Financing Development: The Mobilisation of Savings in the Commonwealth Caribbean by Clive Y. Thomas

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Financing Development: The Mobilisation of Savings in the Commonwealth Caribbean

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I. Introduction

This paper treats with issues centering on the mobilisation of private domestic voluntary savings in the Commonwealth Caribbean (CC). These are defined as voluntary reductions in consumption out of the disposal incomes of the resident household and private business sectors. Savings of public enterprises are excluded, although these are, strictly speaking, non-central government agencies. The reason is that governmental transfers and loans occupy such important positions in their operations as to make it impossible to study them adequately, without a detailed study of central government's revenue/expenditure/debt policies which this paper does not treat with. Although the emphasis is on voluntary savings, to the exclusion of involuntary forms of saving, (e.g. taxation), and forced savings (generated from government deficit financing where there is less than Keynesian-type full employment, or where significant underemployment of resources prevails), from time to time we address these issues when they impinge directly on the analysis. Similarly, foreign savings available to the regional economies are not directly treated in the presentation. These would include direct investments by foreigners in the region, remittances, trade gains from terms-of-trade improvements, borrowing, and grants. These savings obviously are of vital importance to the region, but their inclusion would require an extensive analysis of foreign trade, external debt and financing policies in the region, which again is beyond the scope of our enquiry. As in the previous instances, however, where these issues impinge directly on the analysis of this paper they are addressed. Private domestic dissaving, via capital flight is also not considered, although the work of Kirton (1988) and Bennett (1987) indicate that this is quite substantial.

It is perhaps appropriate to mention here that the recent evidence suggests that official capital inflows to the region may have declined substantially in the 1980s (see Table 1). Indeed for the first time in 1986 the CGCED group of countries recorded a net outflow of capital, with interest payments exceeding official inflows by nearly US$100 million. The causes of this drying up of overseas savings is not analysed in this paper but its existence underscores the importance of mobilizing voluntary private domestic savings, which is treated here.

Finally, while the focus of the paper is on savings mobilisation, their allocation is clearly no less important. Both are in fact linked together, as two aspects of a process. Our failure to deal with allocations fully in the presentation, as well as to include the other areas of inquiry mentioned earlier: involuntary savings, foreign savings, capital flight, is due to the fact that neither time nor space at my disposal would permit the adequate treatment of such a wide range of complex matters; particularly as we shall see the issues covered in the paper are themselves deserving of far ampler treatment.

In the next Section (II) we briefly identify the major

Table 1

Net External Capital Flows to CGCED Countries,[a] 1981-86
(in US$ million at current prices)

	1981	1982	1983	1984	1985	1986
Official Donors/Creditors	1318	1389	1063	928	779	394
Bilaterals	764	807	462	628	441	334
Grants	228	229	138	242	325	298
Net Loans	536	578	324	386	116	36
Multilaterals	554	582	601	300	338	60
Grants	67	54	46	51	54	57
Net Loans	487	528	555	249	284	3
Private Creditors	172	171	155	16	220	162
Suppliers	36	6	3	13	67	-23
Banks and Other	136	165	152	3	153	185
TOTAL ALL SOURCES	1490	1560	1218	944	999	556
Outflows (interest paid)	392	439	519	525	587	653

a Includes: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

Source: World Bank (1988).

theoretical issues in the area of our enquiry, in order to lay the basis for some of the policy recommendations which emerge later. This is followed by a survey of recent data on savings trends and patterns in the region (Section III). Policy issues drawn from the theoretical and survey analysis, along with others are addressed in the final Section (1V).

II. Theory

In the theoretical literature there are three broad approaches to the analysis of savings and growth. There is the "prior-savings approach" of classical vintage, which stresses the importance of the prior accumulation of savings in generating a sequence of growth. Savings is termed a prerequisite for investment, while investment outlets are deemed to be always there in adequate amount, so that growth in output naturally follows the sequence of savings - investment - growth. The equilibriating variable is, of course, the rate of interest. The Keynesian approach rejects the sequence and argues the primacy of investment. The encouragement of investment is the starting point, and this in turn generates required savings either through the additional income it creates or the redistribution of income which can take place in favour of economic units more willing to save. The quantity theorists approach stress the determining factor in the saving process as government financing and monetary expansion.

Three major variants of these approaches have emerged, especially in relation to household saving. There is the Friedman "permanent income" hypothesis in which saving is treated as a function of both permanent and transitory income. Then there is Dusenberry's "relative income" hypothesis in which saving is related to both current income and the previous peak in income. And finally, there is the "life-cycle" hypothesis which treats household saving as a function of a life time planning horizon for consumption, with no net life time saving. Thus saving is done in the early years and then used to maintain consumption in the later "retirement" years when dissaving occurs. These approaches question the validity of the Keynesian view of the relationship of saving to income during a long period of "steady state growth". Findings of household budget surveys which show the average saving rate for higher income groups to be higher than that for lower income groups, are better accommodated in these theories.

In view of these varying approaches, it is not surprising that in the literature there is no clear unambiguous delineation of the relationship of money and finance to real development; which is cause and which is consequence has not been clearly established. Fortunately, for the purposes of this paper it is not necessary to take a position on these issues in the way the earlier debaters did. In an age of systematic compilation of national accounts data and extensive financial reporting from almost all developing countries which the earlier debates did not benefit from, the evidence now indicates unmistakably, that a well developed monetary and financial system can aid (even if only marginally) the growth of economic activity, while a poorly organized and developed one could hinder it, and at times quite severely.

Econometric studies show that the ability and willingness to save out of GDP in developing countries is a function of many variables. The main determinants of ability to save are: the level of per capita income; the rate of growth of disposable income; and the distribution of income (especially its functional distribution between wages and profit). The main determinants of willingness to save are: the variety of financial institutions and savings instruments; the accessibility of these without inconvenience; the rate of interest in relation to risk and time preference of economic units, expectations as regards price changes; the demonstration effect of consumption and savings behaviour in other countries; and finally the general economical, social, and political environment in which economic activity takes place. Thus following this type of analysis, Ramsarran (1988) sought to "explain" bank deposit savings in Guyana, Barbados, Jamaica, and Trinidad and Tobago in terms of three variables, namely the rate of interest, the expected rate of inflation, and per capita income. What he found was that the three variables explained a high proportion of the variation in the level of bank deposits, although results were generally indeterminate. Thus in Guyana and Barbados the results showed inflation to be positively related to changes in bank deposits, whereas in the other two territories they were negatively related. The interest rate variable had a positive sign in Jamaica and Guyana, but was negative in Barbados and Trinidad and Tobago. While per capita income was positively related to total bank deposits in all the territories, the associated standard errors were high.[1]

Similarly Najjar and Marcelle (1984) tested the relationship between the absolute level of measured income and savings, and the permanent income hypothesis that savings is a constant proportion of permanent income. Using ordinary least squares regression, sixteen relationships were tested for Trinidad-Tobago over the years 1963-1983, but the results were not conclusive except that a close linear fit was found between national savings and national income whether using nominal, per capita or permanent income measures. When real variables are used the correlations are low.[2]

Cross country comparisons and time series work show a savings function often simply depicted as:

$$S = -a_o + b_oY \qquad (1)$$

Savings per head of population $S/P = -a_1 + b_1 \ (Y/P)$ (2)

Savings is therefore a linear, but non-proportional function of income per head. The savings function S/GDP is given as

$$b_1 - a_1 \ (GDP/P)^{-1} \qquad (3)$$

i.e, a hyperbolic function of GDP per head, in which the savings ratio rises with the level of per capita GDP but at a decreasing rate. As S/P approaches infinity S/GDP approaches the asymptope b.

The long-run association between domestic savings and growth is now well established. In its most recent World Economic Survey (1988) the UN referred to a study which it conducted of savings in a sample of developing countries in the 1970s and 1980s and observed:

> "The expected long-term relationship between domestic savings and growth held strongly for the sample countries during the 1980s; countries that grew fast also had a higher rate of savings. The average ratio of savings to GDP....remained practically unchanged, at the 1970s level of about 19 per cent... The association between the two variables was significant in both the 1970s and the 1980s".[3]

At the theoretical level it is important to shift the emphasis to take into account the role of savings in both short run and long run growth. The emergence of severe internal and external imbalances, (evident in many parts of the region) has independently emphasized the importance of domestic resources mobilization in the restoration of macroeconomic balance. This observation however, really establishes the important, but often overlooked significance of the relationship of macroeconomic viability to long run growth. Theoretically, therefore, regional approaches to planning for production balance which ignores financial balance (and hence savings) do so to the peril of both, since these are essentially dual aspects of one process. For this reason it is of particular note that the UN econometric exercise also showed that "the long term association between the savings ratio and the growth of GDP remained valid in the turmoil of the 1980s."[4]

Over the years several economists have been critical of the single equation ordinary least squares regression model used in saving analysis. They stress correctly, the inherent simultaneity of such processes as savings and investment (Leff and Sato). They also point out the over emphasis on aggregate magnitudes, ignoring the importance of regional, sectoral and other disaggregated elements. Some have also stressed the importance of a portfolio model approach which it is hoped would treat more adequately, the effect of such variables as capital gains and losses on household saving behaviour, and the effects of the rate of interest on total saving as distinct from its effect on the composition of that saving (Ortmeyer, 1985).

In conclusion of this section, it should be observed that despite their econometric orientation, so far all studies of savings behaviour either explicitly or implicitly reveal the crucial role which the general economic, political and social environment plays in the savings process. This can, and has generated systemic disorders, where none of the postulated relationships hold true. Consequently, there is wide agreement that in situations characterised by marked political instability, rapid inflation, financial repression, excessive public borrowing which crowds out private sector access to resources and generate excess liquidity in the financial system, the willingness of economic units to save declines, capital flight and other forms of dissaving become significant, and both economic growth and macroeconomic viability are jeopardized.

III. Survey

There are two dimensions to a survey of savings trends and patterns; one is behavioral and the other institutional, including in the latter the variety and types of financial instruments available. Unfortunately, there is in the Caribbean a serious data limitation which has been recognized for several years now, but still cries out for remedy. Most of the aggregated savings data are obtained from the national accounts statistics. These do not measure savings directly, but obtain it as the residual difference of other directly measured aggregates; for example the difference between GNP and total consumption expenditure, or that between gross domestic investment and foreign savings defined as the balance of payments on current account adjusted by net factor payments abroad. From these accounts gross national saving plus external or foreign savings give the total supply of savings which is equal to gross capital formation. Saving is also measured net, in that consumption expenditure out of consumer credit is deducted from gross savings, and saving by one group used by another for consumption is not captured. Capital gains and losses induced by price changes are not treated adequately, as is the treatment of consumer durables and certain elements of government expenditure.

Added to these measurement problems, there is the further consideration that the measurement of gross capital formation (one of the variables directly estimated) is fraught with difficulties arising from the measurement of depreciation. As Ramsarran (1988) observes, the depreciation data in Trinidad and Tobago have ranged from 29-60 per cent of capital formation during the years 1983-1987, while in Jamaica these data ranged between 34-78 per cent in the same period. In addition to this inventory estimates are also not reliable, while the national accounts data are ex post and therefore do not directly measure the saving effort .

Based on time series and cross country comparisons of investment, savings and growth, a number of rough indicators or targets can be found in the literature. Thus gross national savings are targeted at one-fifth of GDP or more for sustained growth. To complement this capital formation is usually targeted at above one-quarter of GDP, and the incremental capital-output ratio is targeted at 2-2.5. Foreign finance is targeted to play a decreasing role in domestic capital expenditure, with both growth and domestic savings targeted to increase secularly. Looking at the regional data the picture which emerges both exceeds and fall short of these targets by substantial margins. Thus to take one example, a UN study (1987) gives Guyana an incremental capital-output ratio of 29.9 for the period 1970-1981, which is far outside the target, while for the same period gross capital formation was equal to 28.2 per cent of GDP, well within the target.

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Table 2
Growth, Savings and Investment cont'd
1970-1987

	BARBADOS			GUYANA		
Period	Real Growth	Gross Savings Ratio	Investment Ratio	Real Growth	Gross Savings Ratio	Investment Ratio
1970	7.3	-	-	3.4	22	21
71	4.0	-	-	2.8	22	18
72	4.4	5	23	-2.0	19	18
73	2.3	5	25	1.7	11	24
74	13.5	8	22	7.0	28	21
75	-1.9	9	19	10.4	33	30
76	4.3	8	27	2.9	13	34
77	3.7	5	20	-4.8	14	26
78	6.1	15	23	-1.8	21	19
79	7.7	14	24	-0.7	22	25
80	4.7	19	25	1.9	19	27
81	-3.2	13	28	4.5	11	31
82	-5.0	16	23	-12.4	9	24
83	-0.2	15	20	-9.3	3	22
84	-3.4	17	16	2.1	16	27
85	0.5	19	15	0.9	10	24
86	4.7	16	16	0.2	16	25
87	2.0	15	15	0.7	21	30

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Table 2 (Continued)
Growth, Savings Investment
1970-1987

Period	JAMAICA			TRINIDAD & TOBAGO		
	Real Growth	Gross Savings Ratio	Investment Ratio	Real Growth	Gross Savings Ratio	Investment Ratio
1970	11.9	25	31	3.6	10	21
71	3.1	18	28	1.0	11	33
72	9.2	19	26	5.8	6	30
73	1.4	22	26	1.7	16	23
74	-4.7	21	22	3.8	25	16
75	-0.4	17	24	1.5	35	21
76	-6.5	8	17	6.4	27	23
77	-2.5	12	12	7.7	24	23
78	0.5	12	13	7.6	24	27
79	-1.5	13	18	7.3	22	27
80	-5.8	9	15	6.8	30	28
81	2.5	9	18	5.2	27	26
82	1.1	8	20	1.7	13	27
83	2.3	11	21	-7.3	6	27
84	-0.9	10	21	-12.8	8	23
85	-4.5	15	22	-2.9	6	17
86	2.1	15	18	-6.4	0.4	23
87p	4.9	16	19	-2.3	2	19

Notes: Gross savings ratio is gross domestic savings as a % of GDP at current market prices.
Investment ratio is gross fixed investment as a % of GDP at current market prices
p = provisional
Real growth is annual per cent cahrge in GDP at constant market prices.

Sources: Ramsarran (1988), for period 1970-76; World Bank (1988), for period 1977-1987; and for Government of Guyana, for Guyana 1983-1987.

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Table 3
OECS Region: Savings, Investment and Growth

	1980	1981	1982	1983	1984	1985	1986	1987
Antigua								
Real Growth of GDP	8.7	4.7	1.5	7.4	7.1	7.8	8.0	7.0
Gross Domestic Savings[1]	8.4	11.8	10.5	18.1	15.4	17.8	-	-
Gross Domestic Investment	37.7	53.2	49.7	25.5	31.6	32.6	-	-
Dominica								
Real Growth of GDP	10.5	10.1	4.1	3.0	6.9	1.5	6.8	4.6
Real Domestic Saving[1]	-22.9	-4.0	9.4	16.5	19.7	10.9	20.4	-
Gross Domestic Investment[1]	55.5	37.3	33.6	32.3	44.9	32.7	25.1	-
Grenada								
Real Growth of GDP	-1.5	8.0	0.6	-2.9	2.0	3.7	5.6	4.4
Gross Domestic Savings[1]	-	13.0	17.2	14.2	14.4	19.0	17.7	-
Gross Domestic Investment[1]	-	47.0	62.8	52.2	39.4	39.4	40.2	-
Monsterrat								
Real Growth of GDP	9.4	5.7	2.7	-5.3	2.8	5.4	-	-
Gross Domestic Savings[1]	-13.4	-27.1	-25.1	-19.8	-11.5	-1.6	8.6	-
Gross Domestic Investment[1]	46.7	52.7	45.2	33.5	21.9	30.5	39.2	-
St. Kitts-Nevis								
Real Growth of GDP	3.9	5.1	6.3	-1.1	8.1	4.6	4.6	4.0
Gross Domestic Savings[1]	9.9	28.0	22.4	-0.4	19.4	26.0	17.4	-
Gross Domestic Investment[1]	48.4	38.3	40.0	36.6	29.4	37.2	32.8	-
St. Lucia								
Real Growth of GDP	-0.8	1.2	3.0	4.1	5.0	6.0	5.8	2.1
Gross Domestic Savings[1]	7.6	-2.3	14.4	23.3	16.2	-	-	-
Gross Domestic Investment[1]	60.2	55.0	46.5	35.2	35.7	-	-	-
St. Vincent								
Real Growth of GDP	2.7	7.4	8.5	5.7	5.9	6.0	4.1	1.3
Gross Domestic Savings[1]	-14.1	0.8	14.4	27.2	32.3	25.9	15.5	-
Gross Domestic Investment[1]	47.8	39.0	36.3	36.1	38.9	34.4	24.4	-

Sources Liburd and Bain (1988), World Bank (1988) and for Monsterrat, UNECLAC (1987).

Tables 2 and 3 show data on real growth and the gross savings and investment ratios for Barbados, Guyana, Jamaica and Trinidad and Tobago for the period 1970 - 1987, and for the OECS states for the period 1980 - 1987. The longer time series show Barbados averaging nearly 5 per cent growth between 1970 and 1980, and less than one per cent since then. The saving ratio in Barbados, however, increased from 9 per cent between 1970-1979 to 16 per cent between 1980-1987 (see Table 4). In the case of Guyana, Jamaica and Trinidad and Tobago, there was a substantial decline in the savings ratio, by approximately 40 per cent in Guyana and Trinidad and Tobago, and 30 per cent in Jamaica). All three of these countries averaged negative or close to negative growth in the 1980s.

The investment ratio exceeded the gross savings ratio in all four countries, indicating the role foreign finance played in domestic capital formation. For the period 1970-1987 this financing averaged 42, 31, 30 and 33 per cent for Barbados, Guyana, Jamaica and Trinidad and Tobago, respectively. In the case of Barbados, however, there was a substantial decline in the role of external financing between 1970 - 79 and 1980 - 1987, from 63 to 18 per cent, while in the other territories the reverse occurred over the same period: (a near quadrupling of the ratio in Guyana, a near trebling in Trinidad and Tobago, and a near doubling of the ratio in Jamaica) (See Table 5). These indicators are particularly noteworthy in light of the reduced capital inflows referred to earlier (See Table 1 above).

Table 4
Trends in Gross National Savings as a % of GDP

	Barbados*	Guyana	Jamaica	Trinidad & Tobago
1970-1979	9	21	17	20
1980-1987	16	13	12	12

* 1972-1979 and 1972-1987

Source: Calculated from data in Table 2

Table 5

External Finance as a
per cent of Total Supply of Savings

	Barbados*	Guyana	Jamaica	Trinidad & Tobago
1970-1987	42	31	30	33
1970-1979	63	13	23	18
1980-1987	18	50	40	52

*1972-1987 and 1972-1979

Source: Calculated from data in Table 2

In all four territories the investment ratio exceeded the "target" of one-quarter of GDP. National savings, however, only achieved the targeted ratio of one-fifth of GDP in Guyana and Trinidad and Tobago for the period 1970 - 1979. Furthermore, only Barbados exhibited a reducing dependence on foreign savings, this having declined from 63 to 18 per cent over the two periods.

The data on the OECS states (Table 3) cover a far shorter period and are therefore less useful indicators of trends. In general, however, the data show investment ratios substantially in excess of the targeted ratios derived from international comparisons; these range between 36 and 47 per cent of GDP. The gross domestic savings ratio behaved far more erratically, ranging from minus 18 per cent of GDP (Monsterrat where the investment ratio was 38 per cent) to 17 per cent of GDP.

The high levels of foreign finance in capital formation in the region, as evidenced in the discrepancy between investment and domestic savings ratios was complemented by the limited role public sector savings played in the financing of capital formation (See Table 6). In Guyana there has been substantial public sector dissaving. This peaked at 47 per cent of GDP in 1985 and averaged 28 per cent of that country's GDP for the period 1981 - 1987. In Dominica there was public sector dissaving over the years 1977 - 1982, and this averaged 10 per cent of its GDP. In Jamaica a similar trend was observed for a long period (1977-1985) and averaged just over 4 per cent of its GDP. In St. Kitts this trend was manifest during 1981-1985, at

Table 6
Caribbean Countries - Public Sector Savings
1977-87[a]

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Antigua	-3.6	-0.8	0.5	1.2	2.4	0.5	1.3	2.4	4.3	7.0	1.1
Bahamas	3.9	6.0	6.2	7.7	6.3	3.3	3.3	4.9	5.3	6.4	5.9
Barbados	3.0	6.7	5.8	4.5	2.9	4.0	5.6	3.9	2.8	1.9	0.1
Belize	1.4	6.3	4.1	4.6	-2.4	-0.3	-2.2	3.6	4.8	6.9	7.9
Dominica[a]	-4.4	-4.2	-28.3	-16.5	-3.8	-1.8	1.6	2.3	5.4	8.6	10.2
Grenada	5.5	2.5	0.6	-0.2	-0.6	2.0	5.3	2.1	4.5	2.2	--
Guyana	-0.9	5.8	4.1	2.1	-18.0	-21.4	-37.0	-29.4	-46.8	-26.7	-19.9
Jamaica[b]	-6.2	-2.8	-4.2	-7.8	-4.0	-3.6	-8.6	-1.5	-1.0	4.0	5.4
St Kittsb[a]	11.2	5.0	4.7	4.3	-5.0	-3.4	-2.7	-1.0	-4.1	2.6	4.2
St Lucia	3.7	4.8	1.7	4.5	1.0	-0.3	0.1	4.2	6.3	8.9	11.0
St Vincent	0.2	-0.2	-1.4	0.2	1.1	0.8	-1.0	4.4	9.4	8.1	8.1
Trinidad	23.9	18.6	25.2	18.1	20.3	6.6	2.5	1.9	3.0	-1.4	--

a - Fiscal Year.
b - Central Government.
c - Preliminary.
-- - Not available.

Source: World Bank (1988).

an average of three per cent of GDP. Except for the territories already mentioned and Belize where the trend emerged in a small way for the years 1981-1983 (averaging two per cent of GDP) this phenomenon was not significant.

It is only in Trinidad and Tobago in the oil boom years (1977-1981) that public sector savings were substantial, averaging, then, over one-fifth of GDP, and accounting consequently for most of the national saving. Elsewhere, national savings have had to be principally reliant on the private business and household sectors.

Leaving the examination of trends in the national accounts data and turning to the financialization of savings in the CC several striking features emerge. Using the following five indicators: the number, variety and distribution of financial assets; changes in the number, variety and relative size of financial institutions; changes in the share of financial institutions in the stock of financial assets; changes in the ratio of financial assets to GDP; and finally, changes in the financial layering ratio; the growth of financialization of savings in Trinidad and Tobago was impressive. As the data in Table 7 cited by Crichton and de Silva (1988) show the total number of financial institutions grew from 376 to 679, between 1973 and 1987. In this period a number of new capital market institutions were established: stock exchange, unit trust, deposit insurance corporation, mortgage bank, and merchant banks. The institutional composition of financial institutions in

Table 7
Trinidad & Tobago: Number of Financial Institutions in Existence
(1973-1987)

Institution	1973	1974	1975	1976	1977	1978	1979	198
Central Bank	1	1	1	1	1	1	1	1
Commercial Banks (branches)	9 (88)	9 (91)	9 (91)	9 (92)	9 (95)	9 (99)	9 (99)	9 (105
Finance Companies	3	6	7	8	11	12	12	12
Trust and Mortgage Finance Companies	5	5	5	5	6	7	7	7
Development Banks	3	3	3	3	3	3	3	3
Credit Unions[1]	299	297	284	286	288	308	318	420
Insurance Companies	51	55	57	56	57	62	64	60
Thrift Institutions	3	3	4	4	4	4	4	4
National Insurance Board	1	1	1	1	1	1	1	1
T&T Stock Exchange	-	-	-	-	-	-	-	-
Unit Trust Corporation	-	-	-	-	-	-	-	-
Export Credit Insurance	1	1	1	1	1	1	1	1
Deposit Insurance Corporation	-	-	-	-	-	-	-	-
Home Mortgage Bnak	-	-	-	-	-	-	-	-
TOTAL	376	381	372	374	381	408	420	518

1 Data represent number of registered societies. The number of active credit unions is much less but data on such institutions are only avilable for 1979 and 1986.

Table 7 (Cont'd)

Trinidad & Tobago: Number of Financial Instituions in Existence (1973-1987)

Institution	1981	1982	1983	1984	1985	1986	1987
Central Bank	1	1	1	1	1	1	1
Commercial Banks (branches)	8 (109)	8 (112)	8 (113)	8 (115)	8 (117)	8 (117)	8 (119)
Finance Companies	13	15	15	16	16	12	13
Trust and Mortgage Finance Companies	7	7	8	8	8	8	8
Development Banks	3	3	3	3	3	3	3
Credit Unions[1]	425	425	431	438	446	454	461
Insurance Companies	61	61	59	60	59	56	56
Thrift Institutions	4	4	4	4	4	4	4
National Insurance Board	1	1	1	1	1	1	1
T&T Stock Exchange	1	1	1	1	1	1	1
Unit Trust Corporation	-	1	1	1	1	1	1
Export Credit Insurance	1	1	1	1	1	1	1
Deposit Insurance Corporation	-	-	-	-	-	1	1
Home Mortgage bank	-	-	-	-	-	1	1
TOTAL	525	528	533	542	549	669	679

Source: Crichton and de Silva (1988).

1. Data represent number of registered societies.

Table 8

Institutional Composition of Financial Savings
At Year End, 1973-1987
(TT$ MILLION)

Type of Institution	1973	1974	1975	1976	1977	1978	1979	1980
Central Bank	147.2	631.8	1403.6	1918.4	3183.1	3795.4	4133.1	5550.1
% of total	10.6	28.4	40.1	40.3	46.4	45.1	41.8	44.0
Commercial Banks	758.9	1007.5	1302.1	1728.1	2190.5	2686.3	3557.4	4065.2
% of total	54.5	45.2	37.2	36.3	32.0	32.0	36.0	32.3
Finance Companies	13.3	21.1	53.6	83.2	118.3	191.5	226.2	319.8
% of total	1.0	0.9	1.5	1.7	1.7	2.3	2.3	2.5
Mortgage Finance and Trust Companies	50.5	74.5	113.9	148.1	196.7	315.6	363.3	537.5
% of total	3.6	3.3	3.3	3.1	2.8	3.8	3.6	4.3
Thrift Institutions	21.6	22.9	28.2	19.9	25.0	30.1	29.6	20.0
% of total	1.5	1.0	0.8	0.4	0.4	0.4	0.3	0.2
Development Banks	13.8	25.4	35.4	50.0	76.0	124.4	156.9	220.4
% of total	1.0	1.2	1.0	1.1	1.1	1.5	1.6	1.7
Credit Unions	n.a	n.a	n.a	69.8	92.3	121.5	157.8	185.7
% of total	n.a	n.a	n.a	1.5	1.3	1.4	1.6	1.5
Life and Non-Life Insurance Companies	231.0	238.0	263.0	303.2	409.5	454.9	545.8	632.8
% of total	16.6	10.7	7.5	6.4	6.0	5.4	5.5	5.0
Pension Funds	102.5	106.9	147.9	224.0	275.7	325.3	278.3	538.9
% of total	7.4	4.8	4.2	4.7	4.0	3.8	2.8	4.3
National Insurance Board[1]	53.3	99.9	150.0	211.9	284.5	360.3	446.4	533.2
% of total	3.8	4.5	4.3	4.5	4.2	4.3	4.5	4.2
Unit Trust Corporation	-	-	-	-	-	-	-	-
% of total	-	-	-	-	-	-	-	-
Home Mortgage Bank	-	-	-	-	-	-	-	-
% of total	-	-	-	-	-	-	-	-
TOTAL	1392.1	2228.0	3497.7	4756.6	6851.6	8405.3	9894.8	12603.
TOTAL (% of total)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.

Table 8 (cont'd)
Institutional Composition of Financial Savings
At year End, 1973-1987 (Cont'd)
(TT$MILLION)

Type of Institution	1981	1982	1983	1984	1984	1986	1987
Central Bank	6326.4	4555.4	2891.6	1844.4	1523.6	1700.5	961.6
% of total	42.4	28.5	17.5	11.3	9.0	9.7	5.3
Commercial Banks	4996.9	6613.5	7248.1	7639.7	7701.1	7417.1	7639.0
& of total	33.5	41.3	43.8	47.0	45.5	42.1	42.3
Finance Companies	511.0	801.3	959.9[P]	867.3[P]	794.3[P]	329.5[P]	418.0
% of total	3.4	5.0	5.8	5.3	4.7	1.9	2.3
Mortgage Finance and Trust Companies	689.8	881.3	1155.1	1338.6	1584.0	1610.2	1631.3
% of total	4.6	5.5	7.0	8.2	9.3	9.2	9.0
Thrift Institutions	20.3	20.6	21.4[P]	21.5	21.8[P]	22.4[P]	21.9[P]
% of total	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Development Banks	308.1	363.3	582.4[P]	604.3[P]	591.3[P]	626.3[P]	615.1
% of total	2.1	2.3	3.5	3.7	3.5	3.6	3.4
Credit Unions	212.9	309.0	430.4	423.9	595.4	755.6	958.8[e]
% of total	1.4	1.9	2.6	2.6	3.5	4.3	5.3
Life and Non-Life Insurance Companies	657.7	813.6	1152.4	1318.4	1686.8	1958.9	2100.0[e]
% of total	4.4	5.1	7.0	8.1	10.0	11.1	11.6
Pension Funds	517.7	706.7	935.0	836.9	863.3	1509.2	1700.0[e]
% of total	3.5	4.4	5.7	5.2	5.1	8.6	9.5
National Insurance Board[1]	693.3	900.0	1123.4	1344.0	1537.0	1634.2	1819.0[e]
% of total	4.6	5.6	6.8	8.3	9.1	9.3	10.2
Unit Trust Corporation	-	41.0	30.3	28.4	30.8	41.9	61.5
% of total	-	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)
Home Mortgage Bank	-	-	-	-	-	-	122.7
% of total	-	-	-	-	-	-	(0.7)
TOTAL	14933.6	16005.7	16530.1	16267.4	16929.4	17605.8	18048.9[e]
TOTAL (% of Total)	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Crichton and de Silva (1988)
1 - as of June 30th.
e - estimated.

Trinidad and Tobago also showed important changes (see Table 8). In addition, the ratio of financial assets to GDP at current prices nearly doubled between 1973 and 1986, i.e rising from 0.54 to 1.01 (Crichton and de Silva, 1988).

Of particular note in this expansion has been the principal role played by government policy. This is easily overlooked now, but as Crichton and de Silva observed: "for the most part, however, institutional and structural change has been driven by deliberate policy action rather than by market signals. The Central Bank has played a major role in engineering structural change."[5] In Barbados too, although the expansion of the financial sector was not as vigorous as Trinidad and Tobago where it was fuelled by the oil boom, the role of government policy was also key: "In Barbados, the last decade was replete with official directives, restrictions and incentives in the interest of economic growth".[6] In addition to the above listed actions, the government of Barbados also established a number of indigenous institutions (stock exchange, commercial bank, and development bank) which have helped to alter the structure of financial intermediation in that country and to increase the ratio of financial assets to GDP from 1.03 in 1977 to 1.25 in 1987.

This expansion in the financialization of savings in the CC was of course, uneven. The OECS' financial system "is still relatively underdeveloped in terms of the range of institutions and of financial assets available".[7] As would be expected money markets are better developed there, than capital markets, as trading in equities and long-term securities is quite minimal. Non-banks accounted for only about 8 per cent of financial intermediation. But even here the role of government policy is central and is revealed in the creation of the Eastern Caribbean Central Bank, a number of development banks, and joint venture financial institutions which have led to an increase in the mobilization of financial savings. In Guyana, despite the emergence of substantial currency substitution, foreign currency black markets and so on, the evidence show some financial deepening, with real financial assets as percentage of real GDP rising from 0.79 in 1980 to 1.06 in 1986.

In all the territories the commercial banks still remain the key institutions in the financial system. For this reason, observations of their failure to allocate funds to the productive sector is of extreme importance. Thus Liburd and Bain estimate that commercial banks mobilize over two-thirds the financial savings in the OECS states, yet only 9 per cent of their assets represented claims on the productive sectors (agriculture, tourism and manufacturing)[8] A similar lament is made by Codrington and Coppin about Barbados, that: "ten years of effort by the Central Bank has not led to increases in the share of total bank credit to the foreign exchange earning sectors-manufacturing, tourism and agriculture".[9] Manhertz writing a decade and a half earlier had also observed this bias of the commercial banks' portfolio in Jamaica.[10]

The data in Table 9 show the distribution of financial

Table 9

Distribution of Assets of all Financial Institutions by Type of Instrument

Item	Trinidad & Tobago (1987)	OECS Region (1986)
Cash in hand	0.8	7.1
Central Bank Balance	4.6	8.0
Government Securities	7.6	4.7
Loans & advances	71.4	53.3
Foreign Investments	9.5	20.3
Other	6.1	6.6
TOTAL	100.0	100.0

Sources: Crichton and de Silva (1988) and Liburd and Bain (1988).

assets by type of instrument for Trinidad and Tobago and the OECS region. The heavy concentration in loans and advances which is clearly observable, reflects the leading role of the commercial banking sector. The comparatively high level of foreign instruments in the OECS region, reflects the more open financial system which exists there. In this Table, if the Central Bank balance is taken together with holdings of government securities, the distribution is almost identical for the two sets of territories. Table 10 gives a further detailed breakdown for the OECS region, showing the distribution of financial assets and liabilities by economic sectors and financial institutions. Here the importance of the commercial banking sector which was referred to earlier is clearly revealed, as well as the low place of private business in the allocation of financial savings.

Although this paper focuses on voluntary private domestic savings we have already referred to the position of public sector savings and external savings in the regional data. We conclude this section with a brief reference to the position of involuntary savings (taxation) in the CC. Table 11 indicates a significant level of tax effort in the four MDCs of the CC, with the position of Guyana being particularly noteworthy, in the light of the prolonged depression being experienced in that country. In general we would expect that given the pressures to maintain government's current expenditure, that government saving will be higher, the higher the level of government's current revenue. Tax revenue is dependent not only on the income and

Table 10
OECS - Financial Assets and Liabilities
At December 31, 1986
Classified by Economic Sectors
(EC$M)

	Commercial Banks		Non-Banks		National Insurance*		Central Bank		TOTAL	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilitie
Household Sector	532	958	(	(	0	309	0	168	532	1435
Private Business	600	257	(194	(128	0	0	0	0	794	385
Public Enterprises	101	228	0	0	14	0	0	0	115	228
Government Sector	228	39	3	21	67	0	154	0	452	60
Other Financial Institutions	456	196	22	18	213	0	3	327	694	541
Foreign Sector	338	112	0	46	1	0	388	5	727	163
Other Assets and Liabilities	122	587	62	68	28	14	11	56	223	725
TOTAL	2377	2377	281	281	323	323	556	556	3537	3537

* Excludes data for Antigua and Barbuda

Source: Liburd and Bain (1988)

Table 11

Tax Revenue as a % of GDP[1], 1970-87

	Barbados	Guyana	Jamaica	Trinidad & Tobago
1970	n.a	22	17	16
71	n.a	20	18	17
72	23	22	18	18 (4)
73	23	23	18	18 (5)
74	20	31	17	30 (21)
75	22	39	18	32 (24)
76	22	30	18	33 (23)
77	22	27	17	36 (23)
78	25	24	20	32 (20)
79	24	25	20	33 (21)
80	23	25	19	40 (25)
81	22	30	22	40 (26)
82	23	31	25	34 (17)
83	24	33	23	32 (13)
84	24	34	23	33 (15)
85	25	35	27	32 (14)
86	24	39	28	27 (10)
87[p]	24	42	n.a	28 (12)

p. provisional
1. at current market prices
2. figures in brackets refer to revenues from the oil sector

Source: Ramsarran (1987)

expenditure subject to taxation, but on the rate of taxation, the efficiency of tax administration, as well as the level of cooperation of the citizenry at large in tax collection. The general ratios given in Table 11 mask these individual details and can therefore be misleading as true performance measures, although their significance should not be overlooked.

Table 12 shows tax effort in the OECS states. This is given for indirect and direct taxation. The table also shows the marginal indirect and direct tax rates and the buoyancy of indirect and direct taxation for the OECS. Again the data show an impressive tax effort, averaging 27 per cent for the years 1979-1987. The average rates of both direct and indirect taxation were close to the marginal rates, while the elasticity of indirect taxation is 1.07 and that of direct taxation is 0.86.

This survey of trends and patterns of savings in the region has generated a number of issues, which deserve policy attention. These will be taken up first in the next section, and will be followed by the treatment of a number of other related policy issues.

IV. Policy

Policy I: The International Environment In the CC, the typical ratio of commercial to non-commercial external debt in

Table 12

Tax Effort, Marginal Rate and Buoyancy in the OECS, 1979-1987

Years	ITE	DTE	MITR	MDTR	BITE	BDTE
1979	.20	.10	-	-	-	-
1980	.18	.09	.09	.03	.48	.32
1981	.17	.08	.12	.05	.64	.54
1982	.17	.08	.17	.01	.89	.11
1983	.17	.09	.19	.14	1.02	1.51
1984	.18	.10	.31	.20	1.66	2.16
1985	.18	.10	.16	.20	.86	2.16
1986	.20	.10	.42	.07	2.25	.76
1987	.21	.10	.35	.05	1.87	.54
Average	.18	.09	.20	.08	1.07	.86

ITE = Indirect Tax Effort....................IDT/Y
DTE = Direct Tax Effort.......................DT/Y
MITR = Marginal Indirect Tax Rate ....(change IDT/change in income).
MDTR = Marginal Direct Tax ....(change DT/change in Income).
BITE = Buoyancy of Indirect Tax - Elasticity - The percentage change in Indirect Tax relative to the percentage change in Income.
BDTE = Buoyancy of Direct tax - Elasticity - The percentage change in Direct Tax relative to the percentage change in Income.

Source: Jones-Hendrickson (1988).

the region is 1:2, the reverse of the developing countries as a group. The well publicized global trend of reduced private flows is now being paralleled with reduced multilateral and bilateral non-commercial inflows into the region, this reaching a point where as we have already noted there is an excess of interest payment outflows to inflows. This situation dramatizes the significant role mobilization of domestic savings will have to play in the development of the region, as the international environment is one in which all developing countries are facing a period of transition from one of relatively abundant cheap international credit to one in which it is expensive and very difficult to access. This changed international environment is the essential background against which domestic and regional policy measures have to be framed. It is noteworthy that the relative ease and abundance of external funds which characterized the earlier period, may have contributed much to the neglect of domestic savings in the growth process and subsequently the slow appreciation of its role in promoting macro-economic viability.

The changed international environment is however not reflected fully only in the different ease and cheapness of international credit. Rapid developments in technology, as well as innovation in financial organization, and the invention of new financial instruments, have also produced qualitative changes in the international financial environment, which have to be considered as they pose unprecedented challenges to policy makers. One such is the vast range of options which now face those numerous domestic residents in the region, who, through one means or another, have access to international financial markets for the disposition of their savings. The obvious policy conclusion arising from these developments is that now more than ever before, domestic financing of development cannot be approached independently of the international financial environment. This has to be factored into proposals for increased mobilization of domestic savings if they are to attain this objective.

Policy 2: The Local Environment: As indicated earlier, the theoretical work on savings behaviour stress the overriding importance of the general economic, social and political environment to the willingness of private economic units to save. Too much therefore, cannot be said of the policy significance of popular participatory social structures in the promotion of an increased propensity to save locally. This is not a surprising conclusion when we consider that "confidence" is the foundation on which all financial systems are based. The only way a financial institution can generate a surplus and remain self-financing, is for the contractual term structure of its assets and liabilities not to be identical. The importance of the confidence factor is revealed in the turbulent financial history of many countries of the older independent countries of the Caribbean and Latin America. Moreover the continuation of savings within the Caricom region at periods when real interest rates were negative by administrative fiat, but social peace prevailed, shows the importance of the general economic, social and political environment to saving habits.

These broad and fundamental considerations apart, other contextual features of economic activity are also crucial to the willingness to save locally. Among the more important of these are: exchange rate stability; price stability; adequate access to foreign exchange; the presence or absence of large government deficits which determine the significance of the "crowding out effect" in the economy; the levels of financial repression; whether real rates of interest are positive or negative; and whether the tax structure generates incentives or disincentives to personal and corporate savings. It is clear that the conditions which prevail in these areas are vital to the success or otherwise of drives to mobilize domestic savings.

Policy 3: Data Collection: Given the importance of savings to the development process in the region a program for the direct measurement of savings and the estimation of savings behaviour functions is also required. It is clear that much policy reliance cannot be placed on the national accounts residual method of estimation. Frequent direct surveys of saving behaviour are required as independent cross checks, along with the more wide spread construction of flow-of-funds accounts. As Najjar and Marcelle observe: "the disparities in the [national accounts and flow-of-funds] two sets of data... highlight the urgent need for cross checks amongst the major economic statistics".[11] This should be aimed at attaining levels of disaggregation which would permit the determination of the right mix of incentives for the various groups in the society. The case can also be made for allying this effort to promotional campaigns designed to make the public more fully aware of the importance of the issues, and to encourage thrift. In this regard the neglect and/or abandonment of savings committees and commissions established in the earlier periods, and the previous publicity given to their activities is much to be regretted.

<u>Policy 4: Targets and Context:</u> The empirical survey has indicated how erratic has been regional performance in relation to targets derived from international comparisons and time series studies of a large number of countries. The significance of this observation is due to the wide usage of these targets by influential multilateral institutions as well as major government donor agencies. It is important therefore that use of these targets is approached with caution, and self congratulatory positions are not too readily taken when the region's performance exceeds them. The particular problems of size, scale, high levels of migration, openness, proximity to the North American market, and the preponderant weight of foreign investment in the region make its economies very distinctive and atypical. These misleading indicators have arisen in other areas. A good example is that based on per capita GDP figures (in some instances in

excess of $US10,000). Several countries in the region have been graduated and are no longer eligible for "soft loans". Yet in general it can be argued that all the territories of the region are still highly vulnerable, and moreover, that necessary infrastructural investments which frequently require large initial outlays cannot be reasonably financed from the savings of very small populations, no matter how high the savings ratio. The policy proposal therefore, is for <u>the development of targets for the region based on its particular context and historical experiences. It is only targets developed in this way which can serve as guides to internal progress and form the basis for dialogue with external agencies which participate in the financing of regional development.</u>

<u>Policy 5: Public Policy and Financialization of Savings:</u> In the previous sections we noted the crucial role played by governmental leadership in the promotion of financial diversification. In so far as major weaknesses gaps continue to exist in the financial structure, (as we shall see below), <u>there should be no abandonment of public initiatives and overly ambitious reliance on market signals.</u> The particular circumstances of the region's economies and their historical formation do not make this a feasible proposition, no matter how attractive the ideological appeal of the market. Furthermore, in all successful market systems, the protection and nurturing of enterprises in their early phase of development, have been key features of public policy. The problem is not protection <u>per se</u>,

but how to determine when protected enterprises should be left to face the vicissitudes of the market, and then summoning the political will to let them do this after this has been determined.

At present there are certain specific areas where government initiative is called for: the further development of regulatory framework of financial institutions, greater emphasis on securitisation and the development of stock market operations, informal finance, and the mobilization of the savings of non-resident nationals. We shall examine these later in the presentation. Before leaving the present policy proposal it should be noted that public policy designed to promote private savings is best approached in the context of government's commitment to increase their own saving. There is therefore, the complementary requirement that government vigorously pursues measures to control and make more effective their own current expenditure while at the same time ensuring the steady growth of tax and non-tax revenues. The recent UN World Economic Survey (1988) already referred to had reported on a sample study of developing countries in which econometric data showed:[12]

- a close association between a high rate of growth of government savings and growth of GDP;
- that a large or growing deficit constrained growth;
- that prudent fiscal policies were associated with a higher rate of growth of output; and
- that an over-expansive fiscal policy in the face of supply constraints was harmful to growth.

Policy 6: Commercial Banking: The final policy proposal to emerge out of the theoretical and survey analysis is in regard to the commercial banks. Their continued dominance in the financial system has been established and along with it little evidence that after many years of public criticism, their portfolio preferences have been significantly altered. Neither moral suasion, central bank regulation, nor even the establishment of local banks under government ownership in joint-ventures or privately owned has been able to alter this. The only policy which has not been tried, and which we advocate is opening these banks to much more competition from what are traditionally termed non-banks. Competitive pressures on the commercial banks mobilization of deposits as well as in their portfolio preference for safe, short-term, self-liquidating loans, may be the only lever left to pull. It is only this which remains that might be able to get the commercial banks to take more risks, and in default of this, find their leading role in financial intermediation put in jeopardy. Competitive pressures may succeed where everything else has failed.

This call for increased competitive pressures to be placed on the commercial banking sector would only be possible if appropriate changes in the regulatory framework of financial intermediation in the region were introduced.

Policy 7: The Regulatory Framework: As said earlier, confidence is key to all financial activity. The growth of financial intermediation in the savings process is crucially dependent on public confidence that financial institutions are both well run and honest. Several scandals, near-scandals, and suspicions have arisen in the region, which have cast doubts on the integrity of several institutions. These have included finance houses, government run institutions, credit unions, commercial banks, and institutions (both commercial and financial) operating in the stock exchange. Since independence, public legislation to regulate financial activity has not been responsive to the needs of the time. The little which has been introduced has been in response to situations of crisis. This then remains a major lacuna in the operation of the financial system and cries out for immediate attention. As Williams has observed: "regulations governing financial institutions in the region have been slow in changing over the past 20 years and there has not been a great deal of dialogue on the direction of that change".[13] She goes on to point out that if regulations can be viewed as "both preventative and supportive, fundamental and discretionary", then most of the regional regulations are confined to discretionary influence in support of macro-economic management. Such an approach however, takes for granted that the other regulations are in force, when they are clearly not so. Codrington and Coppin also note that in Barbados: "there are serious gaps in the regulation of non-banks". They go on to point out that for example insurance companies deposit taking and interest rate fixing on mortgage loans are not covered by legislation. In addition: "the Central Bank has no legal authority to impose reserve requirements on trust and finance companies".[14]

In concluding this discussion it would be useful to enumerate some of the other important areas where the promulgation of regulations is long overdue:

- the position of commercial banks as regards the holding of equity in other enterprises;
- the position of non-banks, especially insurance companies in the ownership of commercial banks;
- merger and take over activities;
- capitalization and debt ratios of enterprises;
- the prudential management of trust funds;
- the establishment of deposit insurance or safety net facilities in the banking system;
- stock market activities.

To economize on cost and maximize the effectiveness of available expertise a regional approach to the solution of these difficulties might well be considered. This would have the additional advantage of anticipating the need to harmonize these regulations to cater for increased regional cooperation.

Policy 8: The Stock Market: Arguably, the most important development in recent times in the process of financial intermediation in the region, has been the promotion of stock exchanges, as part of a wider encouragement of the growth of vibrant securities markets. The major objectives here have been:

(i) to broaden the range of assets available to potential savers;

(ii) to broaden the base of private capital ownership;

(iii) to encourage the growth of more financially sophisticated communities based on the regular information flows: published accounts, daily stock market reports, etc., which routinely accompany these institutions;

(iv) to stimulate accounting and commercial law reform; and perhaps above all,

(v) to encourage the raising of investment funds through new issues, rather than from borrowing, in order to stimulate the growth of new ventures and to reduce the high debt ratios, which characterize Caribbean enterprise.

Since their establishment the stock exchanges have either not grown rapidly enough or have exhibited marked instability. Thus in December 1988, the oldest (1969) and the largest of the region's stock exchanges (Jamaica) with a capitalization of J$3,279 million showed the value of traded stocks at J$137 million which was half that of the previous year, and less than half that of the peak year 1986 when this figure stood at J$377 million. After the first seven years (1978-1984), the value of traded stocks had only reached J$26 million. The volume of transactions showed a similar trend to the value figures. In Trinidad and Tobago, a similar pattern is observed as the number of transactions quintupled between 1981 and 1982 and thereafter declined steadily to a level in 1987 which was only 25 per cent above that of 1981. By 1987, the index of the unit value of shares traded had been reduced to one-third that of 1981, having risen to a peak in 1982 of over 40 per cent above the 1981 level.

Underlying these disappointing results have been several factors, which can be classified into two broad groups. On the one hand there is the structure of West Indian enterprise in which entrepreneurs exhibit a strong preference for debt as opposed to equity. This is often encouraged by their desire to maintain family or other closed circle control of their enterprises. The performance of the primary market has been, to say the least, disappointing. By 1988 there were only 45 listed companies on the Jamaican stock exchange. On the other hand, there have been internal weaknesses in the stock market. This is evidenced by the inadequate and frequent lack of "timely disclosure" by firms in the market. Major developments of importance to share holders are not disclosed in a timely manner, while regular and up-to-date quarterly reporting are infrequent. At the same time accusations of collusion, manipulation and insider trading are rife in the relevant circles. At this juncture my judgement is that complete self-regulation of the stock market alone is clearly insufficient for the task at hand, and if this continues there is the real risk that its secondary market function might decline into disrepute.

Reactivation of growth in the securities market requires a number of important policy measures; the more important of which are:

(i) A legal framework to complement self-regulation. Without this the activities of the market may never become transparent enough to permit an uninterrupted expansion of public confidence and the easing of fears of manipulation, collusion and insider trading.

(ii) The laws pertaining to public and private companies must be brought closer together as regards disclosure requirement, so that non-disclosure "benefits" are not appropriated by private companies.

(iii) The deliberate encouragement of increased competition in the stock market through an increase in the number of brokerage firms is important. There is no reason why parastatal, joint enterprise, and non-governmental associations should not be encouraged to set up their own arms length trading agencies or participate in cooperative ventures to do so. Indeed because of their public reputation these might well engender greater public trust.

(iv) This proposal needs to be complemented with a clear legal position as regards broker liability, in event clients are not given the quality of professional advice they pay for. To promote this professionalisation, efforts should be made by all the relevant authorities to improve the training of stock market operators. In addition, clear, frequent, and up-to-date statements on the financial interests of broker firms are required.

(v) In all the regional stock exchanges complaints are frequently made about administrative bottlenecks and delays even in such matters as registering share transfers. A thorough review of the situation is called for, so that the appropriate remedies may be taken.

(vi) Finally, while secondary market trading enhances financial intermediation, the primary market is key in the direct linkage of savings to investment and growth. This calls for sustained efforts to get companies, both old and new, to turn to the market for its financing requirements. Already some institutions (e.g. CDB) are constrained in their ability to lend to private enterprises, given the debt-equity ratios which these operate with. Fiscal incentives may well be the best approach to resolving this dilemma. These incentives could be geared to encourage existing unlisted companies to be listed, if for example listed companies are given more attractive tax relief than unlisted ones.

<u>Policy 9: Informal Finance</u>: Compared to other developing regions at a similar stage, the CC, and in particular the island territories are generally recognized as having achieved a high level of financial intermediation. This reflects the special combination of small size and therefore limited pockets of isolated population, and the importance of tourism and off-shore finance in the operations of these economies. Despite this, informal finance, broadly defined, remains an area of challenge, as it is a major source of small scale saving and lending. Several features of the system of informal finance in the region stand out, and these provide guidelines for the successful development of small savings and loans activity. Among these are:

(i) The importance of personal relations to both lenders and borrowers, as well as in the formation of credit groups and associations. Many of these are in fact part of local community support structures and the operators have a very good knowledge of the community and environment in which they operate.

(ii) Operators in this area display a flexibility,rapidity of response, and ease of transactions which are in many ways remarkable. Effectively these forms of finance appear to operate on a 24 hour, 7 days a week basis. And, while this is not always desireable or achievable in more formal structures, the flexibility of hours is an important consideration, in the promotion of small scale savings.

(iii) The bureaucracy attached to these sources of finance is minimal, and the regulations and administrative arrangements which they carry are well suited to financially unsophisticated borrowers and savers.

(iv) The emphasis of this form of finance is to accept all savings no matter how small, and to emphasize availability rather than cost in lending. Loan rates are often very high, reflecting the absence of scale economies, the risks, and often the monopoly power which individual operators can command in circumstances when loans are resorted to out of distress. But, in the communities this is often overlooked because of the emphasis on availability and flexibility.

Informal finance takes many forms and one of these is where savings and investment is a simultaneous act. This happens for example, when a farmer, or even an urban householder, either alone, or in cooperation with friends and family, uses his or her labour to undertake some improvement, e.g., build a fence, start a small garden etc. The importance of this form of saving is often neglected in the region, particularly with the unfortunately declining emphasis on cooperative and self-help activity. In the scheme of things, however, this is a potential source of non-financial savings which requires serious attention.

Policy 10: Non-resident Nationals Savings and Flight Capital: Given the relatively large Caribbean diaspora residing in developed market economies, it is important at this stage that serious attention is directed to the mobilization of savings of non-residents nationals. This proposal is directly linked to the urgent need also to discourage capital flight and,/or encourage capital repatriation to the region. This is not a new proposal for developing countries, as several countries over the years have experimented in this area. It is my belief that it would be worthwhile for the relevant authorities to promote a close study and evaluation of these experiences, from a regional perspective. Until this is done the best that can be offered here are some suggestions based on a reading of the literature. These are referred to below and should be read as additional to the basic need to create a political-social-economic environment which is not contra-indicative and does not add appreciably to the risks as perceived by potential investors:

(i) Based on other experiences careful consideration should be given to declaring an "amnesty" on illegally held overseas funds. This should be linked to legislative changes geared to place these funds under a regime of administration that is fair to all interests involved, while at the same time being realistic enough to accept that without incentives these savings will continue to be effectively outside the national economy. This proposal, I recognize, raises complex issues of law and ethics. In other situations the point has been made that such measures carry overtones of "rewarding illegality". It is for such reasons that careful consideration is being urged.

(ii) Another device which might be considered is that of giving those non-residents who send funds home for saving and investment, favorable exchange rates. This might also be extended to the illicitly held overseas funds of residents.

Apart from the ethical issues which this proposal also raises, experiences elsewhere have highlighted the dangers of "round-tripping"(that is a situation in which those who are entitled to these benefits seek to exploit the differences in exchange rates used for outward and inward transactions).

(iii) A third proposal is to develop a dimension of the local securities market which is geared to the special requirements of the situation. This would comprise several features. One might be the sale of off-shore bonds, in which non-resident nationals and residents with overseas funds would be given special incentives. Another would be giving exchange rate premia to these savings when used to purchase domestic assets. A third might be allowing local financial institutions to accept these funds as foreign currency deposits with certain convertibility and repatriation rights. Finally, preferred access to the local security markets could be afforded non-resident nationals over other foreign investors.

V Conclusion

Ten policy proposals were considered in the previous section. The majority of these followed on the theoretical and survey analysis undertaken in Sections 1 and 2. The overall thrust of that analysis is that a well developed financial system with a range, depth and variety of financial assets and institutions is important to raising and sustaining the savings ratios in the region and creating the best conditions for the efficient allocation of these savings. Such a well developed system is impossible to obtain without public confidence based on the free flow of information onto the market. Furthermore, the capital market itself cannot be maximally-integrated with a unified and national rate structure if this free flow of information and access does not obtain. At present, the fundamental disjunctures which exist in the market are those between the formal and informal sectors, between large and small savers and users of funds, and between public and private savings, and public and private domestic access to savings.

The remedies to these situations will require considerable public sector initiative, and here the case might well be made again as it was at the time of their first establishment, for the Central Bank to pursue their developmental role more assiduously. This requires their finding an appropriate balance between short-run macro-economic management and the long-run development. The key to this balance is recognizing the truth in what this paper has sought to emphasize, that is, the mobilization of domestic savings is pivotal not only to long-term development, but to the maintenance of internal and external balance in a period of substantially reduced capital inflows, and prolonged macro-economic disequilibrium.

1.Ramsarran (1988), p. 32-33 quoted here.

2. Najjar and Marcelle, (1984). The latter result leads them to question the appropriateness of the retail price index as the deflator of the series.

3.UN (1988) p. 145-146. The coefficient of correlation between the savings ratio and growth of GDP for the 21 countries of the sample was 0.40 for the period 1971-1980 and 0.54 for 1981-1986. Both were statistically significant at the 5 per cent level.

4.*Ibid*, p. 145-146.

5.Crichton and De Silva (1988) p. 125.

6.Codrington and Coppin (1988) p. 1.

7.Liburd and Bain (1988) p. 2.

8.*Ibid*, p. 9.

9.Codrington and Coppin (1988)., p. 7.

10. Mannhertz (1972)

11. Najjar and Coppin, (1984) p. 33.

12. U.N.C. (1988)

13.Williams (1987) p.1.

14.Codrington and Coppin (1988), p. 12.

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