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MICROFINANCE SECTOR AND POVERTY ALLEVIATION IN GUYANA: A OVERVIEW

(Preliminary Draft)

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Abstract

During the last few decades, there has been heightened interest and enthusiasm in microfinance in creating access to financial services for the poor. Evidence has shown that access to financial services provides critical investment opportunities for the working poor, who have traditionally been unable to access the formal financial market. In addition, access to credit is seen as an important step in improving households' welfare and hence helps in breaking the cycle of poverty on their own terms. However, there is general agreement that the poorest of the poor are unable to effectively benefit from microfinance programs. Currently, microfinance sector in Guyana mainly comprises of non-profit private institutions, programs and projects supported and funded by donors, and one for-profit commercial institution. The microfinance sector in Guyana is small, but has been playing an important role in improving the living standards of those who have access to financial services. There is considerable potential for microfinance institutions to provide financial services and in particular micro credit to the vast majority of the poor in rural areas who are both underserved and un-served. Appropriate government and donors' assistance can play an important role in supporting micro financial institutions, to extend services to the rural areas where poverty is more concentrated.

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MICROFINANCE SECTOR IN GUYANA AND POVERTY ALLEVIATION: AN OVERVIEW

I. INTRODUCTION

During the last few decades, there has been heightened interest and enthusiasm in microfinance in creating access to financial services for the poor. Evidence has shown that access to financial services provides critical investment opportunities for the working poor, who have traditionally been unable to access the formal financial market. In addition, access to credit is seen as the important step in improving households' welfare and hence helps in breaking the cycle of poverty on their own terms. However, there is general agreement that the poorest of the poor are unable to effectively benefit from microfinance programs, as this group does not have marketable products or services (Guilli, 1998). This situation is further exacerbated as a majority of these are largely located in hard to reach rural areas and are extremely vulnerable to even small economic shocks (Brown and Churchill, 2000). While there has been significant progress in the provision of microfinance in helping the poor out of poverty, there still remains a huge unmet demand for appropriate and affordable financial products and services to poor clients. The challenge facing the sector is to scale up their services to the un-served and underserved poor clients, especially those living in rural areas.

In Guyana more than a third of the population lives in poverty or on the edge of poverty and a majority of this population is located in the rural and hinterland areas. The microfinance sector although small, comprises mainly of non profit private institutions and programs and projects supported by donors, has played an important role in improving the living standards of those who have access to its services. Notwithstanding, there is significant unmet demand and the potential for the sector to grow and provide appropriate financial services is considerable. This paper evaluates the micro finance sector in Guyana and how it can make an important contribution to poverty alleviation.

The structure of the paper is as follows. Section II provides county characteristics; Section III reviews desirable practices in the area of microfinance and their relationship to poverty alleviation; Section IV describes the microfinance sector in Guyana: Section V evaluates the impact of the sector in providing efficient /cost effective services and on its outreach in Guyana; Section VI makes some recommendations and; Section VII provides some concluding remarks.

II. COUNTRY CHARACTERISTICS

Guyana, the only English-speaking country in South America, has a population of 750,000 with a per capita income slightly above US$1,000. Guyana's economy is heavily concentrated in the production and export of primary commodities, such as, sugar, rice, bauxite and gold. Guyana also suffers from huge out-migration associated brain drain. Guyana is the second-poorest country in the Caribbean after Haiti, and the third-poorest in the Latin America and Caribbean region after Haiti and Nicaragua. Among Guyana's strengths and potential sources of economic growth are its relatively well-educated population, fluent in English; moderately low-priced labor; untapped hydroelectric potential; natural, unspoiled scenic mountains, rainforest and rivers; and the possibility to exploit the country's location.

Guyana is divided into 10 administrative regions. Region 4, where the capital city – Georgetown is located, has over 40 percent of the population and Regions 3 and 6 combined have another 30 percent. The four main hinterland Regions (1, 7, 8 and 9), though covering nearly three-quarters of the total land area of the country are sparsely populated and consist of less than 10 percent of the population. Guyana has an ethnically diverse society marked by a political split between the two main ethnic populations. The Indo-Guyanese constitute 43 percent of the total population; those of Afro-Guyanese origin are the second largest group (30 percent), followed by those of mixed race (17 percent), and Amerindians (10 percent).

III. Poverty Alleviation and Microfinance

Microfinance refers to the activity of providing a broad range of financial services to low income clients who lack access to the formal financial institutions. These financial services include very small loans (microcredit), savings, insurance and payment services. Microfinance can be a powerful tool in poverty reduction strategy of a country and can help promote growth and sustainable employment. Improved access to credit and sustainable and efficient provision of financial services to the poor can enable them to build assets through higher income, stabilize consumption pattern, and reduce economic vulnerability. As such, microfinance could be a viable means of poverty reduction among the working poor. However, those who are desperately poor (or destitute) some other intervention policies would be more appropriate, for example, safety net programs and direct financial support.[2]

Over time, based on experience gained, some basic principles or desirable (or best) practices are recommended by the practitioners of microfinance. According to them, the main bottleneck for extending financial services to large numbers of poor people, especially rural areas, is the lack of strong and competent capacity at the retail level to provide these services.

[2] Studies show that the high income clients benefit more from microcredit because of their skills level, contacts and higher initial resource base. The low income clients benefit more from savings and insurance because they are more risk averse. In addition, microcredit is beneficial for those poor clients who work in an enabling macroeconomic environment, identified an economic opportunity and capitalize on it

The consensus is that large scale sustainable microfinance can be achieved, in an efficient and sustainable manner, when it is tailored to the needs of the clients and that the financial services are integrated into the local financial system and practices at the micro, meso and macro levels.

In many developing countries, despite the existence of a wide variety of retail -level financial institutions, for example, private and state-owned community banks, postal banks, credit unions, savings and credit cooperatives, member owned community organizations, and other non banks intermediaries, etc., their ability to integrate in microfinance activities remains weak. The main source of this shortcoming is a lack of technical capacity for risk assessment of micro enterprises. There is general agreement that support in building of this capacity would greatly ease this constraint. In some cases, provision of seed capital in the form of grant funds could also be helpful. This support would be more effective if complemented with private capital, aimed at innovative market solutions, transparent financial arrangement, and time-bound to encourage development of financial sustainability.

In order to ensure financial viability, microfinance institutions will have to charge an interest rate, which enables them to recover cost. Interest earnings are the main source of income for most of the microfinance institutions, and the rates that they charge tend to be high. This reflects the need to recover all costs primarily through interest earnings. Some microfinance institutions, however, also charge a variety of fees (in addition to the interest rate) to support their operations. In case of microfinance institutions, both personnel and administrative costs tend to be high because micro lending is a labor-intensive operation. Well functioning microfinance institutions usually try to keep their operating costs low to off set the high financial costs.

While lower interest rates can make microfinance institutions more affordable and help increase its depth and breadth through grants or low interest funds this, however, is difficult to support over the long run, especially, if the funds are provided the donors, as these funds are usually provided by for a given period of time and in many cases for targeted purpose. A number of measures have been proposed to reduce the cost of lending, for example, simplifying and decentralizing loan application, approval and collection processes, which would allow the loan officers to service additional clients; group lending and progressive lending; investing in management information systems and technological improvements, strategic alliances with other microfinance institutions based on their core comparative advantage; performance-related reward to the staff and; adopting transparent and good governance practices (Otero et al. 1994). Once established in their operations, microfinance institutions can broaden their resource base by progressively intermediating commercial funds, including raising capital through bond issues, investment funds or the trading of certificate of deposit in stock markets.

Given that microfinance lending is a labor-intensive operation and generally deals with clients who lack good record keeping and do not lend themselves to traditional means of risk assessment, the quality and training of loan officers becomes extremely important for the success of these institutions. In this regard, knowledge of the local circumstances (both that of businesses and persons) becomes imperative for the success of their operations.

As expected, the capacity of microfinance institutions to deliver services in a cost –effective and efficient manner are also related to the overall quality of the infrastructure of the financial sector in a country. Critical elements at the infrastructure or meso-level include the existence of credit bureaus, rating agencies, auditors, and payment systems, as all these help to provide markets for support services and risk sharing. Presence of these institutions improves information disclosure, contract enforcement, and enhances the ability to assess risk.

Fostering an enabling policy environment at the macro-level is critical for the development of microfinance in a country. In this regard, government can play a critical role in providing an enabling environment for the development of human and financial infrastructure, legal and regulatory framework, maintaining macroeconomic stability and promoting market competition. Government , with or without the help of donors, can contribute to the development of the infrastructure at both the micro and meso-levels which will help remove some of the bottlenecks of Micro Finance Institutions to lower operating costs of micro lenders as well as open new economic opportunities for the poor, as a result of a growing economy.

Studies show that national and international NGOs are willing to assist in the provision of funds for microfinance sector when they are allowed to operate freely and within a legal framework. Studies have also shown that formal financial institutions that expanded their operations into microfinance initiated and developed by credit granting NGOs, have been able to extend much more credit to a larger number of small scale clients.

Presence of market competition is essential to the development of innovative technologies, products, procedures, and institutions, which improve the quality and pricing of microfinance institutions products and services (Lariviere and Martin, 1998; Agosin, 1999). Technological innovations are associated with the creation of new technologies to provide financial services, such as solidarity group lending, peer group monitoring and village banking while product innovations are associated with the supply of new financial products required by intended users, such as savings and insurance services. Strategic innovations are associated with strategies used to develop clientele, such as risk information systems and strategic planning while institutional innovations are associated with the changing of the legal status and institutional arrangement to improve performance, such as developing new financial legislations. Donor-incentive innovations are associated with mechanisms donors used to improve outreach and viability of microfinance institutions, such as building institutional capacity and supporting rating agencies infrastructure.

Government can also play a critical role in expanding the operations of microfinance institutions through non-financial intervention to alleviate constraints on the demand side. Effective demand for financial services is often constrained by poor business skills and services, lack of social capital, and inadequate infrastructure. Government can play a critical role through complementary investment in social and economic infrastructure to raise skills, assets and debt capacity of target groups. It can also assist in the provision of physical infrastructure such as transportation and communication networks.

Many of the above best practices have been successfully incorporated into microfinance activities in a number of countries to enhance credit to the poor and alleviate poverty. The challenge is to develop appropriate models based on country specifics to provide services and products in a sustainable manner.

IV. MAIN MICROFINANCE INSTITUTIONS

Microfinance sector in Guyana comprises both formal and informal institutions. Of the formal institutions, with the exception of one (MICROFIN DFLSA), all others are either registered or licensed as non-profit institutions, or happen to be donor support supported programs and projects. As a result, all of them are tax exempt, with none or minimum state supervision or regulation. From the central bank's perspective, supervision and regulation of these institutions is not warranted given that none of these institutions are allowed to accept deposits and that their operations are limited in magnitude.

The informal institutions by definition are unregulated and in some cases governed by antiquated laws, which are not being enforced or are unenforceable.

FORMAL SOURCES OF FINANCING

A. Institute of Private Enterprise Development (IPED)[3]

IPED is the oldest and the largest microfinance institution in Guyana. IPED is registered as a non-profit limited liability company and is exempt from corporation tax and all donations to IPED are exempt from income tax. It started its operations in 1986 with financial assistance from The Pan American Development Foundation (PADF) of nearly US$0.5 million with an equal amount mobilized locally. Overtime, IPED has benefited from financial support from the government of Guyana, USAID (including thorough PL-480), Canada, UK, Inter-American Development Bank, and European Development Bank. An important source of its financing is the surpluses that IPED has generated from year to year in keeping with its non profit status.

[3] Information in this section is based data provided by IPED staff, various annual reports, and discussions with Dr. Chin, head of IPED.

The Institute performs a variety of other functions related to the micro enterprise sector. In 2000, IPED established it own Entrepreneurial Development Centre, which offers courses in accounting, marketing, computer literacy, and business administration. It has also fostered business relationships by operating the credit component of the Poor Rural Communities Support Services Project (PRCSSP) in Regions 2 and 3. The project is funded by the International Fund for Agriculture Development (IFAD), a UN organization. It also has a technical cooperation agreement with a Brazilian NGO, SEBRAE, which has enabled IPED to establish fish cage in Takatu River and dwarf cashew nut nursery at St. Ignatius. These linkages and additional sources of income have strengthened IPED's financial position by diversifying its sources of revenue.

IPED, although without permanent presence, is the only microfinance institution in Guyana, which covers all the ten administrative regions of the country. The loan approval is given by the Finance sub-committee of the Board. IPED introduced the Micro Loan Window in 1993. It starts at G$30,000 without traditional collateral increasing progressively to G$50,000, G$75,000, and G$100,000 dependent on the success of the micro-entrepreneur.

As of end-2005, IPED has financed 16,500 medium, small, and micro-entrepreneurs, with 50,590 loans valued in excess of G$9 billion, at an average loan size of G$180,000, creating slightly more than 26,400 jobs (Table 1).The loans were distributed almost evenly with 53 percent men and 47 percent women. However, under the Micro Loan Window, almost 54 percent of these loans are to women, many of them single mothers. In terms of sectors and economic activities, the bulk of its lending is for distribution/vending (64 percent), rice cultivation (19 percent), poultry (4 percent), manufacturing (3 percent), and fishing (2 percent).

A. Small Business Development Finance Trust (SBDF)[4]

SBDF was launched in November 2002, with locally generated funds of about G$12 million, which were then supplemented by support from the government of Guyana, Canada, UK, and a loan from one of the commercial banks. SBDF is a tax exempt non-profit institution. SBDF provides four types of loans: micro; developmental; consumer; and housing loans. Micro and consumer loans are payable in six months and developmental and housing loans within two years. The security required for the micro and consumers' loans are mostly moveable tangible assets. In case of the developmental and housing loans, required securities are in the form of transport and land titles.

[4] Information in this section is based data provided by SBDF staff, various annual reports, and discussions with Ms. Brijmohan, head of SBDF.

As of end 2005, SBDF had disbursed 2,295 loans with a total value of G$223 million. The average loan size increased from about G$1200 000 in 2005 to G$75,500 in 2003. Total jobs created were approximately 3,400 jobs (Table. 2).Regarding gender distribution of its loans, 56 percent of the loan recipients have been male. In terms of sectors and economic activities, nearly 95 percent of the total loans are to retail trade (40 percent), agriculture (18 percent), fisheries and livestock (13 percent), housing (12 percent), and services (11 percent).

B. Linden Economic Advancement Fund (LEAF)[5]

The financial agreement for Linden Economic Advancement Program (LEAP) was signed in January 2001 and implementation began in January 2002. The aim of the LEAP is to develop the market for financial and non-financial business services in Region 10, which is an area that has been hard hit mainly by a decline in the bauxite mining industry. The core activities of the project, which will be operational until June 2009 (7 years in total), consist of boniness support services inclusive of a business incubator, provided on a cost-sharing basis and national and foreign investment promotion. Accompanying measures include: vocational training, institutional strengthening for public and private institutions, a credit fund and rehabilitation of economic infrastructure. The overall objective of LEAF is to create and strengthen viable and competitive enterprises generating new long-term jobs and increased income which will contribute to improve living conditions of the communities in Region 10 and reduce social tensions. LEAF funds will be used by the financial institutions on a revolving basis and as such the financial institution will re-invest recovered loan principal in new lending to LEAF clients.

The EU has committed €1.9 million for the credit component of LEAF. In addition, technical assistance will be provided through LEAP program and €33,000 will be utilized under the LEAP work program budget to cover the running and administrative costs, the setting up by the financial institution of an adapted MIS system, and staff training. Of the €1.9 million, €0.6 million is allocated to micro enterprise credit while €1.3 million is for small and medium size enterprise loans. Write-offs of non-recoverable loans are for the account of the F.I. and will not affect the amounts advanced to the F.I. by the national authorization office into the LEAF account, which remain fully refundable to the Government of Guyana. The LEAF program will automatically terminate on June 30, 2009.

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[5] Information in this section is based on data provided by the staff of LEAF, various progress reports, and discussion with Ms. Whalen, head of LEAP.

LEAF lending operations started in January 2005, after the 1st tranche of G$60 million, was received in December 2004. By end of 2005 a total of G$216.4 million had been disbursed and 752 jobs created. LEAF is managed by an independently selected financial institution. (Table. 3)

C. European Union Program to Support the Rice Sector[6]

This financial facility is part of a €24 million EU project, which was signed in November 2003, to enhance the competitiveness of the rice sector in the Caribbean where Guyana and Suriname are the single exporting countries. Main components of the full Program are technical assistance, enhancing expertise through training; water management; research and extension; and provision of financing through a Rice Credit Scheme. Guyana's share of the €24 million would be around €12 million, of which, €6.5 million will be dedicated for providing loans and guarantees to the rice producers, millers, exporters, and input importers.

While the program started its operations in 2004 regarding other components, the financial facility is expected to begin disbursements by end-2006 and is likely to expire by 2011. Implementation modalities for this scheme will be finalized once a financial institution is selected to administer the scheme. The financial facility will operate as a revolving fund which will help to increase the injection from its capital amount of €6.5 million.

D. MICROFIN Development Finance Limited, South America (DFLSA)[7]

MICROFIN is the microfinance arm of the Development Finance Limited, South America, licensed in Guyana, which is a branch of Development Finance Limited Caribbean Holdings of Trinidad and Tobago, with operations in Trinidad and Tobago, St. Lucia, and Grenada. It also plans to start operations in Suriname. MICROFIN started its operations in Guyana in May 2005. It devoted the first few months in training of staff and assessing investment opportunities with individual clients. It disbursed its first loan in February 2006.

Among its source of financing is a long-term from European Investment Bank (EIB) on commercial terms, which includes a profit sharing arrangement, and a bond issue in which Multilateral Investment Fund (MIF) of Inter-American Development Bank (IDB) participated.

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[6] Material in this section is based on discussions and data and information provided by the staff of the European Delegation in Guyana.

[7] Material in this section is based on information provided by Mr. Garcia, country manager of MICROFIN.

In terms of its lending criteria, MICROFIN requires business, which have been in operations for at least one year, with financing needs, between G$100,000-G$1,000,000, and an ability to provide collateral. As such, its focus is to assist in expanding an existing businesses rather than providing seed money to start one. Regarding repayments, it offers loans from 6 months to 2 years maturity. In addition to a negotiated interest rate, MICROFIN charges, fees, which range from 2 percent to 10 percent of the loan value. Unlike IPED and SBDF, MICROFIN is not eligible for tax exemptions. A summary of MICROFIN's recent operations given in Table 4.

E. European Union's Micro-Projects Program[8]

In the context of the 9th European Development Fund (EDF) National Indicative Program (NIP) for Guyana, poverty reduction is the main objectives of the program. The NIP specifically mentions Micro-Projects as part of the renewed developmental approach. The total cost of the program is estimated to be €4.5 million. The agreement was signed in May, 2004 and will be in force for five years, up to 2011.

The overall objective of the Micro-Projects Program (MPP) is to reduce poverty and social inequality in Guyana. The project, which is fully in line with the Poverty Reduction Strategy Paper (PRSP)- is to improve the socio-economic conditions of vulnerable groups of the Guyanese population through the development of sustainable and participatory self-help schemes; that is, 75 Micro-Projects at the community level focusing on the area of: i) employment/income generation; ii) training/education; iii) communication and good governance; iv) other socio-economic sectors.

The maximum EC contribution towards each approved micro-project constitutes up to 75 percent of the total cost. The beneficiaries are expected to contribute 25 percent of the approved funding in cash or kind. The targeted geographical distribution of funds is as follows:

- Georgetown and other towns, 30-40 percent;
- Coastal villages, 40-45 percent; and
- Rural interior, 20-25 percent.

The targeted sector distribution of funds will be as follows.

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[8] Material in this section is based on data and information provided by the European Delegation in Guyana.

- Employment / income generation, 50 percent,
- Training / education, communication and good governance (25 percent), and
- Other social-economic sectors (25 percent).

A ceiling of €30,000 will apply to all micro-projects. In the hinterland, however, projects may be approved up to an amount of €50,000. In principle, the implementation period for each micro-project is not expected to exceed 12 months.

Community participation is a major element in the design of the MPP. In fact, it is a requirement that beneficiaries of the micro-projects are communities, not individuals. Their commitment and ownership of the micro-projects that are supported through the MPP is further ensured through the requirement of a beneficiary contribution (cash or in kind) of 25 percent of project costs.

Current status of the MPP indicates that so far nearly 111 applications for projects have been received and reviewed, of which, 80 were assessed and found to be viable and worthy of financial support. MPP has approved 16 projects, equivalent to G$ 71,229,733. It is expected that by the end of 2006, almost 15 additional projects will be approved committing a further G$ 80,000,000. A second call for proposals will be launched in February 2007 for almost 40 additional micro-projects committing a further G$ 374 million.

The majority of the projects are from Region 7 and 10, while in terms of sectoral distribution, training, income generation and infrastructures reflects the most common type of projects.

F. CIDA Building Community Capacity Project (BCCP)[9]

The main focus of the C$4.96 million project is to help in enhancing the capacity of selected hinterland NGOs to participate in the development and delivery of programs within Guyana's poverty reduction strategy in the health, education and other sectors. [10] As part of enhancing

[9] Material in this section is based on discussion with Ms. Lowry, head of BCCP, who also provided the data and information on BCCP.

[10] Formerly known as "PARTNERS in Rural Development", Canada Hunger Foundation (CHF) has been working with NGOs or civil society organizations and agencies in Guyana since 1989. Funded by the Canadian International Development Agency (CIDA) and executed by CHF, the first US$4.86 million Phase of the BCCP was undertaken between 1996 to 2003 and was aimed at strengthening the (continued)

skills, BCCP also helps micro enterprises to become more productive and financially sustainable.

Included in the BCCP is a Responsive Sub-Project fund that is used to test the capacity of partner organizations while at the same time addressing poverty issues in the communities. The C$1.8 million Responsive Sub-project fund is managed by CHF, however, the BCCP partner organizations develop the sub-projects themselves after extensive consultation with the community as to priority poverty issues, and are taught how to manage the project and funds through capacity building. As of September 2006, 12 subprojects have been completed or are underway, to a value of C$723,919 with an average of $58,000/subproject. The hinterland projects tend to be more costly due to transportation costs. Given the rural and hinterland locations of the organizations, five of the current projects are agriculture in nature and all incorporate sustainability plans.

By the end of the project a minimum of 15 organizations are expected to have completed 30 projects and will have the capacity to design, manage and implement these projects themselves. Unique to BCCPII is the provision to allow for covering the salary of a coordinator for the organization for up to one year, allowing the organization to develop and maintain their strategic goals and develop their sub-project proposals. Beneficiaries to date of BCCPII include 26,774 men and 14,892 women.

Currently in the final approval stages, CHF will be starting a new project, hopefully by January 2007, co-funded by IDB under the Social Entrepreneurship Program and CIDA. The US$1.5 million project will work to secure the livelihoods of small non-traditional farmers through improved production and marketing. This project will include a US$665,000 Responsive Project Fund that will assist up to 1200 small farmers in the coastal and riverine areas of Guyana.

INFORMAL SOURCES OF LENDING

G. Pawnbrokers

There are a number of pawnbrokers countrywide, both formal and informal, with the latter located in the Linden area. The pawn Broking Act regulates pawn broking in the country. Whether considered formal or informal, pawn-broking establishments have no standard interest rates. They often ignore the country's (by the way: antiquated) legislation in pawn-

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capacity of civil society organizations throughout Guyana, to strengthen their capacity to deliver enhanced programs and services. CHF has been working in Guyana since 1989, and has been registered since 1992 as a non-profit limited liability company. The BCCPII project falls under a bilateral agreement between Canada and Guyana.

broking. The pawn-broking industry is operating without much regulatory oversight despite the fact that pawnbrokers are charging as much as 312 percent per annum.

In the pawn-broking service, a pawnbroker gives customers money based on the value of an item such as gold jeweler, stereo sets, even cars that the customer lodges with him. The customer is then given a set time in which to repay the loan plus interest if he wishes to recoup receive his item. While many poor Guyanese turn to these services for a quick, small loan, they are taken advantage of, first by receiving a loan of just a part of the value (about 60 percent or 70 percent) of the articles pledged, then having to repay that loan at exorbitant rates. At most of the pawnshops visited, the interest rate charged can be as high as 25 percent to 30 percent per month. Penalty interest is charged if the money borrowed against a piece of jeweler is not paid back within 5 or 6 weeks.

H. Money Lenders and Cambios

Like the pawn broking operations, there are a number of Cambios and (informal) moneylenders countrywide, operating without any regulatory oversight. These establishments have no standard rates and no known legislation pertaining to lending activities, and are therefore done 'informally'. The industry's normal rates of interest average about 10 percent to 20 percent per month usually repayable within 3-6 months. Average lending limit is GY$30,000. Collateral "lodged" (not obtained legally) can comprise various items such as vehicles, chainsaw, TV, and lodgment of transports/titles to properties with relative 'agreements of sale' coupled with a blank Power of Attorney; of course to be subsequently in the name of the lender in the event of default/non-payment. The strong points of moneylenders are the same as those pawnbrokers: quick disbursements and no red tape.

I. Hire purchase and Supplier credit

Hire purchase and suppliers' credit make up an important source of credit in Guyana. It is basically a way of buying higher priced items by paying regular small amounts over a period of time. An interest charge is usually added to the amount repayable. Various stores and other suppliers in the country offer goods on hire purchase arrangement – such as household furniture and appliances, machinery and equipment, and vehicles. The better-known ones are Courts and Singer, but many local shopkeepers are found to be in the same trade. Machinery and equipment for business purposes are also sold under hire-purchase arrangements. It is noteworthy that the effective rate applicable is almost always higher than that charged by financial institutions; and usually range between 10 percent to 30 percent for loans of 30 to 90 days.

Credits are also available from suppliers, such as fuel depots, groceries stores, hardware stores etc. It is offered at short-term mark-up of 25 percent translating into about 110 percent per annum. Amounts are small (GY$20,000) and security is usually signatures or 'handshakes'. Suppliers and other informal Enders generally know the local community in which they operate. Still they also tend to make an assessment of the character and credit record of the client-borrower. They may ask informal references if new clients present themselves. Evidence shows that this phenomenon is widespread in Region 10 (Kwakwani, Foul Mouth/Riverstown, Kimbia, Wiruni, Aroaima/Mapletown).

V. Evaluation of microfinance sector in Guyana

Microfinance services, and in particular, micro lending in Guyana are delivered by one large non profit private institution in Guyana. NGOs, with programs and projects supported by donors, play a relatively small but important role. Commercial banks role in this sector has been quite limited. The evidence shows that since 2000, there has not been much growth in the sector. The number of branches and staff in these institutions, which is quite small, has grown marginally. Given the geography of Guyana, its division into ten administrative regions and the prevalence of poverty across all regions but, much more concentrated in the rural and hinterland areas, limits the growth of microfinance institutions in Guyana, and the high cost of transportation and communication difficulties exacerbate the problem.

The evidence on the microfinance sector suggests that the sector as a whole is quite profitable and that can profitability can be achieved reasonably quickly. Between 2000 and 2005, Tables 1 and 2 show that the large non profit institution has generated positive net income for all years. The return on average assets has also been quite modest during the same period. The outcome largely reflects the high level of provisioning for non performing loans. The smaller non profit private institution which started operations in 2003 has also experienced positive net income but higher returns on average assets. It is clear from the evolution of cost that expenditure as a percent of gross portfolio has been declining. Revenue as a percent of gross portfolio has also been declining and suggests the growing value of loans that has not been paid after the due date. The performance of these two institutions can be compared with that of commercial banks which have lower return on assest (on average about 1.5 percent) but smaller non performing loans.

Interest rates, which is the main source of revenue for microfinance institutions, has been relatively unchanged during the 2000-2005 period and quite high relative to those from commercial banks, which is close to 14.5 percent. The lending rate for the smaller institution is lower than that of the larger institution, reflecting lower cost donor funding as well as relatively smaller level of non performing loans. Overall, higher interest rates seem to reflect high cost of loan recovery and lack of innovations that could lower operating costs.

The recent data on poverty in Guyana shows that over the last decade that where the non profit private institutions and programs and projects supported by donors, are present, there seems to be an improvement in the living standards of those who have access to its services. This is evident from the number of jobs that have been created and hence increase in income. However, it is unclear whether the loans have been provided to those who are poor, given that the average size of the loan when compared with the household's poverty line level have been higher.

To date, there is no systematic and sound quantitative assessment of the impact of microfinance on the livelihood of its beneficiaries. However, some indicative evidence is available from the results of two surveys commissioned by Inter-American Development Bank[11] and European Union.[12] According to available information the salient features of the micro enterprise sector in Guyana are:

Financing

- A majority of the respondents indicated a lack of access to finance as one of the main constraints faced by their operations.
- It was also identified as the most common reason for going out of business.
- Of those surveyed, less than 5 percent obtained start-up capital through external financial sources, such as, commercial banks or non-bank lending institutions.
- Almost 70 percent of the respondents stated that they saved and almost two-thirds of the savers deposited their savings in commercial banks.
- Close to 70 percent of the respondents state that for start-up capital they depended on personal and family funds.
- Regarding finances for current operations, 62 percent indicated that they utilized personal and family funds.

Labor input

- Most of the micro enterprises are labor intensive, with substantial input from family members.
- Among the current businesses, family labor accounted for 50 percent of full-time employment.

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[11] The Micro enterprise Sector in Guyana. Economic and Sector Studies Series RE3-96-002; August 1996, Inter-American Development Bank.

[12] Credit Market Survey. Linden Economic Advancement Program, Final Report, July 2004.

Sectoral distribution

- Nearly 43 percent were engaged in retail trade (distribution), 21 percent in services, 28 percent in agriculture, and only 9 percent in manufacturing.

VI. Policy Recommendations

Poverty in Guyana is mainly a rural phenomenon, with rural households comprising approximately 70 percent of the 34 percent overall poor in the country. The analysis shows that in rural areas which are predominantly farming, micro financial institutions are not the main source of credit. A large number of farmers access credit from family, friends and other non financial institutions, such as, retailers, and other agri-business suppliers, processors and buyers. Given that these are not sustainable sources of credit, there is a scope for existing microfinance institutions to expand in the rural areas and for new ones to be established. This will increase outreach and create competition to reduce cost of service delivery. In order to service this market, in a sustainable manner, impediments of costs and risk will have to be mitigated. This will require the development of cost-effective delivery mechanisms and technologies as well as demand driven financial products.

It is increasingly recognized that rural markets can be served by enhancing institutional capacity by building on existing institutional infrastructure and networks. Specifically, microfinance institutions in rural areas can gainfully partner with, for example, lottery outlets, remittance agencies, post offices, pharmacy chain, or agricultural input suppliers. Experience of other countries indicates that such partnerships can be a cost efficient vehicle for the provision of cash flow-based lending tailored to the production cycle of the clients.

Alternative delivery mechanisms can also lower cost and enhance outreach to rural areas. In this regard, experiences in Kenya and Vietnam show that the use of mobile banking by commercial intermediaries and the renting of office space from other entities have been very successful. However, these mechanisms require a robust financial management system to ensure repayment and protection against inaccuracies and fraud. Taking advantage of technology can also lower cost and facilitate services in rural areas. Experiences in many countries have shown that automated teller machines, smart cards, debit cards, hand held computers, personal digital assistants, and cellular phones have provided clients with flexible payment options and a more convenient means of access.

Programs and projects, similar to those being undertaken in the context of the European Development Fund’s National Indicative Program (NIP) and CIDA’s Building Community Capacity Project (BCCP), warrant support as they target rural areas and underserved communities. For example, the MPP of EU, with the objective to reduce poverty and social inequality in Guyana supports up to 75 percent of total cost of micro projects at the community level, is mainly located in regions 7 and 10 which are rural areas in Guyana. The BCCP's focus on capacity building of selected hinterland NGO's enables them to participate in the development and efficient delivery of programs within Guyana's poverty reduction strategy while at the same time helping micro enterprises to become more productive and financially sustainable.

The empirical analysis suggest that non performing loans, as well as, provisioning have been adversely affecting the profitability and maybe partly responsible for the slow extension of credit by microfinance institutions in Guyana. In the last two years this has been exacerbated by the floods. Going forward, it would appear that adoption and provision of adequate risk mitigating instruments should also be considered. This can help in reducing cost and freeing up resources for additional lending. Some of these instruments could include joint liability contracts, group credit or character-based lending. While some of these are already practiced by micro financial institutions, they can be further deepened Experience has shown that credit risk can also be reduced through more realistic loan terms and conditions to accommodate cyclical cash flows as well as enforceable contractual obligations with close follow ups. Diversification of portfolio can also help protect institutions against agricultural and natural risks beyond their clients' control.

A careful application of agricultural insurance can also help to reduce risk provided it can address the issue of moral hazard affecting both provider and clients. A promising alternative is area-based index insurance. This facility, while less useful to poor clients and somewhat complex to implement, helps to mitigate production and price risks by providing against specific events that are independent of the behavior of farmers. Non-financial support from donors and the government in the form of accurate, timely and comprehensive data on rainfall, drought and commodity price can also help to make the facility more affordable and easy to implement.

Given Guyana's geography and current state of financial and physical infrastructure, the expansion of microfinance financial services by both existing and new institutions would be costly and challenging. In view of this, creating an enabling environment by the government and well-targeted financial and technical support from development partners would be critical for the growth of the microfinance institutions. One major positive element is that there is no evidence, direct or indirect, of political interference in the microfinance institutions in Guyana. It is important that this is maintained and government limits its role to building sustainable infrastructure and focus on fostering an enabling environment through the promotion of market competition and supporting other critical elements of the micro financial infrastructure such as capacity building, information management system, non-prohibitive regulations, creation of a credit bureau, and other services to build markets for support services and sharing risk. Integration of both formal and informal micro finance institutions need to address with the commercial banks playing a meaningful role in the sector.

VII. CONCLUDING REMARKS

Microfinance is a powerful poverty alleviation instrument when undertaken under appropriate conditions. Although best practices have been shared and donors support scaled up, globally there still remains a huge unmet demand for affordable and accessible financial services. The poorest of the poor who tends to be in rural areas are unable to access microfinance services. In Guyana although the microfinance sector is small, it has been playing an important role in improving the living standards of those who have access to its services. The vast majority of the rural poor, where poverty is concentrated, are both underserved and un-served. This can be attributed to a number of factors which have contributed to higher transaction cost and risks for microfinance institutions in the delivery of financial services to rural clients. These include the inherit characteristics of low population density, small average loan, low household savings, lack of infrastructure (communication and transport), limited social services, low integration with complementary markets, seasonality of agriculture production and vulnerability to natural disaster.

Microfinance activities in Guyana, generally, are reasonably profitable. In view of this and the prevalence of poverty, it is critical that both government and development partners provide critical support (within the country’s Poverty Reduction Strategy) to facilitate the development and growth of the microfinance sector in the country, especially to target groups that are not currently covered by micro finance institutions. Both the availability of low-cost donor funds as well as technical support to build human capacity are necessary to kick starts the process. Governments’ role should be limited to provide the enabling environment such as maintaining macroeconomic stability as well as building and supporting the non financial critical elements of infrastructure at the meso and macro levels.

Micro credit does not work for all the poor. Studies have shown that the destitute, with low income, does not benefit from micro credit because of their skills level, contacts and lower initial resource base. It is therefore important that other development interventions such as safety net programs are provided to improve the welfare of the poor. Skills level of the poor should be an integral part of the interventions to help the poor to be able to access finance service and hence provide them with economic opportunities to enhance the income earning capacity and welfare.

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