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AN ANALYSIS OF THE PERFORMANCE OF THE FINANCIAL SECTORS IN BARBADOS, JAMAICA AND TRINIDAD & TOBAGO

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An Analysis of the Performance of the Financial Sector in Barbados, Jamaica, and Trinidad and Tobago

Introduction.

A considerable degree of attention has been directed over the years towards analysing the role played by the financial sector in the economies of the member countries of CARICOM. The early analysis, e.g. by Thomas(1972), tended to place emphasis on the fact, that the efficiency of the intermediation role played by the sector, was constrained by the fact that it was dominated by foreign financial institutions. The later efforts of Caribbean researchers, have been directed towards an exploration of the more general issue concerning the relationship between economic growth and development in the financial sector(see, for example the papers by Sebastian, Crichton and deSilva, Codrington and Coppin in Social and Economic Studies, December,1989). In addition, other scholars, such as Bourne(1986) and Modeste(1993), have been concerned with determining whether the McKinnon and Shaw hypothesis on the importance of financial repression in acting as a constraint on growth, would seem to be in accordance with Caribbean experience.

In this paper, attention will be directed towards an assessment of the role played by the private institutions, within the sector, in the mobilization and allocation of savings in recent years in Barbados, Jamaica and Trinidad and Tobago. Special emphasis will be placed on examining the performance of the Commercial Banks, as they have been the dominant institutions in the sector. This will be done, to ascertain the extent to which institutions in the sector changed their pattern of lending and investment, in a period when governments in the region were making a major effort to have domestic firms engage in non traditional activities, especially those geared toward external markets.

The paper will be organised as follows. In the first section, there will be a review of developments in the sector, in each of the countries, since 1980. An effort will be made to ascertain the degree of success realised in the mobilization of savings and the overall growth in the sector. Accordingly, there will be an examination of growth in deposits and accumulation of assets in the sector. There will, also, be an examination of the relationship between the rate of growth in deposits and real rates of return on deposits.

The second section will involve an analysis of the performance of the sector during the period. Attention will be directed to the manner in which the institutions allocated loans to different sectors of the economy. This will provide some insights into how far the sector would seem to be adjusting to changes in the economy and/ or assisting in facilitating change.

In the third section, the matter as to how efficiently the sector has performed its intermediary function, will be examined. In this regard, we will be concerned with the spread between the deposit rates and the lending rates charged by the institutions. Efficiency will be inversely related to the interest rate spread. A narrowing of the spread could be taken, in part, to reflect the extent to which growth in competition in the sector would have forced the institutions to be more responsive to market conditions, when mobilising and allocating funds.

The final section, will be devoted to the issue of what will have to be done to help promote the emergence of an innovative financial sector, which will be able to play an effective role in supporting economic growth in the region.

Evolution of the Sector.

There has been a major expansion in the value of assets, as well as deposits, held by the private institutions in the sector, in the three countries, since 1980. The greatest expansion occurred in Jamaica, where, as indicated in Table 1, there was a ninefold increase in the value of assets held by these institution, between 1980 and 1990. A part of this expansion was, undoubtedly, related to the high inflation rates, in most years in the period, arising from the currency devaluations. Nevertheless, the increase in the value of assets exceeded the rate of inflation. Jamaica, also, experienced the greatest growth in numbers of institutions participating in the sector. This growth was particularly noteworthy in merchant banking. In 1985 there were six merchant banks operating in the country. In the following six years the number of merchant banks increased to 21 and there were 25 in operation at the end of 1993. The share of total assets owned by the commercial

Table 1.
Value of Assets Held by Bank and Non Bank Financial Intermediaries.
$Millions

	1980	1985	1990	1992	1993
Barbados.			B$		
Commercial Banks	883.8	1410.2	2180.4	2266.2	
Trust Companies	110.9	167.9	383.4	412.3	
Finance Companies	..	34.1	58.0	62.1	
Total	962.0	1612.2	2621.8	2740.6	
Jamaica.			J$		
Commercial Banks	2100.4	6622.4	17327.5	47067.9	62291.8
Trust Companies	132.5	734.9	374.9	367.4	492.6
Merchant Banks	84.2	348.0	4526.9	10734.6	10926.6
Building Societies	311.1	802.2	2967.7	8737.0	11964.0
Credit Unions	180.2	410.8	812.2	1280.7	1838.5
Total	2808.4	8918.3	26009.2	68187.6	87513.5
Trinidad & Tobago.			TT$		
Commercial Banks	5215.9	10165.1	12178.2	13100.5	15003.3
Finance Companies	485.3	1235.1	1172.3	1253.3	1346.8
Trust Companies	654.7	1856.4	1823.1	2379.2	2779.6
Thrift Companies	60.2	91.7	102.2	76.0	76.0
Total	6416.1	13348.3	15275.8	16809.0	19205.7

Sources: Bank of Jamaica, Monthly Statistical Digest; Central Bank of Barbados, Annual Statistical Digest; Central Bank of Trinidad and Tobago, Quarterly Statistical Digest.

banks declined from 75 percent in 1980, to 67 percent in 1990, while the merchant bank share rose from 3 percent to 17 percent, over the same period. The share of the third major player, the building societies remained unchanged at, approximately, 11 percent. The commercial banks appeared to have recovered some of the ground lost to the merchant banks in the post 1990 period.

In the case of Barbados, the commercial banks maintained a position of dominance in terms of asset ownership. The bank share declined from 92 percent in 1980 to 83 percent in 1990, while the trust company share increased from 8 percent to 15 percent.

During the first half of the decade, finance companies and trust companies accumulated assets at a much faster rate than commercial banks, in Trinidad and Tobago. The share of assets owned by the commercial banks declined from 81 percent to 76 percent. However, by 1990 the commercial banks once again owned 80 percent of the assets.

In all of the countries, the financial institutions appeared to have been very successful in attracting funds into savings and time deposits. The largest expansion in deposits, as indicated in Table 2, occurred in Jamaica. In both Jamaica and Barbados, the non bank institutions made some inroads into the share of deposits controlled by the commercial banks. The competition was centred in the area of time deposits. By 1990, the value of time deposits held by the non bank financial intermediaries in Barbados was almost equal to that held by the commercial banks. In Jamaica the share of time deposits held by the merchant banks was around 13 percent of that held by the commercial banks. In 1990 the value of merchant bank holdings of time deposits was in excess of 80 percent of that held by the commercial banks. In the post 1990 period, as the data in the table indicates, the building societies have been more successful in attracting deposits than other institutions.

In Trinidad and Tobago, the value of deposits increased by more than 100 percent between 1980 and 1990. There was, however no change in the share of deposits held by bank and non bank financial institutions. Unlike both Jamaica and Barbados, time deposits constituted the largest share of deposits held by the commercial banks. At the end of the period, there was a slight decline in the share of deposits held by the merchant banks, while that held by the trust and mortgage finance companies remained virtually unchanged.

As indicated above, the dominant position held by the commercial banks was not seriously challenged in any of the countries during the decade of the eighties. At the same time, their success in attracting deposits seemed to be unrelated to real rates of return on deposits. In Barbados, where annual rates of inflation were low for most of the decade, real rates of interest on time deposits were positive, in all but one year, for the decade beginning in 1983. On the other hand, real rates of interest on savings deposits were negative on four occasions in post 1987 period. Nevertheless, as the data in Table 2 indicates, there was so significant difference in the rate of expansion in savings deposits in the banking sector in the pre and post 1987 period.

In Jamaica, real rates of interest on savings deposits were negative in four of the five years, between 1981 and 1985. From 1986 to the end of 1990 the situation was reversed, with real rates being positive in four of the five years. Once again, there was no difference in the growth in savings deposits in the two periods. The banks did not respond to the competitive challenge from the merchant banks for time deposits in the post 1985 period by adjusting interest rates. In fact there was very little difference, as shown in Table 3, in interest rates on the two types of deposits between 1985 and 1989. It would appear, that since they were able to attract a

Table 2

Value of Deposits in Bank and Non Bank Financial Intermediaries[1]
$Millions

	1980	1985	1990	1992	1993
Barbados.		B$			
Commercial Banks					
Time Deposits	206.7	336.1	415.2	472.0	
Savings Deposits	347.9	511.1	949.3	984.8	
Total Deposits	699.7	1051.5	1743.1	1850.3	
Trust Companies	69.9	136.4	320.3	356.7	
Finance Companies	--	22.8	40.4	41.8	
Total	769.6	1222.5	2103.8	2248.8	
Jamaica.		J$			
Commercial Banks					
Time Deposits	443.8	1754.1	3409.7	8002.5	11745.6
Savings Deposits	736.0	2162.2	5991.9	14107.1	19719.6
Total Deposits	1610.2	4729.4	11686.9	31264.5	43648.1
Finance & Trust Companies	102.2	538.3	243.1	200.0	301.0
Merchant Banks	28.3	232.9	2842.6	6379.7	7005.2
Building Societies	294.7	739.9	2669.2	7530.3	10202.5
Credit Unions	146.8	347.1	694.2	1070.8	1568.2
Total	2182.2	6587.6	18136.0	46445.3	62725.0
Trinidad & Tobago.		TT$			
Commercial Banks					
Time Deposits	1519.3	3584.5	3835.0	3162.9	3681.4
Savings Deposits	1348.7	2494.4	3121.8	3242.1	3660.7
Total Deposits	3501.8	7004.7	8014.4	7854.0	8918.1
Finance Companies & Merchant Banks	308.5	771.9	568.7	569.1	653.3
Trust & Mortgage Finance Companies	537.5	1288.5	1225.7	1447.8	1709.6
Total	4347.7	9065.1	9808.8	9870.9	11281.0

[1] Excludes deposits owned by the public sector and state enterprises.

Source: Same as Table 1.

steady inflow of funds into savings deposits, they had little incentive to respond to the challenge from the merchant banks.

In Trinidad and Tobago, real rates of interest on time and savings deposits were negative, in all but one year, from 1980 to 1990. During the first half of the decade there was strong growth in deposits. Total deposits in the banking system increased by 100 percent in that period. In the last half of the decade there was only a marginal increase in deposits even though the real rate of return on deposits was unchanged at, approximately, - 4 percent.

Table 3.
Commercial Banks: Interest Rates on Deposits[1]

	Barbados				Jamaica				Trinidad & Tobago			
	Time		Savings		Time		Savings[2]		Time		Savings[3]	
	N	R	N	R	N	R	N	R	N	R	N	R
1980	5.7	-8.7	5.2	-9.2	8.8	-18.5	9.0	-18.3	8.1	-9.4	3.3	-14.3
1981	7.7	-6.8	7.4	-7.1	10.0	-2.7	9.0	-3.7	8.9	-5.4	3.8	-10.6
1982	9.3	-1.0	7.5	-2.0	10.7	4.2	9.0	2.5	8.8	-2.8	3.4	-8.2
1983	7.2	2.0	5.4	0.2	12.9	1.3	9.0	-2.6	8.3	-7.0	5.4	-9.8
1984	6.8	2.1	5.5	0.7	15.2	-12.6	11.8	-16.0	8.6	-4.7	6.1	-7.2
1985	5.4	1.5	4.9	1.0	18.6	-7.1	18.8	-6.9	8.2	0.6	6.3	-1.4
1986	4.3	3.0	3.8	2.5	17.4	2.3	16.5	1.4	7.6	-0.1	5.5	-2.2
1987	4.9	1.6	3.0	-0.3	15.0	8.3	15.0	8.3	7.4	-3.4	5.8	-5.0
1988	4.9	0.0	4.0	-0.9	14.8	6.5	14.0	5.7	7.8	-2.7	6.0	0.9
1989	5.4	-0.8	4.5	-1.7	16.5	2.2	14.3	0.0	7.0	-7.2	6.0	-8.2
1990	6.8	3.7	5.6	2.5	23.6	1.7	18.0	-3.9	7.0	-4.0	6.0	-5.0
1991	7.4	1.1	6.5	0.2	23.6	-27.5	18.3	-32.8	6.7	2.8	6.0	2.1
1992	7.1	1.1	5.8	-0.2	32.5	-44.7	21.6	-55.6	8.4	1.9	6.3	-0.3

[1] N is the nominal interest rate. R is the real interest rate i.e. the nominal rate minus the rate of inflation. The inflation rate is measured as the average annual change in the consumer price index for each of the countries. The time deposit rate for Barbados and Trinidad and Tobago is the median rate on deposits with a minimum term of twelve months. The rate reported for Jamaica is the weighted average rate on all time deposits.

[2] The nominal interest rate on savings deposits reported for Jamaica in 1991 and 1992 is the median end of quarter rate.

[3] The nominal interest rate reported on savings deposits for Trinidad and Tobago from 1980 to 1982 is the median rate on ordinary savings accounts. The rates for the following years is that paid on special savings deposits.

Source: Same as Table 1.

In summary, it would appear that the commercial banking sector in all three countries was able to attract deposits, in spite of the fact that depositors quite often were *earning negative* real rates of return. In view of the fact that interest rates on time deposits were not directly administered by government, the negative and often very low real rates of interest on those deposits cannot be interpreted as evidence of the existence of financial repression. Moreover, there appeared to be no relationship between the rate of return and growth rates in deposits.

The Lending Strategy

Approximately two thirds of the assets held by the commercial banks in Barbados and Trinidad and Tobago, in 1980, were in the form of loans to the private sector. In Jamaica loans to the private sector accounted for 50 percent of commercial bank assets, with another one third of assets in the form of loans to the public sector. By 1990, as shown in Table 4, private sector loans accounted for, approximately, 60 percent of the value of commercial bank assets, in the three countries. At the end of 1992, the share of loans to the private sector by Jamaican commercial banks, was significantly lower than it had been at the end of 1990. This was, in large part, due to a sharp increase in their holdings of foreign assets and to a lesser extent government loans. The decade of the eighties, as mentioned earlier, was associated with a major expansion in assets held by institutions in the financial sector in all countries. The commercial banks were the dominant financial institutions. We will now examine the manner in which these institutions allocated funds to different sectors in the economy of the respective countries. The central issue of concern here is the role played by the sector in channelling funds into productive activity in general. On a more specific plane, given the constraint on productive capacity arising from the foreign exchange constraint with which all of the countries had to cope, attention will be directed towards an assessment of its role in supporting activity which would have enhanced foreign exchange earning capability.

Bank lending in support of what might be considered tradeables was highest in Jamaica. However, as the data in Table 5 indicates, loans allocated to those activities did not account for the major share of loans, at any time, during the period. The country which recorded the lowest share of loans in support of these activities, was Trinidad and Tobago. In all three countries there was relative stability in the share of loans allocated to these activities. It is then apparent, that in so far as the commercial banking sector was concerned, there were no changes in their lending activity, which could be taken as being geared to promoting these vital activities.

Table 4
Commercial Banks: Private and Public Sector Loans as a Percentage of Assets

	1980	1985	1990	1992
Barbados.				
Private	64.2	60.2	57.2	53.7
Public	15.6	16.5	18.1	22.8
Jamaica.				
Private	49.6	45.8	61.8	36.5
Public	33.0	30.2	14.1	22.7
Trinidad & Tobago.				
Private	68.0	66.2	61.1	61.0
Public	3.1	4.0	6.0	2.9

Source: Same as Table 1.

Table 5
Commercial Banks: Sectoral Allocation of Loans

	1980	1985	1990	1992
Tradeables.				
Agriculture				
Barbados	3.6	4.0	2.3	2.6
Jamaica	10.8	16.3	9.8	7.9
Trinidad & Tobago	2.8	1.5	1.3	1.5
Manufacturing				
Barbados	17.3	13.7	13.9	15.3
Jamaica	19.7	23.8	17.1	15.0
Trinidad & Tobago	13.7	13.0	13.3	14.2
Tourism				
Barbados	11.4	12.2	6.6	6.1
Jamaica	5.5	6.1	8.3	7.3
Total Tradeables				
Barbados	32.3	29.9	22.8	24.0
Jamaica	36.0	46.2	35.2	30.2
Trinidad & Tobago	16.0	14.5	14.6	15.7
Construction.				
Barbados	7.2	4.1	3.9	4.0
Jamaica	3.4	10.3	15.9	13.6
Trinidad & Tobago	10.0	8.2	3.5	3.3
Distribution.				
Barbados	16.0	13.6	16.4	17.8
Jamaica	8.2	3.2	4.1	6.0
Trinidad & Tobago	13.8	12.0	10.1	10.8
Public Sector.				
Barbados	1.8	2.5	2.2	2.7
Jamaica	2.2	4.6	8.6	5.8
Trinidad & Tobago	8.0	15.6	16.3	11.2
Personal Loans.				
Barbados	24.7	20.4	22.7	21.7
Jamaica	17.1	4.2	5.6	14.9
Trinidad & Tobago	42.1	30.9	37.8	38.3

Source: Same as Table 1.

In both Barbados and Trinidad and Tobago, the major share of bank loans was in the form of personal loans. Personal loans exceeded by a substantial margin the loans allocated to tradeables in the latter country. In the case of Barbados, those loans, along with loans to the distributive sector, absorbed, approximately, 4 percent of all loans allocated. The share of loans allocated to the distributive sector in Jamaica, was substantially lower than that for the other countries.

In comparing the performance of the commercial banks in the three countries over the period, it would appear that the banks in Jamaica adhered less rigidly to traditional commercial bank lending practices. More of their loans were in support of what might be deemed directly productive activity, such as manufacturing agriculture and construction, as opposed to personal loans and loans to the distributive sector. On the other hand, their pattern of lending remained static. Moreover, in spite of the emphasis which has been placed on the need for agricultural diversification and development in that country, the share of loans allocated to the sector declined after 1985.

Let us now turn to a consideration of how the non specialised non bank financial institutions,i.e. those not exclusively concerned with consumer finance or mortgage finance, allocated their loans. In Jamaica and Trinidad and Tobago these would be the merchant banks and finance houses. There was,as reported earlier, a rapid increase in the number of merchant banks in Jamaica, after 1985. In 1990 their share of loans allocated to manufacturing, 17 percent, was the same as that for the commercial banks. The share of loans allocated to tourism was also quite similar. However, as the data in Table 6 indicates, their loans were heavily weighted towards the construction sector and there was minimal support for agriculture.

The non bank financial institutions appeared to play a more active role than the commercial banks in channelling funds into directly productive activity in

Trinidad and Tobago. Between 1986 and 1989, there was a major increase in the share of loans directed by these institutions to the manufacturing sector resulting in the sector absorbing 35 percent of loans. In the ensuing four year period, these institutions continued to channel the major share of their loans to that sector. Nevertheless, it must be emphasised that during this entire period, the absolute value of their loans to manufacturing never amounted to more than 14 percent of that of the commercial banks.

Table 6
Non Bank Financial Intermediaries: Sectoral Allocation of Loans

	1986	1990	1993
Jamaica: Merchant Banks.			
Agriculture		2.7	1.9
Manufacturing		17.2	19.4
Construction		37.3	23.8
Tourism		6.2	7.4
Distribution		6.3	7.4
Personal		4.9	8.6
Public Sector		3.4	1.7
Trinidad & Tobago. Finance Houses & Merchant Banks.			
Agriculture	2.8	4.1	2.7
Manufacturing	15.4	27.5	28.1
Construction	15.3	5.6	5.6
Distribution	11.0	8.7	10.2
Finance & Real Estate	17.7	7.0	18.3
Public Sector	9.5	17.0	5.4
Transportation	13.2	7.7	11.8

Source: Same as Table 1.

The Efficiency of the Sector.

Jamaica experienced the greatest increase in terms of numbers of institutions operating in the sector. Most of the growth was in merchant banking. However, as was pointed out in the previous section, there was no evidence that the dominant institutions, the commercial banks, appeared to be in any way pressured by increased competition, in so far as their lending and investment behaviour was concerned. This might be explained by the fact that all institutions adopted a common approach towards the assessment of risk and hence would pursue similar investment and lending strategies. An alternative indicator of greater competitive pressure on the banks would be whether there were any changes in the spread between interest rates on loans and deposits.

The merchant banks were in direct competition with the commercial banks for time deposits. This competition was particularly pronounced in the post 1985 period. The spread between the interest rate paid by the commercial banks on time deposits and their weighted average lending rate was wider in the post 1985 period. Between 1980 and 1985 the average annual interest rate differential was 5.6 percent. The differential increased to 9.0 percent between 1986 and 1989 and widened further to 16.5 percent between 1990 and 1993(Table 7). There was then no evidence that the increase in the number on institutions in the sector helped to constrain the increase in costs of loans.

In Barbados, where there was very little change in the composition of the sector, the average annual difference between the weighted average loan rate and the interest rate on time deposits was 5.6 percent from 1980 to 1985 and 6.5 percent from 1986 through 1992. The spread in the earlier period was not significantly different than that maintained by the commercial banks in Jamaica. The slight increase in the spread in the post 1986 period was due entirely to a fall in the interest rate on time deposits, as the average annual interest rate charged on loans was virtually the same in both periods.

In Trinidad and Tobago, where the commercial banks retained a position of unchallenged dominance over the period, they were, not surprisingly, able to maintain a substantial spread between lending and deposit rates. The average annual spread was 6.6 percent, encompassing a range from 6.1 to 7.2 percent between 1983 and 1993. This was more than double the spread of the non bank financial intermediaries of 3.1 percent. Both sets of institutions charged similar interest rates on loans. The difference in the spread was as a result of the ability of the commercial banks to attract deposits at substantially lower rates. The average annual interest rate paid by the non bank financial intermediaries on deposits was 9.7 percent, as compared with the 6.2 percent paid by the commercial banks.

Table 7
Interest Rate Spread

	Weighted Average Deposit Rate[1]	Weighted Average Loan Rate	Spread
Barbados.			
1980 -1985	6.6	12.2	5.6
1986 -1992	5.3	11.8	6.5
Jamaica.			
1980 - 1985	12.7	18.3	5.6
1986 - 1989	15.9	24.9	9.0
1990 - 1993	27.3	43.8	16.5
Trinidad & Tobago.			
1983 - 1993	6.2	12.8	6.6

[1] Time deposits for Barbados and Jamaica, all deposits for Trinidad and Tobago.

Source: Same as Table 1.

The unchanged structure in the asset portfolios of the dominant institutions in the sector and their ability to operate their loan portfolios with substantial margins, would indicate an absence of the competitive pressures likely to encourage innovative activity. This leads to the question as to what changes might be required in the regulatory framework, as well as the internal operations of the institutions, to encourage innovative activity in the sector.

The Need for Financial Innovation.

There are two basic conditions which must be satisfied, if the financial sector is to play an effective supporting role in helping economies in the region to perform at a level necessary for an improvement in living standards. First of all, there will be a need for institutions within the sector to enhance their capability in risk assessment outside of the areas which, traditionally, have been the focus of their attention. This implies that Caribbean financial institutions, if they are to meet this challenge, will have to make major changes in their employment practices. In the commercial banking sector, for example, this would require a change in recruitment practices, where emphasis seems to be placed on an ability to carry out traditional banking functions. Specifically, this would involve recruiting people with expertise in areas, such as economics, finance and sociology. The establishment of such a core of analysts, who would not be concerned with the day to day banking activities, could provide senior management, with the kind of substantive analysis on internal and international developments, required to enable them to see the value and necessity of being more innovative in their lending and investment practises.

Secondly, there will be a need for new institutions. There will be, for example, a need for institutions to provide venture capital. This is based on the fact that many investment activities for which there is, potentially, a high pay off will embody a substantial measure of risk. In addition, there will be a need for institutions which are geared to support micro enterprises. This arises from the fact, that in the foreseeable future, a significant portion of the population will have to rely on self employment for survival. The economic decline in the past decade in countries, like Jamaica, forced many into self employment as a matter of survival. It is unlikely, that even with a strong economic recovery, there would be enough new jobs created to change this structural feature of the economy of the region. There is then a need for institutions which would help to promote the productivity of the self employed by providing them with access to capital. The emergence of institutions, such as the Grameen Bank in Bangladesh, could make an important contribution to relieving the capital constraints with which the self employed have to cope.

Let us now turn to a consideration of some of the policy changes, which might assist in improving the sector's ability to mobilise savings in support of investment activity. These initiatives should be geared towards assisting in the mobilisation of savings in support of investments which might entail a higher measure of risk. Governments at the national and provincial level in Canada, have used tax incentives for attracting funds to particular sectors and regions. For example, firms engaged in exploration for petroleum in the frontier areas of the country were successful in mobilising a substantial amount of funds. This success was in large measure due to the fact that investors were granted a 100 percent write off on equity investments in that area. The Government of Quebec also used tax incentives of this type, successfully, in helping Quebec firms to attract investment funds. CARICOM governments should examine these initiatives with a view to ascertaining the extent to which they might be adopted for the region. In essence the tax system can be used by investors as a partial hedge against risk and in so doing attract funds into activities where the potential reward, as well as risks are high.

On a more general plane, it is important for the region to adapt the regulatory environment for the sector to ensure that it is in keeping with the trend towards liberalization and deregulation occurring on a global scale. This will be important for the following reasons. If the sector is to improve its effectiveness in mobilising savings, the effort in this regard can clearly not be restricted to domestic savings. The effective mobilisation of funds from all sources will likely require the direct involvement of foreign financial institutions. In addition, these institutions, given their experience and human resources might be better able, at least in the short run, to be more innovative in meeting the investment needs of the region.

It would seem to be the case, that as a general rule, the financial sector adapts to the economic environment, rather than being an instigator of change in the environment. This is evident when one observes the growth in the variety of institutions and instruments, which have emerged in mature capital markets in the recent time period. Accordingly, what might be taken as evidence of a lack of dynamism in Caribbean financial markets might simply be a reflection of an absence of dynamism in the economy at large. It is necessary to face up to the fact that there might be as much a shortage of investment ideas as finance.

Nevertheless, it is our contention that the initiatives suggested above could lead to the type of changes in the financial sector, which might contribute to creating a more entrepreneurial climate in the economy at large. This would come about if potential investors are not constantly confronted with limited prospects for securing financing. Implementation of these initiatives would allow the sector to become more proficient in mobilising funds for investment. This will arise from the fact that existing and new institutions will be better positioned to introduce a range of instruments better suited to satisfy the divergent needs of savers with respect to earnings and risk taking. At the same time, should the institutions make the recommended investment in human resources, they will have, in house, the risk assessment skills required, if they are to carry out effectively the other dimension of the intermediary function, channelling funds to investors.

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