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## Briefing | Block technology, the solution to SMEs growth in the Caribbean

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Published: Tuesday | May 15, 2018 | 12:00 AM



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Compete Caribbean and the London School of Economics (LSE) have partnered on a research project looking at how blockchain technology can assist small and medium-size enterprises (SMEs) across the Caribbean to increase access to capital.

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They outline that blockchain has the potential to combine dimensions of digital identity by aggregating alternative information and reducing friction between transactions, while increasing security on a decentralised platform.

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## HOW DOES IT WORK?

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Blockchain uses cryptography to secure transactions. It literally consists of chunks of blocks in a chain with digital signatures, hashtags and consensus protocols with a non-centralized repository of information. This makes the technology resistant to cyberattacks.

## WHAT IS THE STATE OF THESE ECONOMIES?

Low and poor economic growth across the Caribbean remains a cause for concern. Retrospectively, average economic growth in the Caribbean over the last five years has been less than two per cent compared to more than three per cent in other regions of the world. This, coupled with high unemployment, poor infrastructure, low minimum wage and gross domestic product (GDP) per capita, in some instances, has increased the need for outside-of-box thinking to increase output and the income for these countries.

## HOW CAN THEY IMPROVE?

Small and medium size enterprises are seen as the avenue for

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The blockchain technology will assist these firms in these economies to overcome problems associated with asymmetric information, collateral requirements, a lack of sufficient credit reporting agencies, and Internet data security and cybercrime.

## WHAT ABOUT ALTERNATIVE FINANCING?

These alternative means of financing that emerge outside of the regular banking system are now becoming the solutions to market failures associated with banks and credit union systems, but requires certain innovation to assess associated risks. Their findings suggest that current databases in the Caribbean are not as secure as they ought to be. They propose a new system to assess the credit-worthiness of SMEs in the Caribbean. The proposed platform will build a bridge between the banks, the SMEs and the data provider, with blockchain technology being the facilitator.

## HOW WOULD THIS SYSTEM WORK?

The loan system will connect technology to how people think and behave to determine whose credit is worthy. The system will link alternative payment data to accounting certificates to mobile and social data to psychometrics. The alternative payment data look at utility payments, rental payments and accounting certificates. Mobile data incorporates information that is available to provide real-life understanding about participants spending habits, while

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## WHAT ARE THE ADDED ADVANTAGES?

The LSE explains that the self-sovereign identity system is a digital identity landscape where every human being holds ultimate and autonomous authority over all of their own data. This aids with providing alternative information to determine creditworthiness that can extended to other uses. This method increases security, controllability and portability. It controls all the block of data at once, and any claims have to be authorised and approved by the other parties using algorithms. The approvals are blindfolded and there are zero-knowledge proofs which allow maximum privacy.

The system is also characterised by portability, persistence and interoperability. The identity can be transported and persists as long as the individual wants to, and is mobile among platforms. The existing and emerging regulations must facilitate the use of the emerging technology. The public sector, the private sector and civil society must collaborate to absorb the use of modern technology into traditional credit and payment systems. People's human rights must also be taken into consideration. Sovereignty and privacy is observed according to the UN's Universal Declaration of Human Rights.

- Dr Andre Haughton is a lecturer in the Department of Economics on the Mona campus of the University of the West Indies. Follow him on Twitter [@DrAndreHaughton](#); or email [editorial@gleanerjm.com](mailto:editorial@gleanerjm.com).

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