the local microfinance association. Many have already joined the Smart Campaign and voluntarily adopted its Client Protection Principles. Notably, the recently-launched Jamaican Credit Bureau could not have been introduced at a better time, as there is a need to weed out bad borrowers and create a healthier credit market. Though few MFSPs and formal moneylenders currently use the system due to high costs, more are analyzing the potential to complement their risk analysis with credit bureau data in the future. [45]

Informal moneylenders also exist but are less favored by the target market. They are less likely to be institutions and are more typically individuals with some extra cash who are looking to achieve a return superior to bank deposits. They often lend out of parked cars in busy marketplaces, offering fast cash with low requirements. They can usually offer same-day loans, compared to the 3-7 day delays of formal lenders, although rates can sometimes be as high as 10% per week (692% APR for a six-month loan). As in other countries studied, it was difficult to obtain reliable information about these shadowy "loan sharks."

Finally "hire purchases" (buying goods on credit) are a popular source of credit, albeit primarily for household needs. Many Jamaican families hire purchase living and dining room sets, which are prized assets and often used as effective forms of "psychological" asset collateral by other lenders. For business, hire purchases are mainly used by small-scale food providers to purchase stoves, freezers, and other equipment.

↘ Microenterprises and microentrepreneurs in Jamaica

Basic profile of microenterprise survey respondents

In Jamaica we surveyed 202 microentrepreneurs in the capital, Kingston, as well as other major towns representative of the socio-economic diversity in the country: May Pen, Montego Bay, and Ocho Rios. Logistics prevented surveying in more rural areas, which generally have access to a more limited range of financial services, such as local informal providers or formal services in a neighboring town. Table 18 below shows basic characteristics of our Jamaica sample.

Respondents were split evenly between men and women, with an average age of 42 and 10 years of formal education. The Jamaican sample is unique in several ways. We saw a higher proportion of respondents who reported living with family or in their own home but without formal title,[46] meanwhile there were very few home-based businesses and more established storefronts. A large proportion of Jamaican respondents expressed a desire to grow their

45 From interviews with various MFSPs (see Bibliography).

46 This should have been the case in Suriname as well due to the inclusion of Maroon communities, but few Maroon respondents reported the lack of formal title, a controversial issue in the Surinamese interior.

business "a lot" (61%), although Jamaica was also the only country where any respondents claimed they wished to close their business within a few years. We see roughly the same distribution of business types, except for a larger proportion of informal commercial importers in Jamaica.

TABLE 18: PROFILE OF JAMAICAN MICROENTREPRENEURS

		STD. DEVIATION
Average years in business	9.3	8.7
Average monthly sales (USD)	857 [47]	817
Average net margin (%)	44 [48]	30
Saves regularly (%)	91	
Saves informally (%)	57	
Saves formally (%)	71	
Borrowed for business in the past year (%)	35	
Borrowed informally for business (%)	15	
Borrowed formally for business (%)	22	
Borrowed for household in the past year (%)	20	
Borrowed informally for household (%)	14	
Borrowed formally for household (%)	8	
Is creditworthy (%)	42	
Interested in a loan (%)	56	
Would benefit from a loan (%)	53	
Repaid prior loans on time always or usually (%)	77	
Expresses risk aversion (%)	26	
Is close to a formal institution (%)	12	

Businesses were typically well-established, with an average of 9.3 years of operations. They varied widely in size, though most were concentrated in the range of USD 600-1200 in monthly sales (the smallest sold USD 60 monthly and the largest USD 20,000), with net margins of 7% on average, including a large percentage of unprofitable firms. Only 28% of respondents had a second income of their own, mostly from a side business. The few

47 This number excludes seven outliers, with whom average monthly sales were USD 1,262.

48 This figure excludes firms with negative or zero net margins, with which the average is 7%, due to a high proportion of unprofitable firms.

government and formal sector employees in our sample (4.5%) had a strong advantage in accessing credit, which is generally scarce, since personal loans through salary deductions are quite easy to obtain. Informal sector workers, including those in our sample, had fewer options. About half of respondents received remittances on a regular basis, the highest percentage among the four countries studied. The vast majority (89%) of respondents financed inventory through business earnings, though only 37% used earnings exclusively. The rest supplemented with other sources, primarily savings (35%) and ROSCAs (15%), although various other sources, including household income, side business income, remittances, and loans from friends/family, were also used.

Of the 202 respondents, we found only 42% "credit eligible"[49] based on our SCE segmentation (see Box 1 on page 13). This was the lowest percentage among the four countries in our study. Men and women and urban and semi-urban respondents qualified as credit eligible in roughly equal proportions. In Jamaica, eligibility was driven by the microenterprise. Respondents were mostly split between those with reasonable gross margins of 30% or more, and those with negative gross margins. The latter discrepancies were potentially due to cash flow mismatch, subsistence with chronic debt, or cross-subsidizing business expenses from other household income streams. This differs from other countries studied, where enterprises appear profitable and cash flow shortages emerge at the household level.

See Appendix 1 for a detailed breakdown of respondents' socio-economic profile.

Savings behavior and preferences

The vast majority (90%) of Jamaican respondents saved regularly—32% used formal savings only, 19% used informal savings only, and 39% used both. Men were more likely to save than women, especially in formal accounts. There were no significant differences in savings patterns between urban and semi-urban respondents. Banks (used by 60% of respondents) and credit unions (17%) were the most common formal savings methods. Only 4% used formal Partner plans in either institution type. Even excluding a few outliers, the average respondent had a fair balance saved, with USD 229 in formal accounts (although 7% had zero balances) and USD 123 accumulated informally. ROSCAs and home savings were the most popular informal methods, with 37% and 26% of respondents using each respectively. Table 19 summarizes the savings methods used.

TABLE 19: SAVING METHODS, JAMAICA[50]

INSTITUTIONS	BANK	CREDIT UNION	FORMAL ROSCA	FRIENDS/ FAMILY	INFORMAL ROSCA	HOME
% of Savers	66	19	4	3	41	29

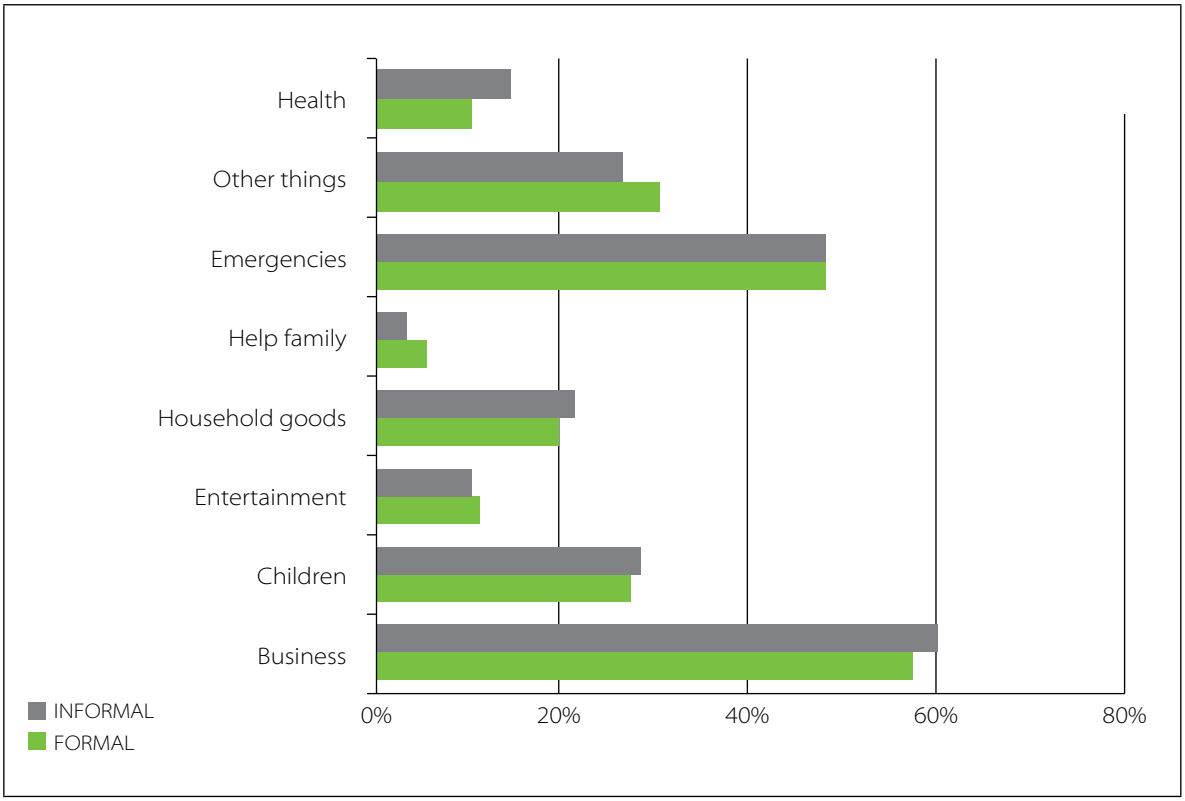
Figure 7 shows common reasons for saving cited by users of informal or formal savings (respondents who used both are counted twice). Reasons differed little between formal and informal savers, and business investment was the primary use of savings, followed by

49 This is a rough estimate at best given the difficulty many respondents had in recalling income and expenses.

50 Due to overlapping use of multiple sources, columns do not add up to 100%.

emergencies and various family and household needs. While statistically, there was little difference in the results between the uses of formal and informal savings; anecdotally, respondents suggested that they use formal savings for longer-term investments that require less frequent draws and use informal savings for keeping small amounts of cash nearby for easy access.

FIGURE 7: REASONS FOR SAVING JAMAICA



The majority of respondents believed that neither formal nor informal saving had any specific disadvantages (61% and 63% respectively). The most common problem identified with formal savings was excessive fees (8%). A lack of proper identification (5%), lack of trust (4%), lack of access to funds (4%), low interest (3%), and long lines (3%) were also mentioned. Distance was not typically a problem. When asked what the advantages of informal savings were, many did not know (13%) or believed there were none (24%). Yet others found informal methods like ROSCAs to be advantageous, mainly because they offer easy access to the money whenever they want (31%) and help with saving discipline (27%). Knowing their money is safe (10%) and the lack of fees (10%) were also commonly cited advantages of informal savings.

Credit behavior

Jamaica had the highest uptake of credit among the four countries, likely reflecting a much greater availability of consumer loans as well as bank and MFI loans in the country compared to the others. In our sample, 34% of respondents had taken out a loan in the last year, 22% from formal sources and 14% from informal sources. Borrowing for business—primarily for inventory—was slightly more common (35%) than borrowing for household needs (20%)—mostly big purchases or education. Figure 8 shows primary reasons for business borrowing,

and Table 20 below[51] shows the most common sources of credit for both business and household needs, as a percentage of all respondents who borrowed for each need. Formal sources, especially banks, were more popular, although friends and family loans were also used by a number of respondents.

FIGURE 8: REASONS FOR BUSINESS BORROWING, JAMAICA

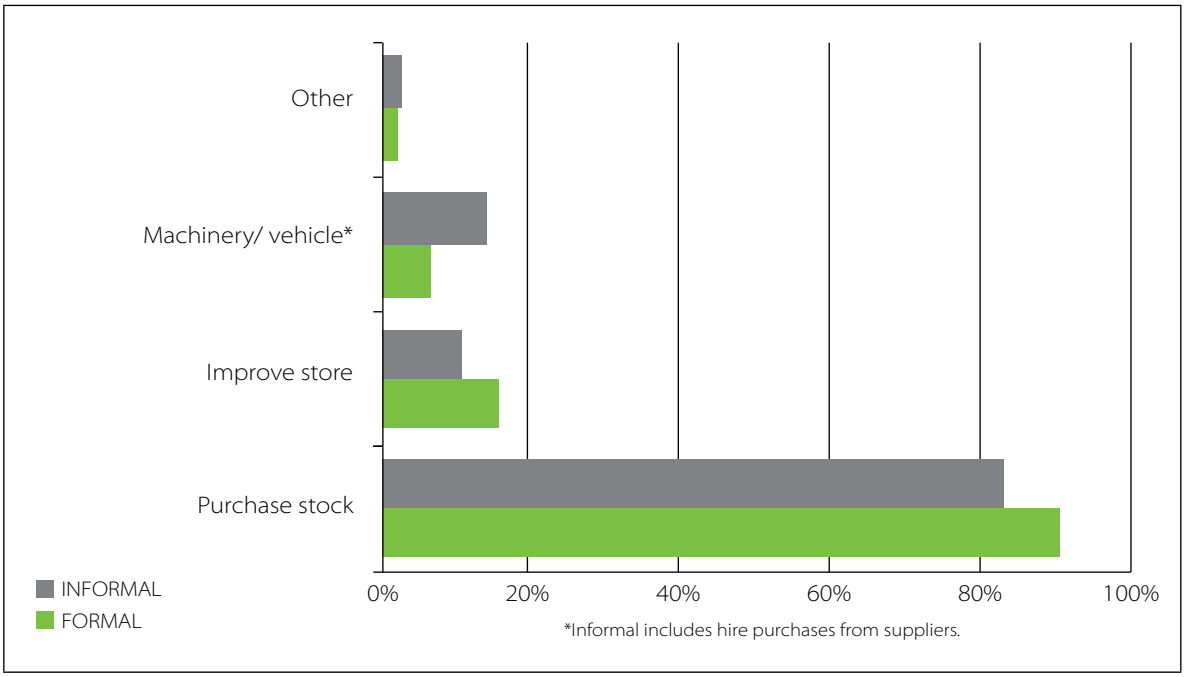


TABLE 20: BUSINESS AND HOUSEHOLD BORROWING SOURCES, JAMAICA[52]

INSTITUTIONS	BANK	CREDIT UNION	MFI	CREDIT CARD	FRIENDS/ FAMILY	ROSCA	MONEY-LENDER	STORE
% of Businesss Borrowers	37	17	16	1	19	6	9	11
% of Household Borrowers	20	17	2	2	22	10	5	41

Of those who borrowed for business, half reported "always" paying on time, while 27% did so "most of the time," and 21% "sometimes." The most common consequence of late repayment was fees (mostly from formal institutions), although many other respondents claimed consequences varied from "none" or reduced flexibility to verbal or physical threats.

While 35% had recently borrowed for a business need, a larger number of respondents believed they were eligible for microcredit (67%), and 56% expressed interest in receiving

51 "Store credit" contemplates various mechanisms permitting purchase of goods on credit, including for example, informal purchases at a corner store to hire purchases of furniture.

52 Due to overlapping use of multiple sources, columns do not add up to 100%.

microloans. This level of interest only slightly exceeds our analysis of potential returns on microcredit investment, showing that 51% of respondents could enjoy net gains from borrowing an "average" microloan.[53] However, many of those we estimate would be successful are not interested in borrowing, while others with less positive prospects are. Only 42% of respondents who were eligible, interested, and would potentially benefit from microcredit had actually taken out a loan in the past year, for example. Of the 33% who were not interested in borrowing for their businesses, most were either afraid of debt (65%), happy with current financing sources (21%), or did not need a loan (12%). Interest in microloans was lower and fear of debt higher in Jamaica than in other study countries. This is consistent with the overall economic outlook, which is more depressed in Jamaica than in the other countries in this study. The lower demand for loans is also consistent with our analysis that a much lower percentage of respondents would be eligible and successful by borrowing for their business. The fact that some of these respondents are interested in loans should be cause for concern.

Another signal of a somewhat looser credit market in Jamaica is the perception of credit eligibility among respondents. Respondents who had never been rejected for a microloan before all believed they were either eligible for one or did not know whether they were. Of those who had been rejected, only 10% believed they would be ineligible for future loans, primarily due to a lack of sufficient collateral. Nonetheless, our analysis shows that some 57% of the sample would be ineligible for a loan if their businesses were assessed for microcredit loans. These results reflect the relatively loose consumer credit environment currently prevalent in Jamaica, demonstrating how taking collateral without analyzing cash flow can lead to inappropriate loans to failing microenterprises.

BOX 6: Larger businesses may have the greatest potential for success with loans

The sluggish Jamaican economy has the lowest portion of microenterprises surveyed that would potentially see positive marginal returns on microloans. Yet if we separate out only the largest firms in our sample, we find a different trend. Firms with monthly sales over USD 2,343 (22 in all) appear better positioned, and we find that 77% would potentially benefit from a loan compared to 53% of the broader sample. Most of these are also credit eligible and interested in loans, though just one had taken out a loan in the past year. This upper niche of microenterprises ("very small enterprises") could present an attractive opportunity for MFSPs to maximize their microfinance profitability alongside social impact. Yet a lack of sufficient cash, assets, or land collateral may prevent many from accessing sufficiently large loans. Our analysis shows that among larger Jamaican microenterprises, those who had taken formal loans also had significantly higher savings balances. To reach this segment, MFSPs may need to reduce collateral requirements while incorporating more rigorous financial analysis of the business, requiring skillsets more akin to those used in SME lending.

53 In Jamaica, we assumed a USD 400 loan over nine months at 1% flat weekly interest.

Financing preferences

Table 21[54] below shows that ROSCAs, followed by friends and family, best fit microentrepreneurs' top priorities as well as secondary concerns. It is important to note that low-income Jamaicans tend to generalize both good and bad perceptions of one formal lender to all lenders. For example, microentrepreneurs who become frustrated with the particularly paperwork-heavy loan application process at one institution tend to believe all microcredit providers or all products require the same process and are unlikely to shop around for formal alternatives. Thus, perceptions do not always square with the reality of products available. In Jamaica, the loan amount emerged immediately in pilot testing as an important factor, and we added it to the base instrument. Proximity of the provider was cited by a very small percentage of respondents, therefore we left it out of the analysis below.

Flexibility and lenience with payment times were the main concerns for Jamaican respondents, manifesting not only in direct preferences but in actual repayment behavior and a fear of debt among non-borrowers. Jamaican ROSCAs are highly flexible, giving several options for hand size and draw timing, and in some cases, tolerance for tardy payments. Friends and family also offer flexible repayment terms. Buying from suppliers on credit was a somewhat flexible option, possibly due to suppliers' low levels of bargaining power. One interviewee commented about his chicken and coal suppliers, *"They need me. I need them. But they need me more."* In most respondents' eyes, no formal institution could provide this level of flexibility.

A close second priority for microentrepreneurs was the low cost of a loan. Most microloans cost a "standard" 1% per week, yet APRs vary widely from 39% to 91% before fees; meanwhile moneylender rates also vary widely, from 25% to 144% APR based on reported cases. In general, respondents considered these going rates too high. As one interviewee exclaimed, *"At 1% per week, you're literally running [clients] down the ground*…The interest is what's killing us!" Savings (including ROSCAs) or borrowing from friends and family are much cheaper sources of investment funds, and used by a sizeable percentage of respondents. It is worth noting that while formal loans from banks or MFIs typically scored poorly on flexibility and cost, yet microentrepreneurs also use them often.

54 Table 21 shows respondents' preferences for financing, and which providers they believe do or do not conform to each preference, in order of strength in response. We asked whether each provider was cheap, flexible, trustworthy, nearby, fast, and had low requirements or appropriate loan amounts. Providers with a high relative percentage of "yes" responses are in the "Who is?" column, and those with low percent are in the "Who is not?" column.

TABLE 21: JAMAICAN MICROENTREPRENEURS' CREDIT PREFERENCES AND PERCEPTION OF WHO DOES OR DOES NOT FIT THEM

TRAIT	RANK	WHO IS?	WHO ISN'T?
Lenient/ flexible	#1	1. ROSCA 2. Friends/Family 3. Store Credit	1. Pawnshop 2. MFI 3. Bank
Cheap	#2	1. ROSCA 2. Friends/Family 3. Credit Union	1. Bank 2. MFI 3. Pawnshop
Loan amount	#3	1. Moneylender 2. Bank/CU 3. MFI	1. Store Credit 2. Friends/Family 3. ROSCA
Trustworthy	#4	1. ROSCA 1. Friends/Family 2. Store Credit 3. Bank	1. Pawnshop 2. MFI 3. Moneylender
Low requirements	#5	1. ROSCA 2. Friends/Family	1. Bank 2. MFI 3. Credit Union
Fast	#6	1. ROSCA 2. Friends/Family 3. Store Credit	1. Bank 2. Pawnshop 3. MFI

One way that formal providers are able to satisfy customer preferences more effectively than informal providers, possibly explaining their higher uptake, is in the loan amount, which ranked third in terms of respondent preferences for credit products. One MFSP manager interviewed explained that Jamaican men in particular do not like to borrow small amounts (perhaps because their businesses tend to be larger in size), and, in such cases, would prefer to save. Data on loan amounts revealed that formal providers dwarfed informal methods in size of financing, although MFIs gave smaller average loans than banks or credit unions. Despite this size advantage, qualitative interviews uncovered the common complaint that banks and MFIs do not provide large enough loans. To compensate for this, some ROSCA users try to time their draws with the disbursement of formal loans and combine the two sources. Other, less prudent borrowers take multiple loans, sometimes in a friend or relative's name. There is likely some demand for even larger loans than MFIs are able to offer in the sector, possibly from the stronger microenterprises or very small enterprises (VSEs) as explained in Box 6.

It is interesting to note that, despite common complaints about collateral and loan applications, having low requirements was not as important to respondents as flexibility or low cost. This validates some of the other evidence of a looser credit market in Jamaica. Nonetheless, the fact that formal institutions scored lowest on this dimension surely relates to low uptake among certain types of microentrepreneurs.

Key findings: Savers and smaller firms left out

Jamaica's microfinance sector and the lending sector in general suffer from a variety of interrelated problems exacerbated by the poor economic conditions. Competition for formal microcredit comes not from informal credit mechanisms, but rather from savings on one hand, and formal moneylenders on the other. The following issues affect both the outreach and the portfolio quality of microfinance in Jamaica:

- **Hard times encourage microentrepreneurs to save, rather than borrow.** GDP growth has shifted from negative to low since the global economic crisis and the Jamaican dollar has depreciated considerably, driving high costs and low demand for many of the goods traded and sold by microentrepreneurs. A previous study approximated demand for microcredit by microentrepreneurs at 88,711,[55] while many MFSPs are using 400,000 (the estimated number of unemployed in Jamaica) as a proxy measure of demand. Though convenient, using this number makes the unrealistic and perhaps irresponsible assumption that all unemployed people can and should take loans, whether for business or household use. Many microentrepreneurs exclude themselves from the credit market (whether or not they are eligible for and would benefit from microcredit), preferring savings for business investment instead.

- **Dampened demand has led to signs of over-indebtedness in pockets of the sector.** While Jamaica showed the highest incidence of borrowing among the four countries, respondents also had the lowest rates of credit eligibility and interest in microloans. Low aggregate demand is squeezing microenterprise margins, making borrowing at prevailing rates less attractive. Those who do borrow, however, can run into payment problems. Some appear to be caught in an annual cycle of debt that is only cleared with the Christmas bonus or rush of sales. This has created concerns over over-indebtedness, multiple borrowing, and competition from moneylenders who give fast and easy consumer loans at high rates. One credit union official warned that "the bottom [could] fall out any moment." Within this environment, the number of available microcredit products that do not require financial analysis is worrisome. A nascent credit bureau cannot come at a better time, however current fees are onerous and MFSPs should lobby for preferential pricing to incentivize wider usage among the sector.

- **Jamaican microfinance must differentiate itself from consumer lenders.** Microfinance providers scored at or near the bottom for every dimension of financing preferences. The rigidity, high requirements, and high costs of microcredit have eroded microentrepreneurs' trust in the sector. Meanwhile, formal loan sharks who classify themselves as MFIs have worsened this reputation, sometimes charging exorbitant rates or using aggressive collections practices. Informal loans offer a more flexible alternative, but in much smaller amounts, often too small for the needs of businesses. The government has already proposed new regulations to encourage transparency in interest rates and prohibit intimidation in collections, which could force weaker players out of the market. Meanwhile, MFIs should increase awareness about new, less onerous products, strive to reduce costs and rates, and distinguish themselves by adhering to ethical norms such as the Smart Campaign Client Protection Principles. A commitment to financial education delivered in convenient doses could also differentiate the sector as committed to clients' success.

55 Wenner, Mark and Geoffry Chalmers, "Microfinance Issues and Challenges in the Anglophone Caribbean." Inter-American Development Bank Working Paper (2001). Accessed Sept. 1, 2013.

- **Social networks and existing group savings products can be leveraged to gradually include microentrepreneurs in the formal financial sector.** Conventional wisdom holds that group lending no longer works in Jamaica, since clients resent joint liability and groups eventually break down. Yet informal Pardna groups remain extremely popular, and one MFI continues to offer group loans with success. While not a long-term solution for most clients, group methodologies that leverage informal groups and lead with savings could still prove an effective gateway to building trust and developing credit histories for smaller microenterprises while reducing distribution costs for MFSPs. Using groups as delivery channels rather than for joint liability could work, given high savings levels, and encourage a gradual adoption of formal savings and lending products over time. As in other countries where ROSCAs are prominent, Jamaican MFSPs could learn from the Indian Self-Help Group model or solidarity group models with individual (not group) liability. Previous studies have shown that group lending without group liability can attract additional clients without generating additional delinquency.[56]

- **Larger microenterprises or "very small enterprises" offer low-hanging fruit to lenders.** Among our sample, larger businesses were more likely to qualify and benefit from loans than the average business. They were also interested in borrowing. However, some are not borrowing at all, instead financing their businesses with small amounts of savings. There is also some anecdotal evidence that some are taking multiple loans to borrow larger amounts of money to meet their needs, given that loan sizes of formal and informal providers are still quite limited and collateral requirements for larger loans are relatively onerous, whether as a percentage of block savings, land titles, or other assets. This segment presents an attractive potential opportunity for MFSPs that are positioned to specialize in business lending. Here, Jamaican MFSPs could garner clues on how to serve these VSEs by observing the experience of Peruvian or Bolivian MFSPs, for example, which have grown with their clients over many years and now serve both niches.

56 Giné, Xavier and Dean Karlan (2010). "Group versus individual liability: Long-term evidence from Philippine microcredit lending groups." World Bank.

7. Suriname: Savers lack knowledge to tap credit for growth

This diverse nation of approximately 566,846 people is knit together by Creoles, East Indians, Javanese, Maroons, Amerindians, and other ethnic groups. GNI per capita is high at USD 8,680, and severe poverty is rare outside of the isolated interior. GDP growth has maintained above 3.5% since 2010, thanks to expansion in the oil and mining sectors. The recent expansion of gold mines, while controversial, is gradually bringing infrastructure and economic opportunities to the Surinamese interior and connecting previously isolated Maroon communities to the rest of the country. Suriname also hopes to become the "food basket" of the Caribbean, and its significant agricultural sector is also poised for growth. Financial services are concentrated in the capital, Paramaribo, and a few rural towns along the coast.

TABLE 22: ECONOMIC INDICATORS[57]

	SURINAME
Population 2012	534,541
GDP 2012 (millions of USD)	5,012
GDP growth 2010-2012	4.2% 5.3% 3.9%
Employment rate 2012	47.6%
GNI per capita 2012 (USD)	8,680
Estimated target market[58]	10,602 - 15,707

Supply side: Providers of microfinance services in Suriname

Suriname's microfinance sector is underdeveloped, due to its high distribution costs for small loans, small population, and, until very recently, limited coordinated support from the

57 Economic and financial data come from the World Bank's World Development Indicators database.

58 Derived as a percentage of informal self-employed who are interested in, eligible for, and would benefit from a loan.

government and donors. Savings accounts are generally available to low-income people in Suriname, and major banks include de Surinaamsche Bank, RBC Royal Bank, and Hakrinbank, as well as cooperative banks and credit unions that also offer microcredit (see below). While they are not as popular as in Jamaica or Guyana, ROSCAs (called "Kasmoni") are also used by Surinamese to save, particularly by women or groups of well-acquainted microentrepreneurs, such as market vendors. Kasmoni in Suriname work much like ROSCAs in other Caribbean countries (see box 3 on pages 22-23). These Kasmoni are often viewed as either unreliable or a "last resort." Most MFSPs did not consider Kasmoni a threat to demand for microcredit.

According to Suriname's apex administrator, Suritrust, five main microcredit providers serve only about one third of the country's 35,000 estimated potential microcredit borrowers. DeSchakel Credit Union, GODO Cooperative Bank, and TrustBank are three major microcredit players, all CARIB-CAP participants. None of them, however, is a dedicated microfinance institution, and microcredit is still struggling to establish its place within these organizations. As in Jamaica, these banks and credit unions are experimenting with different levels of separation for their microfinance operations—from simply designating full-time microloan officers, to housing microcredit in a separate building, to considering spinning the business off into a separate legal entity. A few NGO MFIs also operate in Suriname. Seva is an NGO based in the western districts and focuses on microenterprises in rice farming communities. Women's Business Group is based in Paramaribo, and has a strong focus on training and technical assistance in addition to credit. Surinamese MFSPs are cautious in their approach to the market. Asset collateral is the preferred form of security, although many now allow upfront "block savings." Most have just one to three dedicated microcredit officers, and they have not been willing to risk their own capital on scaling up outreach and publicity thus far. This lack of capacity has also led to high delinquency rates of up to 20%. Despite these trends, two or three MFIs are expected to enter the market in the next year.

All MFSPs on-lend primarily subsidized apex funds from the "Micro Kredieten Programma" (MKP),[59] which caps the loan size at SRD 6,500 (USD 2,000), however some MFSPs would like to make larger loans with these funds. Offering microcredit in Suriname is expensive, and at an estimated cost per loan of USD 430,[60] providers are limited in their ability to make smaller loans. MFSPs target pre-organized groups of clients (e.g. rice farmer cooperatives or equipment sellers) or offer higher loan sizes when possible.

A new and popular form of formal credit is store credit or "hire purchases" at retailers such as Combemarkt (groceries), Savers Paradise (building supplies), or Ebro (household goods, fabric). Many microentrepreneurs buy business inputs on credit from these stores. Rates vary from 0.5% flat monthly interest (11% APR), to 24% flat for six months (75% APR) for regular customers or 24% flat for 12 months (42% APR) for government workers. Interestingly, as in other countries, many interviewees did not think of this as a loan, but rather a payment plan. However, MFSPs understand it to be competing with their products and believed that these retailers were charging excessive interest rates in exchange for easy access.

Informal moneylenders and pawnshops are also present in Suriname but rarely used. Informal moneylending is more common among civil servants, although one MFSP cited market moneylenders as a competitor for their speed and convenience. Friends and family financing are also commonly used.

59 MKP is managed by Suritrust, the asset management subsidiary of De Surinaamsche Bank, the country's largest bank, which does not have direct participation in the microfinance sector.

60 Calculation from recent MIX data.

Microenterprises and microentrepreneurs in Suriname

Basic profile of microenterprise survey respondents

In Suriname we surveyed 159 microentrepreneurs in the capital, Paramaribo, where half of the population lives, and in Brokopondo district, a newly developing area of the interior two hours from Paramaribo. These regions contrast areas of current outreach (the capital) with future horizons for expansion as the interior opens up. Access to finance in coastal rural areas, such as Nickerie, is between that of Paramaribo and Brokopondo. Table 23 below summarizes the sample profile.

The average respondent was 40 years old and had nine years of formal education. In Suriname we found more men than women, partly due to a greater incidence of men business owners in the interior and urban markets where interior traders go to sell.

Businesses varied in size and sophistication, from simple street food vendors to informal commercial importers who sell clothing via online social networks. Average monthly sales of businesses were USD 984, though thirteen outlying respondents were excluded from this average as they reported monthly sales of over USD 4,308. In reality two major segments exist—the "small" microenterprises (the main beneficiaries of CARIB-CAP and Suritrust, the apex administrator) and the larger yet still informal microenterprises or "very small enterprises" (VSEs), which, despite being less prevalent, are attractive to MFSPs given the high cost of making loans (see Box 7 below).

About half of surveyed microentrepreneurs had second incomes of their own, mostly from side businesses, but some from informal, formal, or government employment. Government and formal sector employees have a strong advantage in accessing financial services, especially loans, since they can borrow against their salaries. Only 15% of respondents received remittances, and even fewer on a regular basis. Most microenterprises financed inventory through recent earnings, or less commonly with savings.

Of the 159 respondents, we found only 37% "credit eligible"[61] based on our SCE segmentation (see Box 1 on page 13). The others reported zero or negative monthly net income. In many cases, this discrepancy is due to a lack of differentiation between business and household expenses. Respondents with negative cash flow often could not explain the deficit, but said that "somehow things just work out." Especially in the more rural Brokopondo district, it is common for people to make up small cash shortfalls with odd jobs, often as temporary hired labor for gold mining operations. These one-time or short-term arrangements were impossible to capture systematically in the household cash flow inquiry. These factors complicate cash flow analysis and make it unlikely that conservative Surinamese MFSPs would lend to a majority of microenterprises.

See Appendix 1 for a breakdown of the basic socio-economic profile.

61 This is a rough estimate at best given the difficulty many respondents had in recalling income and expenses.

TABLE 23: PROFILE OF SURINAMESE MICROENTREPRENEURS

		STD. DEVIATION
Average years in business	7.9[62]	7.9
Average monthly sales (USD)	984[63]	887
Average net margin (%)	54	29
Saves regularly (%)	91	
Saves informally (%)	45	
Saves formally (%)	63	
Borrowed for business in the past year (%)	19	
Borrowed informally for business (%)	7	
Borrowed formally for business (%)	13	
Borrowed for household in the past year (%)	20	
Borrowed informally for household (%)	8	
Borrowed formally for household (%)	13	
Is creditworthy (%)	37	
Interested in a loan (%)	72	
Would benefit from a loan (%)	77	
Repaid prior loans on time always or usually (%)	90	
Expresses risk aversion (%)	8	
Is close to a formal institution (%)	30	

62 This number excludes 13 outliers, with whom average monthly sales were USD 1,896.

63 This figure excludes firms with negative or zero net margins, with which the average was 40%.

Savings behavior and preferences

Saving is commonplace among Suriname's microentrepreneurs, with 91% percent saving on a regular basis. Among all respondents, 63% used formal institutions. In Paramaribo, 71% used formal institutions, mostly banks.[64] Despite an almost nonexistent bank presence in Brokopondo,[65] 48% of respondents in the region also saved in formal institutions, primarily banks. Some even traveled two hours to the capital once a month or more often. Most respondents had significant balances (about USD 210 excluding outliers), though 22% had zero balances, usually due to recent withdrawals. Informal savings were less common—only 26% used informal savings exclusively and 18% combined formal and informal. Hiding money at home (36%) and using ROSCAs (11%) were the most common informal methods, though a few turned over money to relatives for safekeeping. Table 24 summarizes usage of each savings method.

TABLE 24: SAVING METHODS, SURINAME[66]

INSTITUTIONS	BANK	CREDIT UNION	FRIENDS/ FAMILY	ROSCA	HOME
% of Savers	68	4	2	13	40

Figure 9 shows common reasons for saving between formal and informal savers.[67] Business needs were the primary reasons for savings, both formally and informally. Informal savings was somewhat more prevalent for business use, perhaps because of the distance from banks of some respondents, who needed to keep cash on hand for business working capital. Meanwhile, respondents use banks to place money out of reach, helping build large lump sums for big ticket items like a vehicle or house ("other things" in Figure 9). This division of usage can often be complementary. One successful street vendor in Paramaribo explained that she uses a ROSCA to save regularly, then deposits the full draw in the bank to avoid spending it.

In line with usage, most people viewed formal savings more favorably than informal savings. Few respondents (30%) cited problems with formal savings, though the most frequently mentioned were distance (7%), not knowing which to use (4%), and not being able to access money when they need it (3%). Ironically, those who had problems with distance or not knowing which to use were urban, not rural respondents. Busy urban lifestyles and long work days coupled with traffic on urban roads can make even short distances inconvenient. Fees, documentation, or interest rates were of lesser importance. When asked what the advantages of informal savings were, most did not know (35%) or believed there were none (24%). Most commonly cited advantages include lack of fees (14%), easy access to the money (11%), keeping money away from temptation (10%), safety (9%), and receiving help with saving discipline (8%).

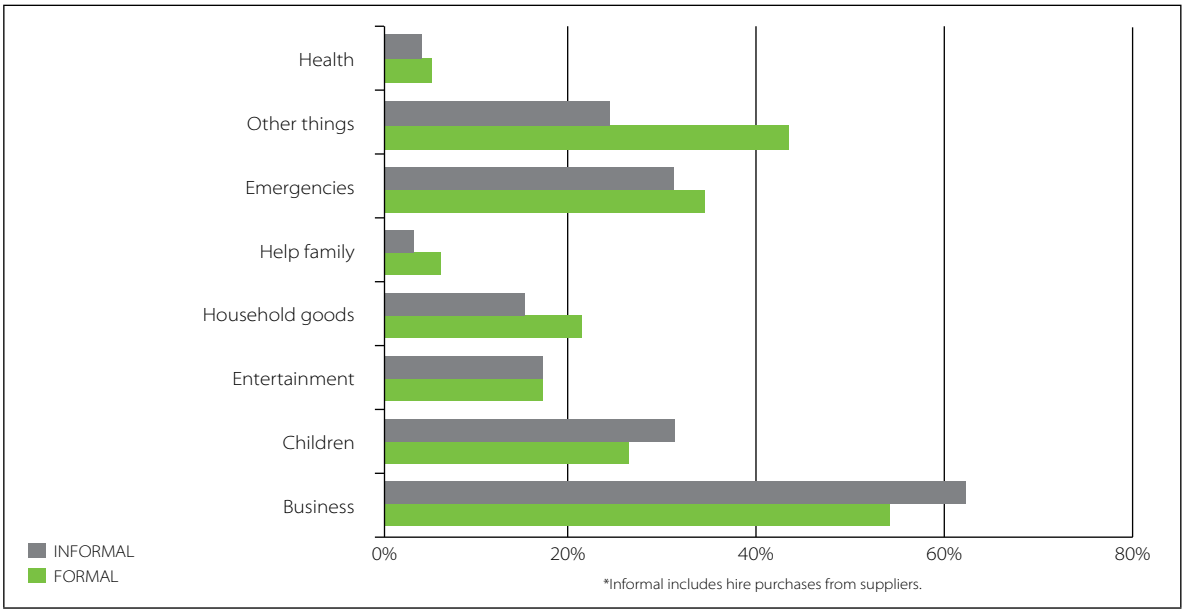
64 Only one MFSP has a service center in the district capital.

65 There was some confusion about banks versus credit unions. Many respondents did not distinguish between the two, and others were unaware of GODO's recent change from credit union to "cooperative bank."

66 Due to overlapping use of multiple sources, columns do not add up to 100%.

67 As mentioned previously, there is some overlap between these groups.

FIGURE 9: REASONS FOR SAVINGS, SURINAME



Credit behavior

Loans were much less common than savings among our sample, and formal loans were only slightly more common (19%) than informal loans (15%). People borrowed for both household and business needs in roughly equal proportions. Figure 10 shows the most common motives for business borrowing as a percent of formal and informal loans reported. Main reasons for business borrowing were restocking and equipment purchase. Most respondents always paid back loans on time to avoid fees. Only a few reported more severe consequences from late payment. Table 25 below summarizes the usage of different lenders. Banks (including microloans from TrustBank or GODO) were the most common source of household and business credit, followed by loans from friends and family. Only a few reported using a pawn shop, retail credit, credit cards, or moneylender.

FIGURE 10: REASONS FOR BUSINESS BORROWING, SURINAME

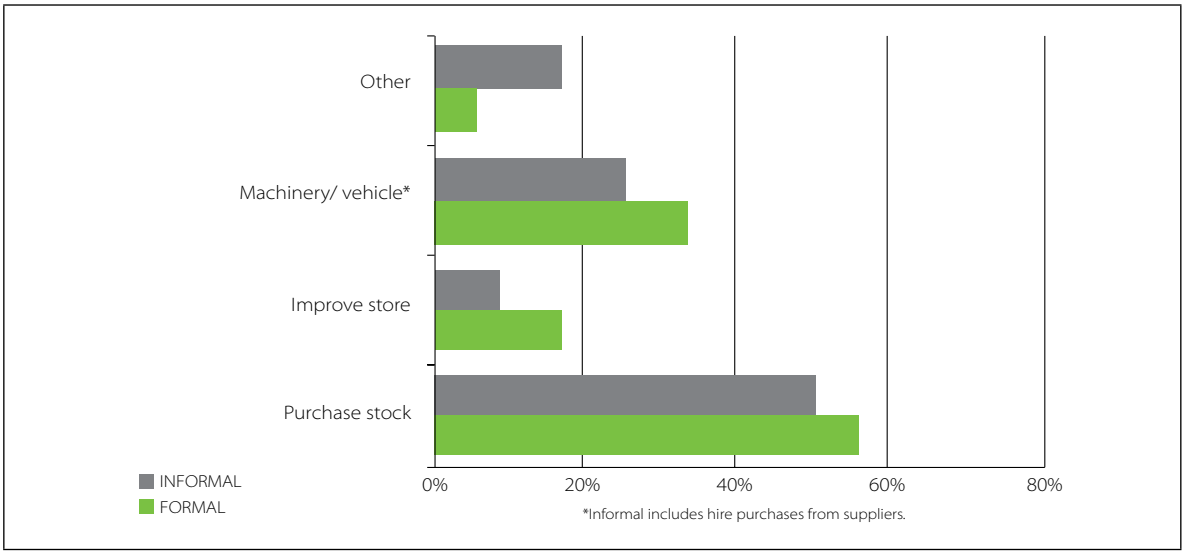


TABLE 25: BUSINESS AND HOUSEHOLD BORROWING SOURCES, SURINAME[68]

INSTITUTIONS	BANK	CREDIT UNION	CREDIT CARD	FRIENDS/ FAMILY	ROSCA	MONEY-LEADER	STORE	PAWNSHOP
% of Businesss Borrowers	45	3	10	26	3	3	6	6
% of Household Borrowers	63	0	3	22	0	0	9	6

Only 20% had recently borrowed for a business need. Yet 79% believed they were eligible for microcredit, and 72% expressed interest in receiving a microloan, mostly to expand or equip their business. Our ROI analysis also found that 77% of respondents would benefit from a microloan,[69] although only 57% were also interested in one. It appears that some promising candidates are not interested in borrowing, while others are interested but their unreliable cash flows could pose a barrier to access. Of the 22% who were not interested, most were either afraid of debt (29%), happy with current financing sources (23%), or did not need a loan (23%). Advanced age and lack of collateral were the two most prominent reasons cited for either possibly not qualifying for microcredit or actually being rejected for a past loan (9% had been rejected). Lack of documents and proof of regular income were also mentioned.

BOX 7: Larger businesses may have the greatest potential for success with loans

Some MFSPs in Suriname expressed a desire to target larger microenterprises (or "very small enterprises") instead of or in addition to tiny microenterprises. While this desire is driven by the need to reduce costs, such loans could also yield higher impact. As in Jamaica (see Box 6 on page 64), the largest firms in our Suriname sample are more likely to qualify for and benefit from a loan. Of the 22 firms with monthly sales over USD 2,757, twenty would likely benefit from a loan (91% of larger firms, as compared to 77% overall), and nine are credit eligible as well (41% of larger firms, as compared to just 29% overall). By targeting this upper segment, MFSPs can optimize portfolio costs, profitability, and economic impact.

68 Due to overlapping use of multiple sources, columns do not add up to 100%.

69 In Suriname we assumed a USD 1,230 loan for 6 months at 2.5% flat monthly interest.

Financing preferences

Table 26[70] shows that respondents prioritize cost, trust, and low requirements when seeking financing. Both formal and informal providers—especially banks and ROSCAs—match these preferences and are used complementarily, primarily for savings purposes. Surinamese respondents were highly resistant to giving opinions or perceptions about providers they had no direct experience with, limiting our analysis somewhat. In the case of credit cards, pawnshops, moneylenders, and MFIs, 67% did not have an opinion. As a result, MFIs in particular were not frequently cited in this component of the survey.

TABLE 26: SURINAMESE MICROENTREPRENEURS' CREDIT PREFERENCES AND PERCEPTION OF WHO DOES OR DOES NOT FIT THEM

TRAIT	RANK	WHO IS?	WHO ISN'T?
Cheap	#1	1. ROSCA 2. Friends/Family 3. Bank/CU	1. Moneylender 2. Pawnshop 3. Store Credit
Lenient/ flexible	#2	1. ROSCA 2. Store credit 3. Bank/CU	1. Pawnshop
Trustworthy	#3	1. Bank/CU 2. ROSCA 3. Store Credit 4. Friends/Family	1. Pawnshop 2. Moneylender
Low requirements	#4	1. ROSCA 2. Friends/Family 3. Store Credit	1. Bank/CU 2. Pawnshop 3. Moneylender
Nearby	#5	1. ROSCA 2. Friends/Family 3. Bank/CU	1. Pawnshop 2. Moneylender
Fast	#6	1. Store Credit 2. Bank/CU 3. ROSCA 4. Moneylender	1. Pawnshop

Respondents believed that low costs were the most important criteria for financing. Both informal and formal providers match this criterion. While people most often listed ROSCAs and friends and family as cheap sources of funds, quite a few thought that banks were cheap as well. Microcredit interest rates are relatively low, at 20-35% per annum, although this is partially due to subsidized apex funds. The high cost of moneylenders, pawnshop loans, and store credit explains their low actual usage. Similarly, both informal and formal providers were perceived as flexible, the second biggest priority. Flexibility can take on different meanings, however.

70 In Table 26 summarizes respondents' preferences for financing, and which providers they believe do or do not conform to each preference, in order of strength in response. We asked whether each provider was cheap, flexible, trustworthy, nearby, fast, and had low requirements. Providers with a high relative percentage of "yes" responses are in the "Who is?" column, and those with low percent are in the "Who is not?" column.

ROSCAs offer flexible draw times as well as a little leeway on payment promptness. Banks cannot match the flexible draw times, but do accept various types of collateral and sometimes offer grace periods for payments or allow third parties to make payments for clients.

Trust was the third most important dimension cited by respondents, and banks, ROSCAs, friends and family, and retail credit were all perceived to be trustworthy. Negative experiences and stories breed a distrust of ROSCAs among some, especially those who do not currently use them; however the least trustworthy providers were pawnshops and moneylenders. It is interesting to note that while ROSCAs and friends and family ranked higher than banks on cost and flexibility, bank loans were much more frequently used in reality. This may indicate a lack of availability or difficulty in accessing ROSCAs and friends/family loans, or it may imply that microentrepreneurs actually value trust (where banks scored highest) more highly than they claim.

Given the frequent complaints over collateral and documentation requirements, it is surprising that low requirements were only the fourth most important factor for respondents. Again, informal ROSCAs and friends/family scored high, as well as the newly proliferating retail credit. Banks and credit unions scored the lowest on this dimension, and while not a top priority, this certainly creates a barrier to credit access.

Key findings: Awarenesss and outreach are key to tapping credit demand

Microentrepreneurs' behavior, preferences, and perceptions reflect the relatively undeveloped credit culture and microcredit market in Suriname. The following factors may be limiting outreach of credit products:

- **Savings culture is prevalent, where formal and informal providers complement each other's offerings.** A vast majority of microentrepreneurs save—whether at home, in ROSCAs, or in banks and credit unions—and have significant balances built up. While a minority rely on ROSCAs to impose discipline, others manage to save on their own. People also differentiate their usage of different saving methods by the need—using informal sources for everyday or small ticket needs, and using formal sources for occasional or large ticket items. Microentrepreneurs mostly prefer to save.
- **Credit could leverage savings to boost balanced growth.** While most microentrepreneurs use savings instead of credit to finance their businesses, the two options need not be mutually exclusive. Using respondents' reported income and expenses, we estimate that 77% of respondents could expect a net gain from a loan investment, and 29% could more than double their monthly net income initially. While microentrepreneurs prefer savings for their lower risk, the gains are also slower. By leveraging already significant savings through block savings or compulsory savings requirements, MFSPs could reduce their own risk while helping microentrepreneurs grow their businesses and income much more quickly. When implemented to scale, this could have a balancing effect on the mining- and agriculture-heavy economic growth pattern currently experienced.
- **For some lenders, targeting larger businesses would be more effective than reaching a broad sector of microentrepreneurs.** Larger microenterprises are even more likely than the average business to benefit from even a small loan, and would likely benefit from larger loans, given the strong economy and their relatively healthy financials. Given the

small overall market in Suriname, it could make sense for some lenders to specialize in upper niche microenterprises (or very small enterprises) while others focus on lower niche microenterprises (See Box 7).

- **Low levels of investment by providers have led to limited capacity and outreach.** MFSPs perceive a high risk and cost to serving microentrepreneurs, and to date have not invested sufficient resources in capacity building and outreach. Currently, staff resources are too limited to effectively manage and monitor even small portfolios, or to effectively manage delinquency. Thus conservative MFSPs in Suriname tend to reach for the low-hanging fruit—larger businesses with access to collateral and high net cash flows. Capacity building and investment in microfinance providers will continue to be crucial areas for Surinamese MFSPs going forward, to expand outreach to the target market and ensure portfolio quality. There is high demand for on-site trainings, and capacity building for front-line staff should be a major focus of future activities.

- **Microcredit lacks visibility.** In step with the limited capacity of MFSPs, there is limited information in the market about these providers. Microentrepreneurs have little knowledge about credit providers in general and the concept of microcredit specifically. Most importantly, they seem to have little understanding of the role that credit could have in leveraging their efforts and growing their businesses. As a result, they are generally reticent to work with lenders, if they know of any at all. They might listen to hearsay and become discouraged about collateral or documentation requirements. In some cases, a few people still remembered a botched government campaign in 2010 that led people to believe microcredit was free money. A new campaign to be launched by Suritrust in March 2014 should draw new attention to microcredit, but MFSPs will have to match that publicity with a physical presence in the streets and markets to gain the attention and trust of microentrepreneurs.

- **Confusion over cash flow hinders the shift away from collateral-based lending.** A majority of microentrepreneurs surveyed reported zero or negative net cash at the end of a typical month. This is due to several factors, including highly irregular income, family members not sharing income information, and the blurring of household and business expenses. While irregular cash flows are a common problem of microentrepreneurs, and one that small loans often help to relieve, many businesses could in fact be losing money over the long term, especially if propped up by secondary or temporary incomes. This indicates the importance of a thorough and adequate credit analysis, including an analysis of microentrepreneurs' cash flows, when assessing a business loan. Otherwise, overstretched credit officers may give loans to ineligible businesses, relying on cash or asset collateral guarantees to protect their exposure without necessarily supporting the business. Given the added cost of doing cash flow analyses, MFSPs may conclude that taking higher risk of delinquency in order to reach more clients makes sense. Experiences in other countries suggest otherwise, however, as establishing a credit culture is key to long-term sustainability.

- **Risks and opportunities in the interior.** The increasing development of Suriname's interior, focused on mining, has brought infrastructure (roads, gas stations, telephony, etc.) to this previously untouched area. This development presents new business opportunities for microentrepreneurs, as well as new risks. Demand for many businesses depends highly on current activity in the mining sector, and highs and lows can create serious cash flow problems. There is much untapped potential for rural microcredit in Suriname, but given MFSPs' low risk appetite, advances will be slow.

8. Conclusions

Our analysis of microentrepreneurs provides an opportunity to re-think the development of microcredit markets in Latin America and the Caribbean. Whereas microentrepreneurs rarely save formally in Latin American countries, those in the Caribbean countries we studied save in formal and informal accounts with great frequency and in relatively large amounts. These savings have been essential in protecting low-income entrepreneurs from irregular cash flows, household emergencies, and in some cases, weak domestic growth. Credit providers may perceive the prevalence of savings as a threat to their existing offerings of microcredit; instead, they should view it as a useful complement that will help protect their own lending portfolios over time. Building a responsible borrowing culture within the microenterprise sector is critical and there are lessons to be learned from both the successes and the failures of other countries. At a minimum, it requires transparency and ethical practice. However, this aim will best be achieved by developing products and delivery mechanisms optimized for the target market. This market is relatively small and homogenous, and thus will not benefit from an exact replication of other experiences in Latin America and the Caribbean. Successful interventions should be underpinned by cost efficiencies and innovative distribution to be effective and sustainable. Additionally, MFSPs should consider a platform whereby a broad array of financial services is offered to a broad array of customers. We categorize our recommendations by five main themes.

1. **Segmentation:** Microenterprises are a diverse segment by size, gender, sector and needs. **A one-size-fits-all approach is unlikely to be effective.** This can pose challenges, however, in small markets where the promise of scale is already quite limited. Technology promises to be a game-changer in this area.

2. **Supply-side approach:** We find that capacity to scale effectively is still quite weak, and some opportunities to serve microenterprises' needs are being missed. **Strengthening capacity of human and financial resources** of lenders can help bridge an important gap in credit access.

3. **Building trust:** Microentrepreneurs have preferred to save rather than borrow, often informally. But formal institutions have been effective in building trust in some countries or markets through their savings products. **Trust in formal banks and credit unions can be leveraged to offer a broader array of savings products and channels for cross selling.**

4. **Tailored products:** Informal savings are often used as a complement or a substitute for formal savings because they are readily available, easy, cheap, and offer an attractive balance between savings discipline and flexibility. Products that aim to "compete" with informal savings must offer some of these advantages. There is a need to **develop new**

financial products and delivery to better fit client needs, in some cases competing with, but in others complementing existing informal savings.

5. **Raising awareness:** While the perception of formal institutions is generally favorable, there is often poor or non-existent information about these providers and their products. Given the limited resources of providers, there appears to be a need for a broader, **industry-wide effort to educate and protect consumers** about microcredit.

A more detailed description of each theme is available below.

1. **Segmenting microentrepreneurs:** This study highlights many differences as well as commonalities across countries and businesses, suggesting that all businesses in all countries are not alike and do not require the same tools to manage their financial lives.

   - We find that in all countries, larger businesses are more likely than smaller ones to qualify for and thrive with loans, though access may be hampered currently by apex loan size caps or a lack of cash, asset, or land collateral to merit a sufficiently large and useful loan.

   - We find that some smaller businesses would also benefit from loans, but that they are often challenged by a lack of collateral, discomfort with the loan application process, and sometimes poor information about providers.

   - We find that not all businesses have positive cash flows (after considering their contribution to household expenses), and that such businesses are unlikely to benefit from greater access to credit but do require business skills and asset building strategies. We emphasize that providers must avoid pushing these businesses into debt traps in the quest for scale. For these businesses, formal and informal savings allow them to manage their already vulnerable business and household cash flows.

   Identifying a broad range of target business sizes and types may be necessary in countries where the potential market is small. Providers may not be able to afford excluding very small or larger businesses from their portfolios. Nonetheless, classifying businesses, identifying their needs, and tracking performance for each segment will be a key to success. **Data collection and management with good IT systems for the purpose of prospecting, segmentation, product development and risk management** are critical to eventually reducing costs and could help to scale existing programs. Supervisors, apex institutions, donors and other stakeholders would also benefit from segmented analysis of businesses and from tracking business indebtedness, growth and failure by segment.

2. **Strengthening supply of microcredit with prudence:** We observe that there are opportunities to substantially increase the supply of microcredit in the region. However, this should be done with prudence. Concerns about predatory lending in Jamaica, and issues of portfolio quality region-wide suggest that providers must carefully screen and analyze clients, yet loan analysts' time and resources are quite limited. Achieving a quality portfolio is often a struggle that is exacerbated by small staffs and busy schedules. It is important that these microfinance markets learn from the many advances in more formalized markets and skip some costly steps in developing their microfinance businesses. **Field visits and learning exchanges for providers** to countries with mature programs (e.g. Bangladesh, Ecuador, Bolivia, and Peru) would be useful and eye-opening for the region's providers. **Investment is needed, including funding and additional technical assistance for programs** in countries like Suriname, that offer virtually no scale, but where microenterprises flourish. CARIB-CAP I and II have provided valuable

and appreciated assistance on these fronts so far, though microfinance knowledge and capacity was not always retained or diffused throughout institutions. There is a desire and need for more.

3. **Leveraging trust in formal institutions:** Information asymmetries are prevalent, and flow both ways. Providers are not in tune with their target market's needs (perhaps because of their limited resources) and microentrepreneurs have mixed knowledge of the providers and products available to them. While we did observe negative rumors (some founded in truth) and hearsay about formal institutions, we find that generally, the reasons for saving informally are not related to higher trust in informal mechanisms or a lack of trust in formal institutions. If anything, formal institutions are trusted more as a safe place to keep money, thanks to effective supervision and regulation. This is evidenced by the fact that respondents are more likely to save their money for long-term goals in a bank. However, they prefer low-cost and more flexible savings mechanisms for their shorter-term needs, which banks often do not provide. For needs that are as frequent as daily or weekly, they tend to prefer saving at home or in ROSCAs, where they enjoy more flexible timing and lower transaction costs for drawing funds. **Developing more attractive transactional and commitment savings products** can be a good way to bring them into formal institutions (at least those that offer savings). In Jamaica, some banks and credit unions offer formal Partner Plans that mimic ROSCAs. While more aligned with needs, they are less flexible than informal Pardnas. A more flexible and accessible version of this product could prove popular in Jamaica and elsewhere, especially among ROSCA skeptics. **Mobile technology and innovation around payment systems and savings products might also reduce the cost of banking** and facilitate use of formal products. Already, we find relatively accessible, low-cost credit unions playing a crucial role in financial inclusion in Belize, where 72% of respondents save in formal institutions compared to only 22% who save informally.

4. **Developing products to fit client needs:** MFSPs must innovate, learning from microentrepreneurs' preferences and needs to adapt their own products. Some lenders may be unable to give clients everything they want. For example, lenience on loans can lead to high delinquency rates. Other needs can be met. In some countries, microentrepreneurs expressed interest in larger loan amounts, something neither savings nor informal borrowing can offer. **Offering access to larger loans over time or credit lines for larger customers with good payment records** might be attractive. As a result of efforts under CARIB-CAP I and II, some MFSPs have already introduced loan products relying on **"block savings" collateral**, which replaces traditional asset collateral and responds to client resistance to the collateral requirements of formal lenders. This, however, does little to open access for tiny firms whose needs are below the minimum loan size, and may also have had the unintended effect of shutting out or delaying credit access for the upper niche of VSEs, who must accumulate significant savings before taking out the large loan size they need. **Leveraging group mechanisms such as ROSCAs to develop group loan products for smaller businesses** or those with little credit experience can make sense from both a supply and demand perspective. Rather than offering group loans with joint liability, group loans can be more oriented toward offering group support in learning to manage loans, and reducing the delivery costs of lending to the smallest microenterprises. Finally, while microfinance orthodoxy aims at high retention as evidence of customer satisfaction, in the Caribbean continuous retention may be unrealistic. Instead, sporadic retention, wherein clients invest then rest in cycles could be a better metric of satisfaction, albeit challenging for the

financial sustainability of some MFSPs. The typical microfinance model of continuous, back-to-back loans will have limited success in the region, and providers must find another business model. Developing complementary products and services, such as remittances, payments, insurance, and pensions, could help providers not only meet a wider range of client needs but also increase profit per client in markets where demand for credit is either small scale or intermittent.

5. **Promote consumer transparency and education at an industry-wide level:** Given the limited resources of providers, there is scope for **industry-wide efforts to educate and protect consumers about microcredit.** Formal institutions are perceived mostly favorably, yet there is often poor or non-existent information about these products and providers. In Suriname, the apex fund's planned 2014 awareness campaign will hopefully introduce the concept of microcredit and its major providers to thousands of microentrepreneurs for the first time. **Awareness campaigns that help clients distinguish products and providers can be important to building a culture of responsible borrowing.** The Jamaican government has already taken steps to regulate the out-of-control moneylending market. Additionally, the recently launched credit bureau will help promote responsible lending and borrowing, if more lenders begin to use it. **Regulatory steps to promote consumer protection and to control over-indebtedness are useful in safeguarding consumers and providers alike.** Future regulatory efforts must take care not to overburden MFSPs with compliance, while providing enough clarity and certainty to encourage the growth of existing institutions and the emergence of new ones, especially in countries with few providers. Supporting grassroots organizations with education efforts can be costly, but small steps, such as encouraging participation in the Smart Campaign can be useful. Jamaican MFSPs are organizing and striving to distinguish themselves from less scrupulous lenders through initiatives like adoption of the Client Protection Principles. While most of the microfinance market in Belize and Guyana belong to just one or two players, these are highly dynamic, innovative, prize-winning institutions with a strong social focus. **These socially-oriented institutions could benefit from participating in Smart Campaign adherence as well.**

Bibliography

Amatsahlan, Rene (GODO Bank). Interviewed by Derek Poulton and Danielle Sobol. Paramaribo, Suriname, Nov. 6, 2013.

Angelucci, Federica and Piero Conforti, "Risk management and finance along value chains of Small Island Developing States. Evidence from the Caribbean and the Pacific". *Food Policy* 35 (2010): 565-575. Accessed Sept. 1, 2013. DOI: 10.1016/j.foodpol.2010.07.001

"Assessment of the Supply and Demand of Microfinance Services for Very-Low Income Populations in Guyana and Suriname". Inter-American Development Bank Brief (2004). Accessed Sept. 1, 2013. http://www.guyanagateway.org.gy/node/249

Ayyagari, Meghana, Asli Demirguc-Kunt and Vojislav Maksimovic, "Formal versus Informal Finance: Evidence from China". Oxford University Press (2010). Accessed Sept. 1, 2013. DOI:10.1093/rfs/hhq030

Barnett, Curtis (National Peoples Cooperative Bank). Interviewed by Derek Poulton and Horace Bennett. Mandeville, Jamaica, Nov. 26, 2013.

Beck, Thorsten, Asli Demirgun-Kunt and Maria Soledad Martinez Peria, "Reaching Out: Access to and use of banking services across countries". *Journal of Financial Economics* 85 (2007): 234 – 266, Accessed Sept. 1, 2013. DOI:10.1016/j.jfineco.2006.07.002

Bennett, Horace (Adjunct Lecturer, International University of the Caribbean). Interviewed by Derek Poulton. Kingston, Jamaica, Nov. 26, 2013.

Bowen, Glen, "The challenges of poverty and social welfare in the Caribbean". *International Journal of Social Welfare* 16 (2007): 150 – 158, Accessed Sept. 1, 2013. DOI: 10.1111/j.1468-2397.2006.00453.x

Bryan, Robert (First Union Financial Company Ltd.). Interviewed by Derek Poulton and Horace Bennett. Kingston, Jamaica. Nov. 29, 2013.

Chisolm, Gloria. Interviewed by Derek Poulton and Horace Bennett. Kingston, Jamaica, Nov. 27, 2013.

de Swaan, Abram and Marcel van der Linden, "Mutualist Microfinance: Informal Savings Funds from the Global Periphery to the Core?". *American Journal of Sociology* 113: 4 (2008):

1200 – 1202, Accessed Sept. 1, 2013. http://www.jstor.org/stable/10.1086/533560

Fransberg, Reginald (De Schakel Cooperative Credit Union). Interviewed by Derek Poulton and Danielle Sobol. Paramaribo, Suriname, Nov. 7, 2013.

Garcia, Gloria, Azucena Novelo and Christine Vellos, "The Evolution of the Financial Sector in Belize (1996 – 2007)" Working paper for the Central Bank of Belize (2009), Accessed Sept. 1, 2013. https://www.centralbank.org.bz/publications-research/conferences-working-papers

Gregory, Errol (COPE Foundation). Interviewed by Derek Poulton and Danielle Sobol. Kingston, Jamaica, Nov. 25, 2013.

Handa, Sudhanshu and Claremond Kirton, "The economics of rotating savings and credit associations: evidence from the Jamaican 'Partner'". *Journal of Development Economics* 60 (1999): 179-194.

Hecht, Andy. "One Sugar Price Indicator is Signaling an Imminent Reversal." CQG News. http://news.cqg.com/commentary/2013/04/one-sugar-price-indicator-is-signaling-an-imminent-reversal.html. (Accessed Dec. 15, 2013).

Holden, Paul and Hunt Howell, "Enhancing Access to Finance in the Caribbean". IDB Private Sector Development Discussion Paper #4 (2009). Accessed Sept. 1, 2014.

Hossein, Caroline Shenaz, "The Politics of Microfinance: A Comparative Study of Jamaica, Guyana, and Haiti". PhD diss., University of Toronto, 2012. International Finance Corporation. "Micro, Small, and Medium Enterprise Country Indicators (MSME-CI)." Database. 2011.

Ishmael, Quiroz L. (MIF). Interviewed by Danielle Sobol. Belize City, Belize, Dec. 12, 2013.

Knight, Tonya, Farhad Hossain and Christopher J. Rees, "Microfinance and the commercial banking system: perspectives from Barbados". *Progress in Development Studies* 9:2 (2009): 115 – 125. Accessed Sept. 1, 2013. http://pdj.sagepub.com/content/9/2/115

Lashley, Jonathan, "Microfinance and Poverty Alleviation in the Caribbean: A Strategic Overview." *Journal of Microfinance*. 6:1 (2004): 83-94.

Lashley, Jonathan, "Nascent Female Entrepreneurs in Barbados: Attitudes and Intentions". *Social and Economic Studies*. 59:3 (2010): 59-95. Accessed Sept. 1, 2013. ISSN: 0037 – 7651.

"Laws of Guyana". *Pawnbroking*.

Lyons, Simeon (St. Thomas Cooperative Credit Union). Interviewed by Derek Poulton and Horace Bennett. Morant Bay, Jamaica, Nov. 27, 2013.

MacPherson, Michael (Mac Financial). Interviewed by Derek Poulton and Horace Bennett. Kingston, Jamaica, Nov. 27, 2013.

Malaki, Akhil, "Informal Finance and Microfinance in Jamaica and Trinidad & Tobago: An Institutional Study". Stockholm Studies in Economic History (2005). Accessed Sept. 1, 2013. <http://www.divaportal.org/smash/record.jsf?pid=diva2:198785>

Maldonado, Rene and M. Hayem, "Remittances to Latin America and the Caribbean in 2012: Differing Behavior Across Subregions." Multilateral Investment Fund, Inter-American Development Bank. Washington, D.C., 2013.

Martin, Xavier, "Keys to Success for Commitment Savings: The Best Ingredients." Multilateral Investment Fund, Inter-American Development Bank, Washington, D.C., 2013.

Persaud, Ramesh (IPED). Interviewed by Danielle Sobol. Georgetown, Guyana, Nov. 14, 2013.

Platteau, Stefan (Independent Consultant). Interviewed by phone by Derek Poulton. 2013.

Plumber, Karin. Interviewed by Derek Poulton and Horace Bennett. Mandeville, Jamaica, Nov. 26, 2013.

Quiroz, Ishmael (Belize MIF Specialist). Interviewed by Danielle Sobol. Belize City, Belize, Dec. 17, 2013.

Ramdjielal, Anushka (Suritrust). Interviewed by Derek Poulton and Danielle Sobol. Paramaribo, Suriname, Nov. 7, 2013.

Rizavi, Saqib and Gobind Ganga, "Microfinance Sector and Poverty Alleviation in Guyana: An Overview". Preliminary Draft, XXXVIII Annual Monetary Studies Conference (2006).

Scott, Michell (Caribbean Microfinance Alliance). Interviewed by Derek Poulton and Horace Bennet. Kingston, Jamaica, Nov. 28, 2013.

Smith, Casilda. Interviewed by Derek Poulton and Horace Bennett. Morant Bay, Jamaica, Nov. 27, 2013.

Thomas, Catherine (Access Financial Services). Interviewed by Derek Poulton and Horace Bennett. Kingston, Jamaica, Nov. 28, 2013.

Thompson, Sandra (St. Thomas Cooperative Credit Union). Interviewed by Derek Poulton and Horace Bennett. Spanish Town, Jamaica, Nov. 28, 2013.

Tokromo, Clarence (Finatrust). Interviewed by Derek Poulton and Danielle Sobol. Paramaribo, Suriname, Nov. 7, 2013.

Turner, Mitzian (JaMicro/Microcredit Ltd.). Interviewed by Derek Poulton. Kingston, Jamaica, Nov. 27, 2013.

Udeaja, Elias A. and Aforka C. Ibe, "Building Viable Microfinance Institutions: Lessons from Other Developing Countries". Union Bank, 2007, Accessed Sept. 1, 2013. <http://www.microfinancegateway.org/gm/document-1.9.50816/Building%20Viable%20MFIs.pdf>

Vargas, Albino (La Inmaculada Credit Union). Interview by Derek Poulton. Guadalajara, Mexico, Oct. 1, 2013.

Verrest, Hebe, "Rethinking Microentrepreneurship and Business Development Programs: Vulnerability and Ambition in Low-income Urban Caribbean Households". *World Development* 47 (2013) 58–70. Accessed Sept. 1, 2013. http://www.sciencedirect.com/science/article/pii/S0305750X13000697

Vogel, Robert C. with Gerald Schulz, "Financial Regulation in the English-Speaking Caribbean: Is it Helping or Hindering Microfinance?" Inter-American Development Bank Brief (2011). Accessed Sept. 1, 2013. http://www.iadb.org/en/publications/publicationdetail,7101.html?id=440 46

Webber, Maureen, and Villet Bennett (Development Options, Ltd). Interviewed by Horace Bennett, Derek Poulton, and Danielle Sobol. Kingston, Jamaica, Nov. 28, 2013.

Wenner, Mark and Geoffry Chalmers, "Microfinance Issues and Challenges in the Anglophone Caribbean". Inter-American Development Bank Working Paper (2001). Accessed Sept. 1, 2013.

Whyte, Curven (COK). Interviewed by Derek Poulton and Horace Bennett. Kingston, Jamaica, Nov. 26, 2013.

World Bank. 2013. World Development Indicators 2013. Washington, DC: World Bank. doi: 10.1596/978-0-8213-9824-1.

Williams, Densil A., "An Empirical Investigation into the Financing of Small, Family-owned Businesses in Jamaica". *Social and Economic Studies* 59:3 (2010): 31 – 57.

Yong, Thelma (JNB). Interviewed by Derek Poulton. Kingston, Jamaica, Nov. 28, 2013.

Appendix 1
Microentrepreneur profiles

FIGURE 1: BASIC RESPONDENT PROFILE

	% OF BELIZE N=117	% OF GUYANA N=178	% OF JAMAICA N=202	% OF SURINAME N=159
Gender				
Male	50	43	49	63
Female	50	57	51	37
Geography				
Urban	49	38	52	62
Semi-urban	62	62	48	-
Rural	9	-	-	38
Ethnicity*				
Creole	46			
Mestizo	40			
Maya	6			
Garifuna	4			
Other	4			
Afro-Guyanese		57		
East Indian		14		
Mix		25		
Other		4		
Creole				14

	% OF BELIZE N=117	% OF GUYANA N=178	% OF JAMAICA N=202	% OF SURINAME N=159
Ethnicity*				
Hindustani				10
Maroon				47
Javanese				8
Indigenous				2
Other				19
Marital status				
Married	33	36	18	11
Single	32	37	42	42
Divorced	3	5	3	42
Union	30	16	35	1
Widow	2	6	2	4
Housing				
Own with title	49	32	15	54
Own without title	13	11	27	-
Rent	27	26	24	18
Family property	11	29	34	28
Business type				
Trader	40	48	43	24
Services	22	20	28	32
Transport	8	4	4	6
Artisan	27	24	13	24
Informal international importer	3	3	12	6
Workplace				
Shop	62	48	55	37
Moveable	20	12	12	12
Home	7	12	7	41

	% OF BELIZE N=117	% OF GUYANA N=178	% OF JAMAICA N=202	% OF SURINAME N=159
Workplace				
Tarp	6	26	23	5
Standing	5	-	3	-
Goals				
Grow a lot	38	44	62	69
Grow a little	48	33	28	25
Stay the same, smaller, or close	14	23	10	6
Second income				
None	78	80	77	49
Side business	14	11	15	22
Government	4	3	1	9
Informal employee	2	4	3	4
Formal employee	2	2	4	16

*Ethnicity was not a major factor in Jamaica and was excluded from the survey instrument

Appendix 2: Desk study

Informal markets for microfinance in the English-speaking Caribbean

Derek Poulton and Danielle Sobol

Introduction

CARIB-CAP II's Study on Informal Markets for Microfinance aims to understand the nature of various informal financial mechanisms commonly used by micro- and small enterprises (MSEs) in the English-speaking Caribbean, and the reasons why they may prefer such mechanisms over formal microcredit. The common assumption among many microfinance practitioners is that MSEs only "fall back" on informal finance because they lack access to formal microcredit. While this is sometimes the case, many Caribbean MSEs with access to both sources often prefer informal finance. A detailed inquiry is required to fully account for the variations in demand, and the issues that microcredit providers (MCPs[71]) face in meeting them.

The current Desk Study briefly reviews the relevant academic and practitioner literature, including past CARIB-CAP reports, and commentary from key players to develop hypotheses about MSEs' preference for informal vs. formal finance. The findings below will inform the design of qualitative and quantitative research instruments for the rest of the Study. While our primary research will focus on four specific countries (Belize, Guyana, Jamaica, and Suriname), the Desk Study will consider all English-speaking Caribbean nations insofar as they are socio-economically similar to the four target countries.

71 Throughout this paper, we use the term "microcredit providers" (MCPs) to refer to any and all institution—including commercial banks, cooperatives, credit unions, non-governmental organizations (NGOs) and non-bank financial institutions (NBFIs)—that offer microcredit, in contrast to "microfinance institutions" (MFIs), a term which in common parlance refers primarily to NGOs, NBFIs, and sometimes commercial banks that specialize in microcredit.

Executive summary

There is a broad disparity between MSEs' demand for credit in the English speaking Caribbean and the supply of formal finance. While some MSEs are effectively excluded from formal finance and forced to use informal methods, many others deliberately choose informal methods that more closely reflect their needs and preferences. In general, Caribbean MSEs look for the most convenient, low-risk, and trustworthy sources for loans. Many MSEs perceive the requirement-heavy credit approval processes of many microfinance institutions as inconvenient and inflexible. They may also see formal loans as riskier, given the stakes of default, and defined narrowly and inflexibly by formal loan terms. Finally, some MSEs distrust formal institutions and prefer to obtain credit through their personal networks. These preferences lead many MSEs, particularly those in lower socio-economic segments, to self-exclude from formal finance. Rural MSEs are especially excluded due lack of information and infrastructure.

Given these findings, we propose to focus our market survey and interviews on three main dimensions of financial access, as manifested in both urban and rural areas:

1. product terms (especially flexibility and convenience) of formal vs. informal finance,
2. risk tolerance of different types of MSEs,
3. social familiarity with and trust of formal vs. informal finance.

The survey results will allow us to test several hypotheses about best practices for matching formal microcredit with MSEs' practices and preferences for finance. We hypothesize that the most successful microcredit providers will:

- Prioritize flexibility and low requirements over low interest rates,
- Work through and within local communities and informal institutions,
- Combine credit with access to savings,
- Provide access to loans for emergencies, consumption, and everyday cash flow management.

Country context and financial access

Access to financial services in general is low in the English-speaking Caribbean. Scholars such as Malaki (2006) posit that low formal financial access in many of these countries has historical roots in the parallel, informal economy created by slaves and based on West African socio-economic institutions. Today, these phenomena persist in part due to a lack of appropriate financial infrastructure (such as financial institution branches and ATMs) and uneven economic growth that favors major commodity industries over the consumer sector. Table 1 summarizes key financial access indicators for selected countries.

TABLE 1: ECONOMIC AND FINANCIAL ACCESS INDICATORS, SELECTED COUNTRIES[72]. 2011 FIGURES UNLESS INDICATED.

	GDP, IN MILLIONS OF USD	GDP GROWTH, %	GDP PER CAPITA, USD	ADULTS WITH FINANCIAL ACCOUNTS, % IN 2007	ATMs PER 100,000 ADULTS	BRANCHES PER 100,000 ADULTS
Belize	1,478	1.9%	4,576	46%	37	23
Grenada	780	1.0%	7,427	37%	50	35
Guyana	2,577	5.4%	3,258	20%	15	8
Jamaica	14,426	1.3%	5,330	59%	27	6
Suriname	4,304	4.7%	8,125	32%	37	11
Trinidad & Tobago	23,498	-2.6%	17,626	53%	NA	NA

In general, the larger economies have more account holders, though not necessarily more infrastructure, due to a greater population distribution between rural and urban areas. For example, Jamaica, the second largest economy, has the largest proportion of adults with financial accounts, but the lowest coverage of bank branches and second lowest of ATMs among its peers, partly because about half of the population is rural. Guyana, which also has a high proportion of rural population, displays similar low infrastructure outreach. In countries like Belize and Suriname, however, where the population is concentrated in one or two urban areas, infrastructure reaches more of the population. Of this study's target countries, Suriname and Guyana display the result of economic growth biased toward mineral exports, with high GDP growth but low financial access.

If financial access in general is low, we can assume that access for MSEs is lower. Access to formal credit is particularly lacking, both in the general population and especially among the low-income segments. According to CARIB-CAP research (Markowski 2011), most MFI clients surveyed have savings accounts at commercial banks or credit unions, but they do not often access formal credit through those institutions. Table 2 compares key microfinance sector indicators, from the MIX Market[73]. Not all institutions report to MIX, and while not exhaustive, these indicators capture most directed microfinance activity in each country. Loan indicators

72 Data is either not available or not current for other countries in the Caribbean region.

73 Microfinance Information Exchange, Inc. (MIX Market) is a nonprofit organization that aggregates and provides microfinance data and analysis.

may over report loans that actually qualify as SME loans, or underreport consumer/personal loans diverted to microenterprises.

TABLE 2: FORMAL MICROFINANCE OUTREACH BY COUNTRY AND SECTOR, MOST RECENT DATA [74] [75]

	GROSS LOAN PORTFOLIO, USD	ACTIVE BORROWERS	AVERAGE LOAN SIZE, USD	GROSS SAVINGS, USD	ESTIMATED MARKET SIZE [75]
Belize	16,779,565	4,559	3,158	1,578,438	17,000
Guyana	10,980,128	4,441	2,815	0	22,000
Jamaica	106,930,115	36,274	5,921	78,948,586	88,711
Suriname	32,030,790	7,509	4,455	61,539,071	26,000
Trinidad & Tobago	39,158,299	12,903	3,276	1,556,565	NA

The most striking feature of Table 2 is the low outreach compared to market estimates, and the high average loan sizes. Notwithstanding the relatively high GDP per capita of these countries compared to other developing countries, these numbers echo the common observation that microfinance in the Caribbean, led mainly by credit unions and a few downscaling banks, has yet to reach large segments of demand for microcredit, in particular the lowest socio-economic segments. Urban microcredit uptake remains low compared to other Western Hemisphere countries, and reaching extremely dispersed and remote inland populations is a major challenge in some countries.

Several systemic factors limit financial access to the low-income and rural population in general:

- **The high level of financial sector development**, paradoxically, poses barriers to the expansion of microfinance in the Caribbean. Most notably, the existence of large, profitable, and formalized commercial banking sectors in Caribbean nations (unlike in many other developing countries) with wide deposit bases hampers the development of specialized financial services for the poor, by ossifying traditional lending practices. Additionally, a regime of high salaries inflates operating costs, making the servicing of small loans unattractive. Brazil, with the most sophisticated financial sector in Latin America, has a similarly tiny microfinance sector despite its large size.

- **Interest rate caps** in some Caribbean countries reduce the potential profitability, and thus supply, of lending to the poor. Caps can discourage financial institutions from offering small loans, which cannot always be profitable unless they are offered at higher interest rates, given the high cost of delivering loans. In Jamaica, for example, the Money Lending Act prohibits lending at rates above 1% per week. MFIs can lend at higher rates with an exemption certificate, but such certificates are increasingly hard to obtain. Aside from existing formal caps, historically stable and low interest rates have set expectations, and financial institutions are loath to raise rates on certain products lest they invite criticism

74 MIX Market did not have data available for other countries in the region. In general, microfinance entities in the English-speaking Caribbean report to the MIX far less consistently then those in other regions.

75 These rough estimates and ranges were culled from miscellaneous sources. Belize, Guyana and Jamaica (Wenner and Chalmers 2001). Guyana and Suriname (IDB 2004); Guyana and Belize (IFC 2011).

of usury. In Belize, for example, the 10% annual interest rate cap was removed in 2002, yet credit unions continue to lend at or near this rate (commercial banks lend at a slightly higher 12% per annum). This contrasts with the case of many Latin American countries, where volatile and inflationary macro-economic environments led to high interest rates historically and no such expectation of low rates today.

- **Lack of funding.** Historically, public funding for MSME lending has been symbolic at best, though governments are beginning to show more interest. The Jamaican Ministry of Finance recently announced a significant funding boost for the sector, but major players worry that the simultaneous tightening of requirements for interest rate cap exemptions will make such second-tier funding more difficult to access.

- **The absence of stable regulation and legal frameworks** make riskier loans less attractive to financial institutions. Caribbean institutions are generally underdeveloped when it comes to attenuating risk, and without much legal recourse against clients defaulting on loans, financial institutions prefer to lend to people or companies with tangible large assets as collateral. This effectively excludes poorer segments of the population, who have fewer valuable assets and are less willing to risk them.

- **The notable dependency of Caribbean countries on remittances** reduces the demand for microcredit, since microentrepreneurs may prefer to use cash sent from relatives abroad to finance businesses or household consumption. Over 3 million USD in remittances flowed to the region in 2012, and remittance rates are growing faster than those in the rest of the Latin American region (IDB 2013).

- **Most institutions concentrate their outreach in urban areas**, as reaching rural clients with microcredit is often cost-prohibitive. In Suriname, the lack of infrastructure, dispersed population, and thick jungle cover make it nearly impossible to serve the vast interior, where an estimated 15,000 Maroon microentrepreneurs live (IDB 2004). In Guyana, an MFI-implemented government program aimed at supporting rural indigenous communities is the only program with the logistical resources to provide credit in the interior. In Jamaica, where the geography is less challenging, rural areas are increasingly being accessed by a few MCPs that concentrate specifically on rural clients. Though progress is slowly being made, rural Caribbean MSEs are generally afforded far less opportunity for formal financing than their urban counterparts.

Formal microcredit: Who offers what?

Given the abovementioned constraints, microfinance in the English-speaking Caribbean has taken a markedly different trajectory compared to other developing countries. The specialized MFIs that typify microfinance in other countries are scarce. Instead, credit unions have historically dominated the sector, although several NGOs, NBFIs, and commercial bank arms targeting MSEs have recently overtaken credit unions in terms of number of institutions (see Table 3). (See Desk Study Annex I for a full list of institutions.)

TABLE 3: COUNT OF INSTITUTIONS OFFERING MICROCREDIT, BY COUNTRY AND ENTITY TYPE [76] [77]

	CREDIT UNIONS	GOVERNMENT PROGRAMS	OTHER MFIS [77]
Antigua & Barbuda	✓		
Bahamas	✓		✓✓✓
Barbados	✓✓	✓	✓
Belize	✓✓✓✓		✓✓
Grenada	✓✓	✓	✓
Guyana			✓✓✓
Jamaica	✓✓✓✓✓✓		✓✓✓✓✓✓✓✓✓✓
St. Kitts and Nevis	✓	✓	
St. Lucia	✓	✓✓	✓
St. Vincent & the Grenadines	✓		
Suriname	✓✓✓		✓✓✓✓
Trinidad & Tobago	✓✓✓	✓	✓✓✓
TOTAL	**26**	**6**	**29**

Source: Mix Market and IDB/MIF internal research

Credit unions and co-operatives, the traditional driving force of microfinance in the region, focus on the benefits of being member-owned organizations (lower interest rates, yearly profit-sharing) and offer holistic financial services, not just credit or microcredit. They have historically targeted low-income populations, thus the transition to microcredit has primarily involved adapting the credit-making process, and less so the institutional orientation or mission. Since new microcredit clients can be affiliated with the credit union and later qualify for regular loans and other services, small loans are not a side activity, but in fact directly link to the institution's main business and orientation. Their lending methodologies require

76 This list is not exhaustive, but is meant to illustrate the relative spread of institution type by country.

77 "Other MFIs" refers to commercial banks, NBFIs, and NGOs offering microcredit.

further adaptation, however, to shift from more traditional consumer loans (based on savings as collateral and a steady income to measure capacity to pay) to business loans that consider business cash flows. Some observers believe that credit unions may have crowded out other types of microfinance providers in the region (Holden and Howell, 2009).

We also see **downscaling activity in several commercial banks**. Such programs provide access to credit for some MSEs, but generally stay clear of very small or informal businesses. In Suriname, TrustBank and DSB Bank/Suritrust are moving downmarket. In Jamaica, almost all commercial banks today have microfinance programs, usually under subsidiaries, such as CrediScotia and Jamaica National Small Business Loans. This recent trend allows these entities to access low-cost funding through savings deposits on the bank side (as permitted by the Bank of Jamaica and Credit Union acts) while offering relatively high interest rates through the subsidiary. While bank downscaling is a financial inclusion success story inasmuch as it expands access through mainstream institutions, it is not always the ideal solution. For example, Scotia Enterprise, the microcredit arm of The Bank of Nova Scotia in Guyana, pioneered commercial bank microcredit in the Caribbean in 1993, yet currently has negligible market share in microcredit and focuses more on SMEs. This failure resulted from the program's lack of autonomy and resources within the commercial bank, which never considered microcredit a real business opportunity. In smaller Caribbean nations, government development banks often have microcredit programs as well.

In addition to credit unions, downscaling banks, and government initiatives, a few other models exist. Specialized, credit-only MFIs are a rarity, and most are in Jamaica. There also exist some NGOs specializing in business growth and entrepreneurship—especially for youth–and unlike mainstream microcredit providers, these NGOs emphasize significant training and often lend to start-ups. Fund Access in Barbados, for example, requires all loan recipients to attend a two-day training upon disbursement of the loan. While admirable examples of enterprise development, they do not fall squarely within the definition of commercial microcredit.

↘ Lending requirements

While many credit unions and some banks have always had a focus on low-income segments, most **microcredit products still bear the mark of traditional loan products**, such as:

- Security in the form of personal guarantees, in-kind collateral (household items or vehicles), or cash collateral ("block savings") worth 10-20% or more of the loan amount.
- Strict documentation requirements, such as a business license or birth certificate.
- Relatively slow loan approvals.
- Standardized repayment plans, requiring borrowers to have consistent cash flow (not suitable for small farmers).
- The presentation of cash flow projections and projected income statements.

Interviewed actors report that most poor clients can in fact muster the cash or collateral necessary for loans, and that compliance with identification and business registration is high. Nonetheless, even clients who can fulfill these requirements often perceive them to be an unnecessary hassle. When clients do not have the necessary collateral, most institutions can be somewhat flexible on the requirements in order to serve lower economic segments.

Several providers accept household goods as collateral, and many institutions have trained specialized microfinance loan officers to conduct an observational credit analysis in the absence of accounting records or sales receipts. Though institutions are often flexible on documentation requirements as well (for example, most only require a business license if it is a legal requirement for operating that type of business), there is still a notable preference for "well-documented" loans in contrast to "well-analyzed" loans. Additionally, flexible terms are not commonly advertised, and many MSEs may self-exclude, assuming that they could not meet the formally stated requirements.

Target markets

MFIs, for the most part, do not explicitly target specific market segments. Most express a commitment to lend to women and a desire to lend to rural MSEs. In actual practice the market tends to center on urban small traders and artisans, though a few institutions have made headway in rural lending, such as St. Thomas Co-operative Credit Union in Jamaica, which concentrates solely on rural clients, or TrustBank in Suriname, which is launching a new program to lend to rice farmers affiliated to local cooperatives. Stakeholders remarked that targeting specific segments is easiest in collaboration with a trusted channel, such as an agro-cooperative or retail outlet.

TABLE 4: TARGETED AND EXCLUDED MARKET SEGMENTS[78]

	TARGETED MARKETS	UNDERSERVED MARKETS
Belize	▸ Small traders ▸ Urban and peri-urban people	▸ Chinese and some Indian migrants ▸ Farmers
Guyana	▸ Indo-Guyanese ▸ Coastal population	▸ Afro-Guyanese ▸ Interior population
Jamaica	▸ Registered urban small traders and wage workers ▸ Farmer-traders	▸ Unregistered or highly mobile MSEs (street vendors) ▸ Harvest-related activities
Suriname	▸ Coastal population in general ▸ Urban small traders and wage workers ▸ Rice farmers	▸ Interior, rural population ▸ Maroons, Amerindians

In Jamaica, some stakeholders claimed that demand is high enough that institutions no longer need to prospect for clients outside of the branch. This, however, may also signal a lack of capacity or desire to take on the harder to reach segments. While MCPs continue to pick the low-hanging fruit, more difficult-to-reach populations are still excluded from formal finance.

78 Table 4 illustrates client markets served and underserved for the Study's four target countries, based on research and direct interviews with stakeholders.

↘ The supply of informal financing

In contrast to the modest microfinance sectors in the English-speaking Caribbean, informal or semi-formal finance is a vibrant engine of the local economy. Common sources of informal finance include moneylenders, ROSCAs, pawnbrokers,[79] stores/suppliers, and of course friends and family.

Moneylenders (or pejoratively, "loan sharks") are popular among all segments of the population, including MSEs. Loans from moneylenders are short-term, disbursed quickly, and rarely involve collateral. In Jamaica, moneylenders tend to operate on a system of guarantors, where borrowers have to be recommended by creditworthy individuals that the moneylender already knows. In Suriname, even government officials are known to lend money.

Some MFIs claimed that their clients are totally distinct from users of moneylenders, while others said there is a small overlap. Some also believed that moneylender or pawnbroker loans were commonly used for loans for emergencies, school fees, or consumption, and much less so for productive investments in an MSE. Others simply acknowledged the fact that moneylenders could provide funds faster and with little or no security, compared to MCPs. Not all moneylenders are strictly "informal." Most countries have moneylender laws and registries that require individuals or non-bank entities that lend money to follow certain standards, while prohibiting usury. Enforcement, however, is poor, and many non-compliant moneylenders operate "under the radar."

ROSCAs (rotating savings and credit associations), known by various names throughout the region,[80] are a very popular informal financing mechanism. In a ROSCA, members meet regularly (daily, weekly, or monthly) and all contribute predefined sums to the common "pot," which one member per meeting takes with him or her as a loan. Sometimes the taker of the pot is predetermined by each member's perceived reliability (most reliable first, least reliable last), other times the taker is determined at each meeting by need. Members usually belong to the same community, such as a market or a neighborhood, and designate the most trusted or capable member to administer the scheme, often for a small fee. Jamaica's Partner schemes have been especially successful, and some scholars (Malaki, Hossein) credit their effective use for the economic success of the Jamaican diaspora. Some commercial banks have even tried to copy the Partner structure in formal financial products, paying interest on savings collected instead of charging fees. St. Thomas Credit Union in Jamaica, for example, facilitates a Partner-like product that loan seekers can use to access cash for loan collateral. ROSCAs can be used for both saving and borrowing, demonstrating Stuart Rutherford's crucial observation that saving and borrowing are two sides of the same coin—serving to accumulate small sums over time into usefully large lump sums. Sudhanshu and Kirton (1999) found through a qualitative study of ROSCAs in Jamaica that the vast majority of members used funds for personal expenses, most commonly a durable good such as a household appliance, followed by education, and then by 'unplanned expenses,' such as a health shock or funeral costs. This supports anecdotal evidence that, in practice, most ROSCA funds are not used to invest in business expenses.

Store credit is another source of credit commonly used by MSEs. In such arrangements, small traders buy products on credit for resale. The small-scale version of supplier credit is generally contingent on longstanding personal relationships and trust; in some cases, credit is backed by a system of guarantors and references. Small traders in Suriname commonly buy

79 As pawnbroking is a semi-formal type of collateral-based lending, we will not consider it deeply in this study.

80 Rotating savings and credit associations, known by local terms such as Partner (Jamaica), Kasmoni (Suriname), Sou-Sou (Trinidad & Tobago), Box Hand (Guyana), and Sindicato (Belize).

merchandise on deferred payment for a variable fee depending on the repayment timeframe (IDB 2004). A slightly larger scale version of this is credit from exporters to farmers. TrustBank in Suriname, for example, found that rice farmers in eastern Suriname commonly used credit from exporters, although at unfavorable terms.

Demand factors

Given this supply of formal and informal financing, what determines microentrepreneurs' demand and level of access? Why do some formal microfinance clients continue to use informal services? Why are some segments excluded from formal microcredit? Based on desk research and MCP input, we have identified and organized the most important factors for MSEs' use of informal services over formal microcredit, in Table 5, according to the key dimensions identified.

TABLE 5: FACTORS PUSHING MSEs AWAY FROM FORMAL CREDIT AND PULLING TOWARD INFORMAL FINANCE[81]

	PUSH FACTORS	PULL FACTORS
PRODUCT	▸ MSEs lack sufficient collateral, cash or assets, to meet MCP requirements ▸ MSEs refuse to risk loss of collateral	▸ Informal finance rarely requires formal security, uses social capital ▸ Convenient to access
	▸ Microloans have inflexible repayment structures	▸ Moneylenders can be flexible
	▸ Microloans take several days to approve	▸ Moneylenders often lend on the spot ▸ ROSCAs disburse by schedule and sometimes provide emergency loans
	▸ Loan use limited to productive business investment only	▸ Loan use is flexible ▸ Social pressure to save
	▸ MSEs have no expansion plans or need for credit ▸ MSEs fear taking on excess debt	▸ Short wait to receive funds ▸ Cash in hand immediately
DISTRIBUTION	▸ MCP lack of skills and experience serving low-income segments ▸ MSEs lack information about MFIs	▸ Community-based ROSCAs and moneylenders understand MSEs ▸ MSEs know and trust community-based providers
GEOGRAPHY	▸ MCPs lack significant presence in rural/interior area	▸ Community-based ROSCAs and moneylenders are close to clients
	▸ Lack of infrastructure in general in rural/interior areas	▸ Local informal finance requires little infrastructure

81 Table 5 compiles information from all of the sources that we have consulted, included literature as well as interviews with microcredit providers.

	PUSH FACTORS	PULL FACTORS
ETHNO-LINGUISTIC	▸ Some MSEs perceive discrimination or politicization of MCPs	▸ Personal connections with lenders or group members ▸ Some informal schemes based on ethnic grouping
SYSTEMIC	▸ Unfavorable financial regulation, including interest rate caps ▸ Lack of competition stifles innovation ▸ Relatively low poverty compared to other developing countries ▸ Higher savings rates and interest in saving ▸ Small countries and markets ▸ Absence of data on MSEs that could be used to gauge credit rating ▸ Absence of credit bureaus	

Below we describe some of the most important factors.

↘ Terms and requirements

The most cited and obvious reason that many MSEs cannot or do not access formal microcredit is the mismatch between their preferences/capacity and the terms of formal loans. As discussed earlier, many Caribbean MCPs feel pressure (either by historic precedent or formal caps) to offer low interest rates and thus take collateral to cover risk (Wenner and Chalmers 2001), and carefully document loans with legal and financial documents whenever possible. For example, IPED in Guyana requires that borrowers comply with four out of a list of seven types of collateral (most of which are formal), and both GODO and De Schakel in Suriname require guarantees such as cession of salary, personal savings, or an employer's guarantee. Many MSEs, especially informal businesses, cannot comply with such requirements, while others simply find them too onerous to address.

Additionally, loans may not serve the specific needs or desires of MSEs. Verrest (2013) mentions that formal microfinance providers typically target a small sub-group of enterprises run by operators with business-oriented ambitions beyond supplementing income or generating household cash flow. MCPs often formalize this preference by lending only for productive investments in working or fixed capital. While this enterprise focus is faithful to the roots and spirit of microfinance, it ignores the reality that owners of MSEs often borrow money and divide its use between business and household spending, including for emergencies.

MSEs demonstrate robust demand for quick, flexible, no hassle, no collateral loans for any use—as often provided by informal financing sources. While MSEs consistently rate these elements as the most important factors, their price sensitivity varies. More risk-averse, savings-oriented MSEs may prefer to use low-cost ROSCAs to generate usefully large lump sums of cash, while others are willing to pay extremely high interest for no-strings-attached loans from moneylenders. Reducing explicit and implicit transaction costs appears to be more important than controlling interest and other financial costs.

Risk tolerance

Verrest (2013) explains that a large sub-group of microenterprises, particularly home-based economic activities (HBEAs), are used to generate supplemental income or safeguard against the breadwinner's loss of employment. In fact, when asked whether they would like their HBEA to take a larger role in the household economy, operators said they preferred to keep it as a small side activity. Other operators who rely on the HBEA as their sole or main income are even more vulnerable. Vulnerable operators are highly risk averse, and often lack entrepreneurial ambitions, with minimal demand for enterprise microcredit. Verrest argues that these business owners make a conscious choice to remain small and informal, using only business profits or informal sources to finance working capital. This view is supported by some market observations from CARIB-CAP research, noting that many surveyed MSEs feared over indebtedness and default.

Verrest also notes that most MSEs limit themselves to informal start-up investment only, though a small subset of MSEs seeks second investment for business growth that more often comes from formal financing. Williams (2010) further develops this theme in his study of Jamaican small, family-owned businesses, demonstrating that formal financing is mostly sought for follow-on investments by larger MSEs, without regard to the age of the enterprise. Unlike Verrest, however, Williams concludes that MSEs need significant, external (usually formal) financing to grow and survive, and must seek skills training and increase information transparency (through bookkeeping, business plans, etc.) to access it.

Social relationships and trust

Just as financial institutions may be loath to lend to unknown and undocumented MSEs, some microentrepreneurs may resist borrowing from "cold" faceless institutions, preferring the personal connection of moneylenders known to them, or ROSCAs made up of friends and neighbors. CARIB-CAP research has revealed that region-wide, MSEs resist the concept of taking formal loans in a small group due to negative past experiences with group members who defaulted. Yet group-based ROSCAs are a highly popular form of informal finance. Here the problem appears to be not a lack of trust and social capital, but rather that clients' social capital does not protect them in transactions with formal institutions. MSEs are willing and able to work out problems within their community, but covering for a faulty group member against an MCP is deemed too costly and too risky.

Ethnic and political discrimination are also potential factors, whether real or perceived. Hossein (2012) posits that the biases of relatively elite managers and credit officers with little knowledge or experience of the poor work against certain segments of MSEs. For instance, she found evidence of exclusion of young male merchants ("hustlas") in Jamaican slums, and Afro-Guyanese merchants ("hucksters") in Guyana. These groups resent and distrust what they perceive as the politicization of microfinance by formal institutions, and thus turn to informal finance schemes within their community. Jamaican hustlas do so to avoid being controlled by political elites that they perceive as supporting MCPs. For them, community-based Partners embody social resistance against historically-rooted patterns of discrimination and politicking. Social pressure may also drive ROSCA participation. One Jamaican stakeholder guessed that using formal finance instead of a Partner may be viewed as "anti-community."

Conclusions

The context of formal and informal finance in the English-speaking Caribbean is complex. We believe, however, that **product convenience/flexibility, risk tolerance, and social familiarity/trust** are the key factors driving some MSEs away from formal microcredit and towards informal finance. Understanding MSEs' preferences along these dimensions will be vital for MCPs to tailor their demand and capture this important piece of the market.

Hypotheses

The market survey and provider interviews will test the following hypothetical problems and solutions:

- Caribbean MSEs place a high premium on transaction costs (obtaining documentation, collateral, making applications, etc.) versus financial costs (interest), and thus prefer informal financing with low requirements, even at much higher interest rates. Successful MCPs will arrange their priorities and product terms accordingly.
- For many Caribbean MSEs, social institutions are a more effective means of enforcement than formal financial terms, and successful MCPs will tap those social institutions (e.g. Bank-led Partner schemes).
- Caribbean MSEs are unwilling to risk their social capital in the formal sector, and effectively innovative MCPs will seek to employ social capital inside communities without coopting it.
- Caribbean MSEs prefer using savings or remittances to borrowing, whether formal or informal, whenever possible, and will respond positively to blended products that combine credit with savings access.
- Caribbean MSEs mistrust microcredit and MCPs because they perceive loan officers and managers as belonging to a different social stratum that misunderstands or even goes against their needs and interests. Successful MCPs will hire from within the communities they serve and invest in community outreach.
- MSEs use informal finance more for emergencies or consumption than for productive investments, and avoid MCPs that pressure them to invest. Successful MCPs will provide access to emergency or consumption products, either initially or after a trial period.
- Many risk adverse MSEs require credit more to manage cash flows than to invest in business growth. Successful MCPs will offer such products.

Sampling strategy

To cover the most representative and diverse population possible within time and budget constraints, we propose focusing on the following segments for the market survey:

- ENTITY
  - Only proprietors of micro or small enterprises with at least one year of operation.
- CREDIT USE
  - Open to users and non-users of both formal and informal finance. Actual usage, within the last six months of surveying, will be a finding of the study.
- GEOGRAPHY
  - Stratify proportionally for urban and rural/peri-urban within each country.

    - Belize: 33% Belize City, 33% Belmopan town, 33% Belmopan nearby villages
    - Jamaica: 50% Kingston metro, 50% small towns
    - Guyana: 50% Georgetown, 25% Linden, 25% Berbice
    - Suriname: 50% Paramaribo, 50% Brokopondo
  - Sample from at least two districts in each town – at least one highly commercial (market, port, pier, etc.) and at least one low-density, mixed-use location (neighborhoods with local shop, in-home businesses).
- GENDER
  - To ensure statistical significance of findings within each segment, set minimum number of men in each locale at 30 cases.

Desk study: Annex 1
List of institutions in the region

TABLE 6: INSTITUTIONS OFFERING MICROCREDIT, BY COUNTRY AND ENTITY TYPE (LAUNCH OF MF OPERATIONS)

	CREDIT UNIONS	GOV'T PROGRAMS	OTHER MFIs
Antigua & Barbuda	Police Co-operative C.U.		
Bahamas	National Workers Co-operative C.U.		Transfinance Ltd./Bahamas Entrepreneurial Fund The Peoples Foundation Progressive Consumer Services
Barbados	City Bridgetown Cooperative C.U. Barbados Pig Farmers' Co-operative Society	Fund Access	Barbados Youth Business Trust
Belize	La Inmaculada C.U. St. Francis Xavier C.U. Development Finance Co-operative C.U. St. Johns C.U.		Belize Youth Business Trust Belize Enterprise for Sustainable Technology (BEST)
Grenada	Grenville C.U. Grenada Public Service C.U.	Grenada Development Bank	Caribbean Microfinance Ltd.
Guyana			Small Business Development Finance Trust Development Finance Ltd. Institute of Private Enterprise Development

	CREDIT UNIONS	GOV'T PROGRAMS	OTHER MFIs
Jamaica	▸ Churches C.U. ▸ St. Catherine's Co-operative C.U. ▸ City of Kingston C.U. ▸ St. Elizabeth Co-operative ▸ St. Thomas C.U. ▸ National People's Co-operative Bank ▸ First Regional Co-operative		▸ COPE Foundation ▸ Jamaica National Small Business Loans ▸ Access Financial Services ▸ Micro Credit Limited ▸ Kis An Charles Investment Ltd. ▸ WorldNet Investment Co. Ltd. ▸ Sure Financial Services ▸ Credit Scotia ▸ First Union ▸ Nation Growth ▸ McKayla Financial
St. Kitts & Nevis	▸ Foundation for National Development Co-operative C.U.	▸ St. Kitts and Nevis Development Bank	
St. Lucia	▸ National Farmers & General Workers Co-operative C.U.	▸ St. Lucia Dev. Bank ▸ James Belgrave Micro Enterprise Development Fund	▸ Caribbean Microfinance Ltd. – St. Lucia
St. Vincent & the Grenadines	▸ St. Vincent Union of Teachers Co-operative		
Suriname	▸ Co-operative Spaar en Kredietbank Godo ▸ Spaar-en Kredietcooperatie DeSchakel ▸ WBG Kredieten		▸ Stiching Seva Network Suriname ▸ Development Finance Ltd. ▸ Trust Bank ▸ DSB Bank/ Suri-Trust
Trinidad & Tobago	▸ Palo Seco C.U. ▸ Venture C.U. ▸ Workers Co-operative C.U.	▸ National Entrepreneurship Development Co.	▸ HOPE- TTO ▸ Caribbean Microfinance Ltd. ▸ Development Finance Ltd.

Bibliography

Angelucci, Federica and Piero Conforti, "Risk management and finance along value chains of Small Island Developing States. Evidence from the Caribbean and the Pacific". *Food Policy* 35 (2010): 565-575. Accessed Sept. 1, 2013. DOI: 10.1016/j.foodpol.2010.07.001

"Assessment of the Supply and Demand of Microfinance Services for Very-Low Income Populations in Guyana and Suriname". Inter-American Development Bank Brief (2004). Accessed Sept. 1, 2013. http://www.guyanagateway.org.gy/node/249

Ayyagari, Meghana, Asli Demirguc-Kunt and Vojislav Maksimovic, "Formal versus Informal Finance: Evidence from China". Oxford University Press (2010). Accessed Sept. 1, 2013. DOI:10.1093/rfs/hhq030

Beck, Thorsten, Asli Demirgun-Kunt and Maria Soledad Martinez Peria, "Reaching out: Access to and use of banking services across countries". *Journal of Financial Economics* 85 (2007): 234 – 266, Accessed Sept. 1, 2013. DOI:10.1016/j.jfineco.2006.07.002

Bowen, Glen, "The challenges of poverty and social welfare in the Caribbean". *International Journal of Social Welfare* 16 (2007): 150 – 158, Accessed Sept. 1, 2013. DOI: 10.1111/j.1468-2397.2006.00453.x

de Swaan, Abram and Marcel van der Linden, "Mutualist Microfinance: Informal Savings Funds from the Global Periphery to the Core?". *American Journal of Sociology* 113: 4 (2008): 1200 – 1202, Accessed Sept. 1, 2013. http://www.jstor.org/stable/10.1086/533560

Garcia, Gloria, Azucena Novelo and Christine Vellos, "The Evolution of the Financial Sector in Belize (1996 – 2007)"Working paper for the Central Bank of Belize (2009), Accessed Sept. 1, 2013. <https://www.centralbank.org.bz/publications-research/conferences-working-papers>

Handa, Sudhanshu and Claremond Kirton, "The economics of rotating savings and credit associations: evidence from the Jamaican 'Partner'". *Journal of Development Economics* 60 (1999): 179-194.

Holden, Paul and Hunt Howell, "Enhancing Access to Finance in the Caribbean". IDB Private Sector Development Discussion Paper #4 (2009). Accessed Sept. 1, 2014.

Hossein, Caroline Shenaz, "The Politics of Microfinance: A Comparative Study of Jamaica, Guyana, and Haiti". PhD diss., University of Toronto, 2012.

International Finance Corporation. "Micro, Small, and Medium Enterprise Country Indicators (MSME-CI)." Database. 2011.

Knight, Tonya, Farhad Hossain and Christopher J. Rees, "Microfinance and the commercial banking system: perspectives from Barbados". *Progress in Development Studies* 9:2 (2009): 115 – 125. Accessed Sept. 1, 2013. http://pdj.sagepub.com/content/9/2/115

Lashley, Jonathan, "Nascent Female Entrepreneurs in Barbados: Attitudes and Intentions". Social and Economic Studies. 59:3 (2010): 59-95. Accessed Sept. 1, 2013. ISSN: 0037 – 7651.

"Laws of Guyana". *Pawnbroking*.

Malaki, Akhil, "Informal Finance and Microfinance in Jamaica and Trinidad & Tobago: An Institutional Study". Stockholm Studies in Economic History (2005). Accessed Sept. 1, 2013. <http://www.diva-portal.org/smash/record.jsf?pid=diva2:198785>

Maldonado R and M. Hayem, "Remittances to Latin America and the Caribbean in 2012: Differing Behavior Across Subregions". Multilateral Investment Fund, Inter-American Development Bank. Washington, D.C., 2013.

Rizavi Saquib and Gobind Ganga, "Microfinance Sector and Poverty Alleviation in Guyana: An Overview". Preliminary Draft, XXXVIII Annual Monetary Studies Conference (2006).

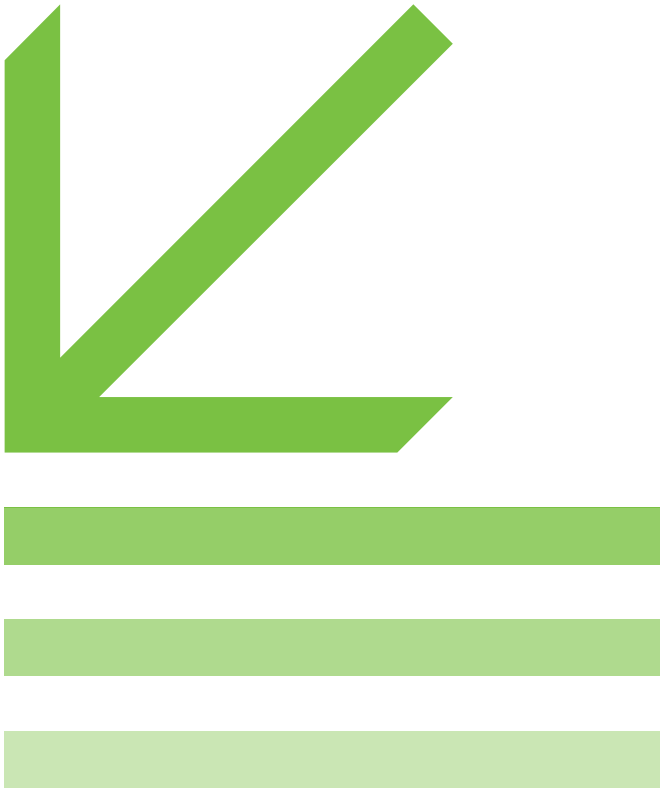
Udeaja, Elias A. and Aforka C. Ibe, "Building Viable Microfinance Institutions: Lessons from Other Developing Countries". Union Bank, 2007, Accessed Sept. 1, 2013. <http://www.microfinancegateway.org/gm/document1.9.50816/Building%20Viable%20MFIs.pdf>

Ver Rest, Hebe, "Rethinking Microentrepreneurship and Business Development Programs: Vulnerability and Ambition in Low-income Urban Caribbean Households". *World Development* 47 (2013) 58 – 70. Accessed Sept. 1, 2013. http://www.sciencedirect.com/science/article/pii/S0305750X13000697

Vogel, Robert C. with Gerald Schulz, "Financial Regulation in the English-Speaking Caribbean: Is it Helping or Hindering Microfinance?" Inter-American Development Bank Brief (2011). Accessed Sept. 1, 2013. <http://www.iadb.org/en/publications/publication-detail,7101.html?id=44046>

Williams, Densil A., "An Empirical Investigation into the Financing of Small, Family-owned Businesses in Jamaica". *Social and Economic Studies* 59:3 (2010): 31 – 57.


Shoe Repair



MULTILATERAL INVESTMENT FUND
1300 New York Avenue, N.W., Washington, D.C. 20577

mifcontact@iadb.org
www.facebook.com/**fominbid**
www.twitter.com/**fominbid**

www.**fomin**.org

FOMIN
Multilateral Investment Fund
Member of the **IDB Group**