Some Issues and Problems in the Development of the Financial Structure in Post-Independence Trinidad & Tobagy by Ramesh Ramsaran

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SOME ISSUES AND PROBLEMS IN THE DEVELOPMENT OF THE FINANCIAL STRUCTURE IN POST-INDEPENDENCE TRINIDAD AND TOBAGO

BY

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The boom years of 1974-81 witnessed a rapid growth in the value of financial assets in Trinidad and Tobago.[1] Financial institutions also experienced an unprecedented level of profitability. In this situation weaknesses in the structure and organisation of financial institutions as well as bad management practices were easily covered up. The decline of the economy since 1981 has revealed not only weaknesses in all sectors of the financial system, but the shortcomings in the approach to regulation and supervision. In the mid-1980s with the decline in profits and the increasing volume of non-performing loans the banking system came under severe stress to the point where there were fears of a run on major banking institutions. In early 1989 the operations of one bank in which government was part owner was suspended for a period. The insurance industry has also suffered. A few non-life insurance companies have closed, while some others are having difficulties meeting claims. A number of finance houses have collapsed, resulting in a serious undermining of confidence in financial institutions generally. The Government was

eventually forced to introduce a deposit insurance scheme in 1986 to protect depositors doing business with licenced banks and financial institutions. There are also questions surrounding the operations of the National Insurance Scheme. The effectiveness and performance of both the Agricultural Development Bank and the Development Finance Company has also been drawn into focus. The latter has recently been restructured to reduce its dependence on government funding and guarantees and to play a larger role in development financing in the private sector. In the face of declining assistance from Government, the Agricultural Development Bank also sees itself adopting a more aggressive policy in raising funds from non-government sources. While this may not affect its original functions, it certainly will require a more professional approach in operations.

In this paper we examine the background to the continuing evolution of the financial sector in Trinidad and Tobago and focus on some of the factors affecting this evolution. The paper is organised as follows. The first part is an introduction which offers some general perspectives on factors affecting the behaviour of financial institutions. The second part outlines the Government's policy towards the financial sector in the early post-independence years. In the third we discuss some current issues in major subsectors of the financial system. In the final section we make some conclusions and observations.

Introduction

The importance of the financial system to economic growth and development has long been recognized in the literature.[2] While the nature of the relationship is often the subject of controversy, in poor countries the development of the financial infra-structure tends to be seen as an integral part of the development process. This development not only involves introducing new institutions and new instruments to fill existing gaps in the financial structure, but also transforming old ones along lines consistent with national objectives and aspirations. The general view in developing countries is that the financial sector must be advanced not as an end in itself, but as a means of achieving national goals in the real sectors of the economy.

Recent experience in developing countries has shown that the development of the financial instructure will not take place simply as a result of passing legislation, particularly those drawing heavily on the models and experience of the industrial countries where habits and conditions tend to be quite different from those prevailing in poor societies. Demand for services is a crucial leading factor. Too often institutions building is seen as a once and for all undertaking, and change is often undertaken only when a crisis develops. The realistic approach requires that

it be a continuous process involving intense monitoring and frequent adjustments to operational practices and regulations in order to deal with new situations. Confidence in financial institutions, which is an essential prequisite to their growth, has to be nourished. As the range of institutions widens and as new instruments come into being the regulatory authorities have a crucial role to play in protecting the public and in ensuring 'fair-play' among the institutions themselves. The development of financial sophistication is a responsibility of both the regulatory authorities and the financial institutions, irrespective of who owns them.

Regulations are only one source of influence on the behaviour of financial institutions. Their perception of their role is another. Environmental factors such as the level of development of the local capital market and even political pressure and interference of various kinds can also influence the way they conduct their business. How does one measure the 'success' of a financial institution in a development context remains an intriguing question. Is it by the rate of growth of deposits or assets, by the size of profits or dividends paid out, by the number or size of loans made in sectors deemed as high priority areas by the authorities, or by the extent to which consumers have been helped in satisfying their needs? It is likely

to be a combination of these. Given the specialised nature of financial institutions the areas of concentration would of course differ. The so-called development institutions [Agricultural Development Banks, Development Finance Corporations, etc.] tend to be involved in medium and long term lending in sectors with a high development profile. At the short end of the market institutions like the commercial banks and finance houses would have consumers and the distributive traders high on their lending lists. Making a profit is a paramount goal of privately-owned institutions and this leads such institutions to concentrate in areas with high returns. National concerns in terms of the allocation of resources may conflict with this goal. The liabilities structure of an institution often dictates what it can and cannot do. Even when the institution may be owned by the government, this constraint still holds, and efforts to force it to operate differently can and often result in its ruin. Of course, an institution may collapse not because it is forced to do what its structure does not permit, but simply because it is badly managed. An argument often made is that while the need for an institution to make profit is recognized, some profits should be sacrificed in advancing the national cause as articulated by government planners, i.e. by investing in areas where financial returns may be lower, but which have high social value. Not sur-

prisingly, institutions often respond by arguing that their first responsibility is to their depositors, and where they rely on borrowed funds they have to be conscious of their credit rating which is critically influenced by the management of their loans portfolio. In circumstances where there is increasing dependence on the market, or on extra-government sources for funds, even government-owned or controlled institutions have to be conscious of their image and have to adopt a cautious approach to lending.

Early Post-Independence Policy And Its Impact On The Financial Infra-Structure

Even before political independence was achieved in 1962, the then Government recognized the need for financial reform and innovation. There was not only concern over the operations of the colonial monetary system, but also over the domination of the financial system by foreign based institutions. The concern was not so much about the viability of the arrangements, or the safety of the funds of the local public, but with the implications for national development objectives. Since the financial system was dominated by branches or agencies of international firms, a common view was that there was no need to be concerned about the safety of the public's savings. The fact that a large part of it was being used in investment outside the country was overlooked. The Government also saw the

need for new financial institutions to fill important gaps by providing a greater volume of medium and long term finance. In his budget speech of 1961 the then Premier and Minister of Finance, Dr. Eric Williams had this to say:

> "A Development Finance Corporation is urgently needed. Two of its main objectives will be to promote financial and technical assistance to the private sector of the economy and to initiate jointly or singly enterprises which it considers necessary to the further development of the economy.
>
> It cannot be too often stressed that the investment in overseas countries of funds originating in Trinidad and Tobago delays the economic advancement and the development of modern financial institutions within the territory, and can only perpetuate conditions which will make further investment overseas necessary.
>
> Savings of the territory, whether placed in banks, Insurance Companies, Savings Banks, Pension Schemes, Building Societies or any other institution, ought as far as possible, to be invested primarily within the territory as it is only by so doing that the economic activity which will assure greater employment and which is necessary for the generation of a higher level of national and per capita incomes can take place."

Again in his budget speech of 1963 the then Minister of Finance Mr. A.N.R. Robinson was to repeat the point in the following words:

> "One of the most serious disadvantages from which developing countries have suffered, and from which we in Trinidad and Tobago have not escaped, has been the nature of the banks and other financial institutions operating in the country, which have tended to siphon domestic savings for investment abroad even while the country itself is desperately in need of capital. Moreover. the credit policies of these institutions have

> been dictated by their metropolitan head offices and have tended to reflect metropolitan rather than local requirements."

The thrust of government policies became more evident after independence. Commenting on the setting up of the Development Fiannce Corporation in his 1968 budget statement the then Prime Minister and Minister of Finance, Dr. Eric Williams made the following remarks:

> "Since 1965 the government has declared its willingness to participate in a majority or minority role, in establishing an institution which would make long and medium term financing available to industry and tourism in the country. The Government's concept is that this institution will not only raise and lend money to the private sector in accordance with sound commercial criteria, but will also encourage more nationals to own shares directly or indirectly in local business."

In the same statement, the commercial banks which were all branches of metropolitan based institutions were alerted to the Government's intention to develop 'an indigenous banking system' in the country.

The 1960's witnessed the adoption of some important pieces of financial legislation and the setting-up of some major financial institutions. Among the former were the Commercial Banking Act and the Central Bank Act which were both passed in 1964, and the Insurance Act of 1966. The Agricultural Development Bank came into being in 1968 and the Development Finance Company established in 1970

The Central Bank Act empowered the Bank not only to carry out most of the functions associated with traditional central banks, but also gave it additional responsibility. The Bank was to assist in the creation of a local money and capital market and was to also ensure a sound system of commercial banking, and if required to do so was to assist in the establishment of an indigenous bank. It was also empowered "to maintain, influence, and regulate the volume and conditions of supply of credit and currency in the best interest of the economic life of Trinidad and Tobago." In introducing the Central Bank Act in Parliament the then Minister of Finance felt that "the main function of a central bank in Trinidad and Tobago must be to assist in doing in the monetary field all such things as would promote development, primarily by producing conditions most conducive to the flow of long term investment into the productive sectors of the economy. Credit policy should not encourage [the purchase of] motor cars and refrigerators at the expense of machinery, plant and equipment, or at the expense of agriculture or housing. Portfolio management and reserve policies should not encourage the export of savings at the expense of domestic investment."[3]

Since the six commercial banks operating in Trinidad and Tobago at the time were branches of international banks located in the U.K. and North America it was felt in some

quarters that there was no need for the formal controls enshrined in the Central Bank Act and these should be replaced by "a provision simply empowering the Central Bank to consult with the commercial banks on all matters concerning the volume and conditions of supply of credit and currency, the scale of deposits to be kept with the Central Bank from time to time, the proportion that the banks' Trinidad and Tobago assets should bear to their deposit liabilities in Trinidad and Tobago and other related matters, and from time to time to issue requests to the commercial banks regarding the monetary policies that the Central Bank desires the commercial banks to follow."[4]

In the absence of a well developed capital market, the Central Bank has been unable to use the major instruments of monetary control and has relied heavily on the use of moral suasion. It has adopted a policy of minimal interference with the financial sector, taking the view that many issues are best resolved in the market place, or through admonishment, rather than by edict. Interest rates policies, for example, have largely been left to the financial institutions. Official direct efforts to increase private savings have been mainly through the use of fiscal policy.

In the 1960s the concern of the Government was more with the general orientation of the financial system and the need for new institutions to supplement existing ones.

In the 1970s and particularly against the background of the social unrest in 1970, the concern shifted to the issue of control. Even before 1970, however, the Government had already begun to articulate a banking policy. The foreign owned banks were urged to form local subsidiaries and invite local participation as a means of establishing 'an indigenous banking system.' Commercial banks could open new branches only with the permission of the Minister of Finance. New commercial banking operations would be permitted in the country only if they were joint venture operations involving local participation. The first nationally owned commercial bank was formed out of the purchase of the assets of the Bank of London and Montreal and opened for business on the 1st of July, 1970.[5] The Workers' Bank in which government had a minority interest was opened the following year. To encourage local participation the foreign-owned commercial banks were pressured into forming local companies. One refused and eventually left the scene. Insurance companies were also being urged to make a greater contribution to local developmental objectives. From the beginning of 1975 insurance companies were required to keep 70 per cent of their Statutory Fund in local assets and 80 per cent in local plus CARICOM assets. The insurance sector was strongly averse to the government's localisation policy announced in 1967. Between this year and 1974 only

one foreign life insurance company had localised its operations. To increase the pace of localisation it was announced in the 1974 Budget Speech that with effect from 1st January, 1978, only policies issued by insurance companies in which there is a local shareholding of 25 per cent or more would qualify for the tax benefit.[6] This would not affect policies issued before that date. A local re-insurance company owned by the government [60%] and the private sector [40%] was also formed to provide re-insurance services to the local industry. Private insurers give 5% of their re-insurasnce business to this Company on a voluntary basis. The bulk of the re-insurance business still goes abroad.

Some Current Issues

Table 1 gives an indication of the relative importance of various categories of financial institutions in the financial system. With assets amounting to around TT$10 billion in recent years, the commercial banks are by far the most important intermediaries. The stagnation in the growth of total assets in recent years reflects the downturn being experienced by the economy. Total assets in 1988 amounted to 66 per cent of GDP as compared to 36 per cent in 1973. The finance houses have been particularly hardhit, and the decline in assets reflects the closure

of a number of companies. With the steady drop in income in recent years and with it the ability to service loans, the mortgage companies' growth has been seriously affected. These companies are being challenged to deal with a situation not necessarily of the borrowers' creating. At the same time, given the shortage of houses, mortgage lending has to continue increasing. The Unit Trust Corporation [UTC] was set up by the Government as a medium through which small savers could participate in enterprise ownership without taking individual risks. As we shall see later, Government policy requires that UTC be accorded a certain priority as a purchaser when new share issues are made.

The Commercial Banks

The changes that have taken place in the operational framework have not affected the growth of the banking sector . In 1962 there were five banks with 37 offices. At the end of 1988 the number of banks in existence still numbered less than ten, but there were almost 120 branches. Banking density has increased significantly since the 1960s. The number of persons per branch dropped from 27.134 in 1960 to 10,300 in 1987. All the banks now operate on the basis of local companies with the majority of shares held by citizens of Trinidad and Tobago and national institutions.* At the end of 1988, four commercial banks were fully owned

* The exception is a [illegible] foreign-owned [illegible] which is not significant in the domestic retail business.

by nationals, three were majority owned and one was majority foreign-owned. The decision in 1988 by the new Government which came to power in 1986 to allow a foreign owned merchant bank to purchase the minority local shareholding in one commercial bank marks a significant change in policy. This may be explained by the greater emphasis being placed on private investment and the need to attract foreign capital. In any event the question was being asked in some circles whether the complete severance of links with parent institutions was in the interest of either the local subsidiary or the country as a whole. While banking is no longer the esoteric business it was once deemed to be, some local bankers believe that there are benefits to be derived from continued links with large international banks. Some others, however, view the complete localisation of certain banking institutions as a sign of coming of age and a reflection of the growing confidence of the country in itself.

The process of localisation and even the change of name in at least one important case have not affected confidence in the banking sector. The National Commercial Bank and the Workers Bank which were established with the government backing in the early 1970s have not been able to attract away from the banks with expatriate origins any substantial volume of business. The recent temporary closure of the Workers' Bank and rumours surrounding the

financial conditions of the National Commercial Bank would not help their competitive position. Nationalism often takes second place to concern about the safety of one's life savings. To make an impact institutions have to be seen to be well managed.

The banking regulations have also brought about changes in the modus operandi of the banks. With the growth of government securities and the institution of local [secondary] reserve ratios, balances held abroad have fallen significantly from the mid-1960s. The banks of course, tend to see reserve requirements as a needless tying-up of assets which deprives them of income.

In the late 1960s the expatriate banks were subject to changes of racial and colour discrimination in employment practices. There has been improvement in this area, but fundamental questions remain about whether the traditional orientation has really changed. Despite a more widely distributed share ownership, decision-making remains highly centralized and questions about the banks' commitment to developmental objectives persist. Table 2 which shows the pattern of bank lending in recent years points to a heavy emphasis on consumer lending. The share of outstanding credit to individuals [non-business] increased from around 30% in the early 1970s to over 40% in the late 1970s. Against charges that they are not lending to ~~the~~ productive

TABLE II

COMMERCIAL BANKS: PERCENTAGE DISTRIBUTION OF LOANS & ADVANCES BY SECTOR, 1984-1988

/Per Cent/

SECTOR	1984	1985	1986	1987	1988 I	1988 II	1988 III	1988 IV
Government	1.3	1.5	1.1	0.6	0.6	0.6	0.7	0.6
Public Bodies	12.6	14.1	15.4	18.8	18.4	18.9	19.9	20.6
Agriculture	1.4	1.5	1.1	1.1	1.2	1.3	1.3	1.2
Petroleum	1.7	1.9	1.9	1.4	1.3	1.0	1.3	1.0
Manufacturing	12.8	13.0	15.6	16.3	16.5	16.1	15.3	14.5
Construction	8.7	8.2	6.1	5.4	5.3	5.4	5.2	5.0
Distributive Trades	11.9	12.0	13.2	13.5	13.3	12.8	12.3	11.9
Hotels and Guest Houses	0.3	0.3	0.6	0.7	0.7	0.7	0.8	0.7
Transport, Storage and Communication	4.1	2.8	1.7	1.4	1.1	1.3	1.3	1.2
Finance, Insurance and Real Estate	12.1	12.7	12.5	12.1	12.3	12.3	12.2	12.9
Education, Cultural and Community Services	-	-	0.2	0.2	0.2	0.3	0.1	0.2
Personal Services	1.1	1.1	2.0	1.5	1.5	1.4	1.5	1.4
Consumers	32.0	30.9	28.6	27.0	27.5	27.9	28.1	28.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: Central Bank of Trinidad and Tobago, Annual Economic Survey, 1988.

sectors like agriculture and manufacturing to the desired extent, they argue that they are not structured to do long term lending, and this is really a function for specialized institutions. If they are to venture in those fields the Government should provide some kind of guarantee system and the technical support rerquired. The position differs from bank to bank as far as lending to small business, agriculture and agro-processing is concerned; and this may indicate there is scope for a greater effort in this direction by certain institutions, notwithstanding existing constraints.

As indicated earlier, the authorities' influence on the banks has largely been through moral suasion. The banks have generally been left to determine the allocation of credit which has tended to favour the distributive trades and personal loans. From time to time the Central Bank has asked the commercial banks to observe specified instalment credit guidelines depending on things such as the state of demand, the balance of payments, etc.

With respect to resource mobilisation the banks are often charged with 'living off the fat of the land' rather than playing a lead role in encouraging savings through the use of more imaginative schemes and developing new areas of lending. In Trinidad and Tobago the rates paid on deposits tend to be below the rate of inflation and

the view is sometimes expressed, not without controversy, that a real interest rate policy may have a significant effect on the level of local savings. The nominal interest rates paid differ little among the banks. Whether or not one agrees with a real interest rate policy, the fact is interest rates can influence the allocation of resoures, particularly when savers begin to become conscious about returns on their savings. Resource allocation is crucial to growth and development, and should not easily be rationalised away on an assumption of money illusion and the dominance of the pre-cautionary motive.

The Finance Houses

In 1979 when the Financial Institutions [Non-Banking] Act was passed there were some 12 finance houses in the country as compared to 3 in 1973. By the mid-1980s, the number had increased to 16, but there were indications that several of them were facing serious difficulties. In 1986 the Government was forced to amend the Central Bank act and the Financial Institution [Non-Baning] Act of 1979 to increase the powers of the Central Bank in monitoring and investigating the affairs of commercial banks and other financial institutions. Where the operations of an institution threaten to disrupt the financial system the Central Bank can step in to appoint investigators,

restructure the business, or take control of its affairs. The Act also set up a Deposit Insurance Scheme in which all licenced banks and financial institutions must participate by paying an initial contribution and an annual premium. The initial contribution was fixed at the rate of 0.4 per cent of the average deposit liabilities outstanding at the end of the first and second quarters of 1986. Since the Scheme was the result of the mismanagement of some non-banking financial institutions, commercial banks saw this as an unnecessary additional cost for them. They feel the Scheme should be organised in such a way that the inadequately structured or badly managed institutions should bear the major part of the cost. In any event it is felt that the Scheme is too small to deal with the collapse of any major institution.

Until the mid-1980s the finance houses operated in a framework that was less fettered than that governing the commercial banks. They offered far higher rates than the banks were prepared to do and were not subject to the reserve and reporting requirements to which the commercial banks were subject. Assets and deposits grew rapidly until 1983. Between this year and 1986 deposits declined by some 50 per cent.

The growth in per capita income from the mid-1970s was a major factor in their growth. The highly liquid

situation that prevailed provided enough business for all the institutions and the banks did not see it necessary to compete. The Central Bank saw the finance houses as filling a gap in the financial infrastructure and lowered its vigilance. The competition was seen as a good thing for the financial system generally in terms of resource mobilisation and allocation. It was well known at the time, however, that some of the finance houses were set up by business concerns to finance their operations as an alternative to going to the banks or the Stock Exchange, which they thought was a more expensive way of raising finance.

Finance houses have a role to play in the economy. The experience in Trinidad and Tobago has shown that financial innovation in an unsophisticated setting has to be monitored closely by the authorities if the development of the infrastructure is to take place in an orderly way. Confidence is not easy to restore, and an increasing withdrawal of savers from the system be it in the short, medium or long term segments of the market will affect the growth and development of the economy. Certainly, it would make it more dependent on foreign sources for development capital.

Insurance Companies

At the end of 1987 there were 25 companies in the long term or life insurance business in Trinidad and Tobago. Of this number, five incorporated outside of Trinidad and Tobago were in the process of terminating their business. Between 1975 and 1987 the total assets of the life insurance companies increased from TT$362 million to TT$2,403 million or by over 500%. In 1987 only 10 per cent of this was in foreign assets. Government securities amounted to 13%, company securities 7% and mortgage loans 32%. There are between 20 and 30 companies in the non-life business which in the face of the economic downturn has suffered more than the life sector. The closure of a few, and the apparent inability of some others to meet their claims have raised serious questions about the structure of the non-life industry.

The localisation of the industry was intended not only to increase participation of nationals in management and decision-making, but in retaining a larger proportion of the premium collected for local investment and to protect policy holders. Every life company is required to invest in Trinidad and Tobago an amount equal to at least 80 per cent of its Trinidad and Tobago dollar liability.[7] There are also stipulations regarding the investment of non-life companies.

The setting up of a Supervisor of Insurance Office by the Insurance Act of 1966 was intended to monitor the operations of the companies and take action when necessary to protect the public. As indicated earlier, this has not prevented the failure of some companies and the inability of some others to meet their obligations in the post-boom years. The observation is often made that there are too many companies for the shrinking volume of non-life business, and the public might be better served with a smaller number of larger companies.

The relatively small capital required by the Act to set up a company was perhaps deliberate, and no doubt intended to open up an industry long dominated by foreign branch offices to greater local participation. With the availability of re-insurance the amount of business a company can write need not be dictated by its capital structure. Indeed, the available evidence indicates that while the life companies retain on average over 90% of the premiums written in a particular year, the net retention ratios for companies doing property underwriting is less than 20%. In small markets a certain amount of re-insurance is inevitable, though there is a feeling that with some re-organization the retention ratio could be increased and foreign exchange saved.

<u>Development Of A Local Capital Market</u>

The development of a local capital market has long been recognised as a major goal in Trinidad and Tobago. The government is a major actor in the local market, borrowing in the form of Treasury Bills, Medium and Long Term Bonds. At the end of 1987 the outstanding public internal debt stood at TT$2,727 million. Of this, the commercial banks held about 30 per cent. Public borrowing is undertaken not only to meet financial needs but to enable financial institutions to satisfy statutory requirements. Heavy borrowing by the Government often gives rise to fears that the private sector would be crowded out of the market.

The Stock Exchange established in 1981 was intended not only to assist the localisation process, but to enable companies to tap the local financial market through the issuing and floating of different types of securities. It is intended not only to facilitate the change in the ownership of shares, but to enable companies to raise new capital. The fact that the Stock Exchange provides a mechanism through which security holders can dispose of their securities may encourage saving, and can increase the volume of resources available for financing investment.

Neither the government nor the private sector has used the Stock Exchange to raise new capital to any great

extent.[8] Between 1982 and 1987 [June] only TT$52.5 million was raised by the private sector through the issue of new shares [primary issues.] Over the same period funds received by nationals from the sale of shares by Alien Shareholders totalled TT$175.2 million.

There are several factors which have restricted the growth and development of the Stock Exchange. For a long time the impression has prevailed that the activities of the Stock Exchange largely revolved around equities. Though the government is a regular borrower on the local market it has never used the Exchange to raise development finance. Even in the absence of secondary market for bonds it has encountered little difficulty in finding investors, and this ha . no doubt encouraged it in the use of more direct methods. The encouragement of a secondary market in bonds can serve to increase the confidence of prospective investors who may have less hesitation in participating in the long end of the market. With respect to the private sector, in order to use the Stock Exchange companies have to satisfy certain requirements and provide a wide range of information. Given the family ownership and tight control assocaited with business concerns operating in this country many of them have no doubt found it easier to rely on bank finance including the use of overdraft facilities. Because of the restrictions imposed by the Alien Landholding Act

portfolio investment by foreigners in local companies is discouraged. As far as trading is concerned the narrow range of investment opportunities forces many institutional investors to hold on to acquired shares. In fact, under existing policies an order of priority for prospective buyers has been established as follows:

1. Employees of the Company - 10%
2. Unit Trust/National Insurance Board - 10%
3. Individuals
4. Pensions
5. Companies.

The Stock Exchange has been left to flounder for far too long, and because of the legislative constraints surrounding its operations, its potential has not been fully tested. Changes are required to allow more companies to be listed and some incentives need to be introduced to encourage greater use of the facility. Government itself has to become a major user.

Concluding Observations

The post-independence period in Trinidad and Tobago has witnessed the emergence of a wide array of financial institutions to meet the needs of savers and investors. With respect to the financial sector, the government opted to pursue a policy of localisation rather than forced na-

tionalisation. A financial sector that was once almost ūnder total control is now significanlty owned by nationals. Savings generated locally are now largely invested in the economy.

The recent experience, however, indicates that localisation does not remove the need for proper management within existing operating constraints. There is clearly the need for new approaches to supervision and control. Capital requirements for particular groups of institutions will have to be carefully thought out. Investment policies will have to be monitored and reviewed regularly. The relationship between institutions, and loan management, are areas for specific guidelines. Compliance with regulatory requirements need to be strictly enforced.

A major issue in resource mobilisation is not only to increase the volume of savings, but how to channel such savings into specific investment needs. This calls not only for institutions, but for proper instruments and incentives. Fiscal policy can be a powerful tool in moving incipient capital markets along desired lines. Hindrances which have crept out of tradition have to be tackled through legislation when moral appeals fail.

The savings/GDP ratio fell from about 36 per cent in 1980 to 10 per cent in 1986. While a large part of

this is the result of a decline in government savings, this is clearly an undesirable situation. A middle income country such as Trinidad and Tobago has great difficulty raising concessional finance in international circles. It has to depend on internal resources to a critical extent. Strong institutions have a major role to play in this effort, but strength does not come through accidental means or even through unfettered market forces. It has to be planned and nurtured. The market is often a vicious place and is not always as benevolent as is sometimes made out to be.

FOOTNOTES

1. Total assets of the financial system [including the Central Bank] increased from TT$1.7 billion in 1973 to TT$19.2 billion in 1981 or by over 1000% in nominal terms. Excluding the Cental Bank the increase was in the region of 600%.

2. A major early contribution to this theme was R.W. Goldsmith, Financial Structure and Development, Yale University Press, New Haven, 1969.

3. A.N.R. Robinson, Mechanics of Independence, The MIT Press, Cambridge, 1971, p. 73.

4. Extract from the Chamber of Commerce Letter quoted in Robinson, op. cit., p. 81.

5. The Trinidad and Tobago Co-operative Bank existed, but this was more in the nature of a savings bank.

6. At that time subject to certain maxima, 40 per cent of the premium paid on life insurance policies was allowed as a tax expense.

7. Assets not exceeding 10% of the Trinidad and Tobago liability in each Statutory Fund are deemed to be assets in Trinidad and Tobago if such assets -

   (a) are approved by the Supervisor; and

   (b) originate in any of the member states of the Caribbean Community.

8. See Address by H.L. Edwards [General Manager, Trinidad & Tobago Stock Exchange] to the South Trinidad Chamber of Industry and Commerce on 22nd September, 1987. This Speech provides a careful analysis of the problems facing the Stock Exchange. This section of the paper draws on this address.