

Microfinance and Innovation

Incorporating Microenterprises in the Proposed
National Innovation System of Trinidad and
Tobago

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Microfinance in Trinidad and Tobago

- * 3 programs were examined;
- * Some lending details were collected however the focus is on investigating:
 - * Do the programs promote innovative activities among microenterprises through incentives or training?
 - * How innovative are microenterprises in these programs?



Features of Microfinance in T&T

- * Microenterprise development is the main objective – not poverty reduction.
- * Higher than traditional average and maximum loan size
- * Collateral is required
- * Group lending is not a popular method



Caribbean Microfinance (Trinidad and Tobago) Limited (Microfin)

Background

- * In operation in Trinidad for 12 years
- * 52% of loans in 2008 to microenterprises
- * Collateral is required as cash, business assets or guarantees.

Innovation Aspects

- * Loans are only to businesses in operation at least 6 months – No start up funding
- * Financing only. No training services
- * Would not provide data on loans by purpose or traditional versus non traditional activities




Mayaro Initiative for Private Enterprise Development MIPED (Program for Enterprise Development- PROFED)

Background

- * Started in 2002 with TT\$5mn from bpTT
- * HOPE loans under TT\$2000, PROFED loans over \$2000
- * 240 PROFED loans in 2010; 160 Jan-May 2011
- * Household or Business collateral is required.
- * Self Sustaining for the last 5 years

Innovation Aspects

- * Largest proportion of loans in 2009/2010 were for agriculture followed by retail and distribution.
- * Training only in basic book keeping and outsourced training for techniques in agriculture and fishing.



National Enterprise Development Company (NEDCO)

Background

- * Nine years in Operation, Government Funded
- * 47% of borrowers 2009-2010 were microenterprises
- * 61% of microenterprise loans were to women

Innovation Aspects

- * Most microenterprises engage in basic goods and trade activities, not high technology, skills or value added areas.
- * Offers Training with potential to improve innovation capacity



Overall Observations

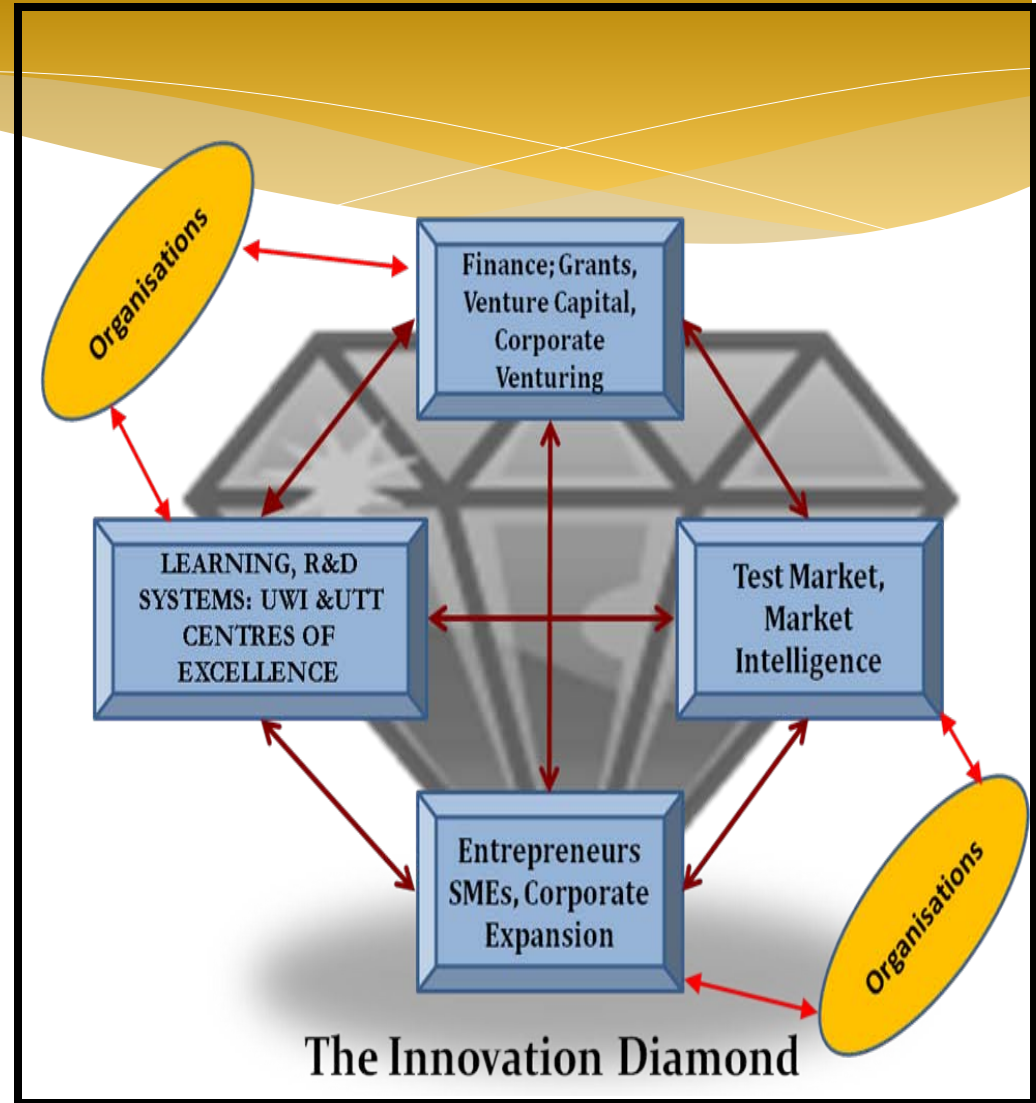
- * Innovation is not a major focus of any of the programs in Trinidad
- * Training where offered almost completely omits critical thinking or training that can increase innovative capacity
- * There are no incentives for innovative borrowers
- * None of this is surprising

The Proposed National Innovation System of Trinidad and Tobago (NISTT)

What about Microenterprises?

Components and Linkage Mechanisms

The proposed NISTT is not likely to easily facilitate or encourage incorporation of microenterprises either through the main components that will form the system or the linkages identified to bring their work together.



Source: Adapted from Copeland, De Four and King (2008, 10)



Centres of Excellence

- ❖ The knowledge generating system.
- ❖ To include existing private and public universities as well as other state and private sector funded research bodies and projects
- * No incentives for Microenterprises to collaborate with COEs
- * May lack resources in terms of time, capital, skill required to Collaborate with COEs



SMEs, Entrepreneurs in Clusters

Expected to collaborate with the COEs in the product development process and entrepreneurs are expected to form clusters around the emerging product areas to gain advantages of scale and scope

- * No incentives for Microenterprises to collaborate with larger enterprises
- * May lack resources in terms of time, capital, skill required to for equal and effective collaboration.

Financing System – Dynamic Financing Model

Government Funding

- Bond Issue and secondary sales
- Venture Capital Fund
- Proceeds fund subsequent rounds of bond issues and VC


Transition

- Private Sector Purchase of SMEs shares from Gov't and COES

Private Sector Funding

- Private Sector ownership and direct financing of VC investments

- * high level of risk aversion in the private sector
- * virtual vacuum re private venture capital, corporate venturing, and private sector R&D grants etc.
- * Medium – Long term transition



Financing System – Dynamic Financing Model (2)

- * The Dynamic Finance Model seems to imply a medium term at best but more likely long term transition from government funding to funding by the private sector
- * Priority funding to go to ‘potential knowledge based SMEs’ particularly those associated with the COEs
- * assumes microenterprises have the ability to network and collaborate with large research institutions in the COEs.



Markets

- Local markets as Test Markets
- Penetrate foreign markets, secure niche markets abroad.
- Microenterprise's customer bases are likely to be too small to appeal as test markets
- Preference may be given to larger collaborating firms for distribution of new technologies and products.



Linking Mechanisms

Inter-Industry Collaboration
Industry-Academia/Research
Institute collaboration and
Influence
NISTT Strategic Development
Staff

Have limited resources to
bring to an inter industry
collaboration

Microenterprises are not
likely to have sufficient
influence (even if they had
the resources) to guide or
affect the research agendas

Suggestions for Microfinance in Trinidad and Tobago

Increase Innovation and innovative Capacity, Incorporate
Microenterprises into the NISTT

Promoting Innovation in Microenterprises

Promoting Innovation in Microenterprises

1. Create Incentives for Innovative Microenterprises

- * Progressive Lending tied to innovative performance (increased loan ceiling)
- * Favorable terms on subsequent loans
- * Negative effect of explicit incentives?

2. Lend to increase Innovative Capacity

- * Portion of lending assigned to projects for increasing innovative capacity e.g. computerization, new technology adoption, creativity training



Promoting Innovation in Microenterprises

3. Attach training programs to lending programs

- * Mandatory training to increase innovative capacity
 - * Creative thinking
 - * Critical thinking
 - * Skills upgrade for relevant technology



Incorporate Microenterprises into NISTT

4. Add networking opportunities

- * With COEs
- * With businesses collaborating with COEs
- * With other microenterprises

5. Innovation Vouchers for Networking

- * Small Grants to be spent on improving links between microenterprises and sources of innovation



Incorporate Microenterprises into NISTT

6. Include Microfinance in NISTT

- * Make MFIs one of the funding channels benefitting from Bond generated funds

Establish Clear (Minimal) Government Role

- * Government role should be facilitative not interventionist
- * MFIs should operate on business principle

Assessment Methods



Multiple Methods of Assessment

Suggestions given will require broader, more in depth research if they are to be applied to any existing program or used to inform the design of a new program.

It is important to outline possible methods of assessing interventions from the outset.

- * Scientific Method (Randomized Controlled Trials)
- * Humanities Tradition
- * Participatory Learning Action



Scientific Method

Randomized Controlled Trials
(Karlan and Nadel, 2006)

“Randomized controlled trials in the field of microfinance isolate the effect of a chosen innovation by assigning a random selection of individuals or villages to the innovation (the treatment group) and another equivalent selection of individuals or villages to maintain the status quo (the control group) and comparing results between the groups” .
Karlan & Nadel (July 2006, 3)



Humanities Tradition

Uses inductive reasoning and focuses on notes and images on key informants usually directly collected by the data analyst.

“This tradition does not try to “prove” impact within statistically definable limits of probability. Rather it seeks to provide an interpretation of the processes involved in intervention and of the impacts that have a high level of plausibility.” (Hulme 2000, 86)



Participatory Learning Action

participants in the program are believed to be the most able and best suited to evaluating its impact

‘...conventional baseline surveys are virtually useless for impact assessments... The question now is how widely local people can be enabled to identify their own indicators, establish their own participatory baselines, monitor change, and evaluate causality...’
(Hulme 2000, 87)

Conclusions

- * *“Innovation criteria should not displace other criteria used by MFIs: Microfinance already helps promote extremely worthy developmental goals. But Innovation needs to be mainstreamed in microfinance policy as in other policy areas.” (Nugroho & Miles, February 2009, p. 43)*



Questions and
Comments?