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FINANCIAL DEVELOPMENT IN THE CARIBBEAN (1970-1995)

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FINANCIAL SECTOR DEVELOPMENT

IN THE CARIBBEAN

1970 -1995

by

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The origin of the financial sector of the Caribbean must at once be understood as an imposition on and a reaction to developments in the regional economies. The plantation economies of the Caribbean preceded the institutionalization of its financial sector. Both the concept of financial intermediation and financial institutions themselves were transplanted from European colonizing nations. Early financial institutions functioned to enhance internal and external payment mechanisms, provide trade financing, mobilize savings, facilitate capital transfer and investment abroad as well as lubricate the trade links between the regional and international economies. From its earliest beginnings and for much of its history the region's financial sector has been conservative in the sense of being reactive and accommodating as opposed to proactive to changes in the economy and the wider society.

But what however is a financial sector. The financial sector refers to that complex of financial intermediaries, financial markets and instruments oriented to the mobilization and allocation of financial resources. It is operationalized by processes of mobilization, intermediation, maturity transformation and risk transfer. Finance is the lubricant of the process of economic development and the financial sector is the main provider of finance.

The financial sector of the Caribbean is comprised of the Central Banks, commercial banks, development banks, insurance companies, trust companies, finance companies, credit unions, merchant banks, thrift institutions and saving banks, building societies, unit trusts, provident and pension funds, mortgage banks, savings and loans association as intermediaries. In addition there are emergent financial markets and a plethora of financial instruments.

This paper examines the development and evolution of the financial sector of the Anglophone Caribbean and Suriname with special emphasis on the past 25 years of its existence. As an integral part of the regional economy the financial sector is shaped by historical, political, social and economic factors which determine its growth and effectiveness. Though not in the least homogeneous the financial sectors of Caribbean economies manifest many commonalities which can be traced to their common colonial origins. British and Dutch colonization has had lasting impacts on the structure and functioning of the financial sectors in the CARICOM region. In addition CARICOM countries have gone through their own political changes and economic experimentation which have influenced ownership, growth and behaviour in their respective financial sectors.

Taken as a whole, the financial sector of the region can be seen as evolving through four distinct but interrelated periods. These I describe as:

1. The period of colonial financial growth
2. The period of post independence financial development
3. The structural adjustment period, and
4. The period of financial innovation and preparation for the 21st century.

The Period of Colonial Financial Growth

This phase witnessed the emergence of indigenous savings banks as early as 1828 in Guyana and the transplant of foreign commercial banks most notably the Colonial Bank. Jamaica, Barbados, Trinidad and Tobago and Guyana have all had the Colonial Bank which was probably the first "regional" financial institutions to have ever existed. Other commercial banks emerging in this colonial phase with regional branches were the Barclay's Bank DCO and the Royal Bank of Canada.

The British Caribbean Currency Board (BCCB) emerged in the Anglophone Caribbean in 1951 as the single currency authority and highlighted not so much regional integration but the centralized regulatory demands of the British colonial rule. There was tight control of the issue of the British West Indian dollar which had a fixed exchange rate of BW$4.80 to £1. This period of colonial financial growth then witnessed the creation of financial structures tailored to the narrow structure of the colonial economies of the region. The financial sector was conservative and oriented to the mobilization of financial resources for export and investment in metropolitan financial centers. Stimulating economic growth in regional economies was a peripheral rather than central concern of the financial sector in this period.

The Period of Post Independence Financial Development 1962 - 1975

This period is typified by the institutionalization of indigenous central bank system and indigenous autonomous monetary authorities. The commitment to national sovereignty resulted in the demise of "regional" financial institutions and the concomitant de-regionalization of the financial sector. Nationhood status for regional countries witnessed the wooing of foreign investment. Numerous foreign commercial banks responded to this call for "industrialization by invitation". In countries such as Barbados, the Bahamas and some OECS countries offshore banking institutions flourished. Locally however, development banks were created by government to stimulate investment in desired sectors of the economy. A variety of non bank financial institutions also emerged in this period. As regional economies constructed some of these foreign banks either withdrew or were nationalized by some regional governments anxious to incline the financial sector to national development needs. The heavy hand of state intervention, regulation and ownership functioned to stymie the creative expansion of the financial sector of regional economies.

The Period of Stabilization and Structural Adjustment, 1978 - 1993.

This phase of financial evolution signifies the failure of nationalist economic plans and the grim economic recessions experienced int he region as a whole. It is a reactive phase in which plans for economic revival are externally created and imposed in exchange for selective but needed inputs of foreign capital from Multilateral Financial institutions, bilateral sources and private investors. Stabilization and Structural Adjustment programmes are essentially geared, **inter alia**, towards the institutionalization of a free market regime and diminishing state economic regulation, ownership and control. Several countries in the region - Guyana, Jamaica, Suriname, Barbados, Trinidad and Tobago, have either undergone structural adjustment or stabilization programmes. This period resulted in the freeing up of the region's financial sector from strangling exchange and other controls and regulations.

The Period of Financial Innovation and Preparation for the 21st Century

This period is a concomitant of the structural adjustment phase and is determined by

a) technological innovations which are revolutionizing the international financial sector and inducing the traditional regional financial structures to adopt or else risk extinction

b) the emergence of and competition from a plethora of non-bank financial intermediaries/institutions, cambios, money transfer systems etc. which are performing financial services previously the prerogative of commercial banks and

c) the influx of large flows of narco-dollars into the veins of the regional financial sector creating anomalous adjustments and novel financial institutional responses aimed at laundering such inflows.

The regional financial sectors are paying particular attention to strategic programming aimed at rapidly modernizing and internationalizing their operations to cope with competition and in response to futuristic perceptions of the 21st century. There is growing evidence that more technological innovations and financial experimentation have been introduced in the region's financial sector over the past five years than for all the rest of the 20th century.

In this paper I further investigate the evolution and growth of the various elements of the sector in the CARICOM region. The evolution of Central Banks, commercial banks, non-bank financial institutions and financial markets are traced from 1970 to 1995.

CENTRAL BANKING

Central banking deserves special focus in any study of the financial sector in the Caribbean. Besides being at the apex of their respective financial systems and occupying key positions in the monetary and financial management of their economies, Central Banks in the Anglophone Caribbean are in a real sense symbols of nationhood. Their establishment throughout the Anglophone Caribbean was part of broader changes which ushered in independence and sought to help regional countries shed the yoke of colonialism during the 1960s and 1970s. One notable exception to this trend is the Central Bank of Surinam. This institution established in 1957 was more a symbol of necessity than one of nationhood as that country attained political independence from the Netherlands almost two decades later in 1975.

Central Banks throughout the Anglophone Caribbean bridged the colonial and post-colonial eras by replacing monetary authorities and currency boards whose roles in the money management of the colonial economies were limited.

The first Central Bank to be established in the Anglophone Caribbean was the Bank of Jamaica which commenced operations in May of 1961 after the passing of the Bank of Jamaica Law (1960). The Central Bank of Trinidad and Tobago followed with its establishment by Act of Parliament in December of 1964 and Guyana in October of 1965 by the Bank of Guyana Act of that same year. The establishment of these three Central Banks in the 1960s in a fundamental way paved the way for other countries within the Caribbean Common Market to follow.

Other Central banks in the region established during the 1970s and 1980s include the Bank of Barbados (1972), the Central Bank of the Bahamas (1974), Central Bank of Belize (1982) and the Eastern Caribbean Central Bank in 1983 was the last of the Caricom Central Banks to be established.

The Bank of Barbados was established after that country broke ranks with the Organization of the Eastern Caribbean States (OECS) in assertion of its own identity and sovereignty. It is precisely such quests by regional countries to assert sovereignty that led to the establishment of their own Central banks and the seeming de-emphasizing of regional financial sector integration which was encouraged by the regional colonial power.

While a formal Central Bank was not established in Belize until 1982, Belize had a Monetary Authority set up in 1976 as a half-way house to a full-fledged Central Bank. According to Velos (1991) this Authority established under the Monetary Authority Ordinance of 1976 regulated commercial banks, implemented limited monetary policy measures, altered discount and rediscount rates and imposed selective controls on the volume of commercial bank credit. Very few functions distinguished the Central Bank of Belize from its immediate predecessor. The 1982 creation, in addition to the function of the Monetary Authority was permitted to set deposit and lending rates and hold treasury bills which enhanced its open market operations.

Perhaps the unique institution among the Central Banks of the Caribbean included in this study is the Eastern Caribbean Central Bank (ECCB). Its controlling and development functions extend to a conglomeration of 8 countries namely: St Lucia, St Vincent and the Grenadines, Antigua & Barbuda, Anguilla, Montserrat, Dominica, St Kitts and Nevis, Grenada. The ECCB was established because of the perceived impracticality of these micro states and colony to create separate Central Banks. The ECCB represents the most significant symbol of regional financial sector integration. Despite some similarities in the economies of OECS countries, their problems and requirements are different, making the monetary and financial management of any one Central Bank somewhat complex. In addition the legal and regulatory framework of the financial sector within the individual countries vary.

Central Banks in the Caribbean are pre-eminent and governing banking institutions. They have been patterned off of the British and broader European systems but tailored to meet the varying needs, aspirations and ambitions of the countries that cradle them. Over time Caribbean Central Banks have changed and developed within the framework of the economic, social and especially political settings of the nations. They have exercised quite varying degrees of autonomy within their political and economic systems. Central Banks within Caribbean nations like Guyana, Jamaica and Surinam that have experimented with socialism have had their "autonomy" diminished and later somewhat restored.

Central Banks in the region derive their authority from the Acts or Laws that established them, the subsequent amendments to these acts and other related Banking financial and exchange control acts. They find policy expression in their relations with Government to whom they are bankers and advisors and with Commercial Banks to whom they are bankers, lenders of last resort and controllers. Central Banks control negative economic occurrences, primarily through their monetary policy, through bank supervision and through exchange rate policy and foreign exchange management.

The common functions of regional central banks include:

1. Issuing their local currencies.
2. Ensuring the stability of the currencies they issue.
3. Promoting the development of sound banking and financial systems.
4. Facilitating the payment systems within their respective countries as well as between countries.
5. Promulgating monetary policy

In addition many Caribbean Central Banks have been charged with the responsibility of promulgating financial and economic policies favorable to the development of their economies and managing the foreign reserves of their countries. While it is widely understood and acknowledged that Caribbean Central Banks have a statutory role in the stimulation of economic development within their respective economies it is often unclear how such a role can be articulated.

The economic development mandate, it is believed evolved from a generalized criticism that the Commercial Banks that operated in Colonial Caribbean were least concerned with the development of the economies in which they operate. Rather their main focus was siphoning of domestic savings for investment abroad. Clive Thomas (1965) argued that post colonial states in establishing Central Banks were motivated by the belief that to accelerate economic development, underdeveloped economies must reform existing institutions or establish new ones more geared to meet the needs of development. Indeed the Minister of Finance of Trinidad and Tobago during the establishment phase of that country's Bank was quoted as saying, "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 policies of the banks and other financial institutions operating in the country... ." Similar pronouncements were made by government officials and politicians of other territories. Danns (1990) quotes a former Minister of Finance in Guyana Dr C.R. Jacobs during parliamentary debates for the establishment of that country's Central Bank " What we need in this country is real monetary reform. We do not want a monetary system which is going to continue to be manipulated in the interest of expatriates ... Neither the government nor the Guyanese people have any say in these vital decisions concerning this nation. This is something we cannot tolerate much longer." Jacobs continued "... the colonial monetary system, which is some 150 years old, has resulted in economic backwardness in this country" (House of Assembly Debate Oct 12, 1965)

Similar sentiments were expressed by politicians and some economists in other territories. It was partly against this background of intolerance and anxiety to shed all that colonialism represented that the first Central Banks were established in the 1960s. The precise directions of monetary management were never carefully mapped out. Further some Central Banks were misdirected by policy makers to the detriment of many economies.

Monetary Policies in Caribbean Central Banks

The Central Banks of the Caribbean have had mixed success in the promulgation of appropriate and sound monetary policy. While many have succeeded in controlling inflationary pressures and inflation others have performed poorly in this regard.

The Central Banks within the Anglophone Caribbean have had and made use of a repertoire of instruments in the conduct of monetary policy. On the other hand the Central Bank of Surinam has gained control over commercial bank credit extension by utilizing only credit ceilings. This Central Bank unlike others in the Caribbean has never utilized reserve requirements.

Central Banks commenced their monetary management by issuing their own currency and sought to control its stability in a number of ways. Reserve ratios, fixed interest rates, moral suasion, selective credit ceiling, global ceilings, interest rate adjustments, liquid asset ratios and open market operation are the more popular instruments.

In most cases early monetary policy focussed on protecting the small open domestic economies from endogenous and exogenous shocks. Moreover newly established banks in the 1960s and 1970s fought to stamp in their authority in system which for over 100 years operated largely without any limitations and/or supervision.

In the mid 1970s and early 1980s most Central Banks have struggled to adumbrate policies aimed at averting economic crises. This they achieved with varying degrees of success.

Central Banks throughout the Caribbean have reported little difficulty in getting commercial banks to abide by the dictat of their policies. The greatest challenge yet to the authority of the Central banks and to their successful execution of appropriate policies has been the Central Government that established them.

Central government financing needs have thrown some Central Banks into what I call "involuntary expansionary phases" when the objective economic conditions of these phases required tight monetary response aimed at demand management. Jamaica, Guyana and Surinam are cases in point while the Bahamas has also reported some anxiety over government's financing of its deficit and the changing of laws to accommodate the financing of widening deficits.

Guyana after a wave of nationalization in the 1970s expansion of subsidies and free social services found itself in the throes of an economic crisis, prolonged by inappropriate policy response. Increasing fiscal deficits were financed through monetary expansion which in turn exacerbated the crisis.

Surinam's situation was similar during a period of military control and in the wake of an aid embargo from the Netherlands between 1982 and 1988. For that country tight credit controls were placed on commercial bank lending while the Central Bank engaged in monetary base expansions.

For Jamaica. Lue Lim (1991) explains the mid 1970s failure of monetary policy in the control of inflationary pressures thus:

> Between 1974 and 1976 the Central Bank utilized additional monetary policy instruments including rediscounting facilities... With significant increases in central government credit, however, there was a substantial expansion in aggregate demand and further deterioration of the external reserves.

These deficits continued way into the 1980 as economic crises deepened. In further explaining the phenomenon of the 1980s, and the use of strict demand management measures against commercial blanks Lue Lim concludes "against a background of large fiscal deficits, monetary policy objectives were unrealized."

Monetary Policy within Caribbean Central Banks currently seems to be shaped by the conditionalities of stabilization and Structural Adjustment programmes which many countries resorted to in times of economic decline and difficulties. These programmes have also opened the way for financial liberalization, and financial sector reform.

Jamaica, Guyana and Surinam have all implemented structural adjustment programmes which tended to move these economies towards the adoption of more market-oriented policies. It is within this new environment that more appropriate monetary policy measures developed. For Surinam as it was for Guyana these included market determined interest rates and the development of open-market operations. The reforms came in 1989 for Guyana and 1993 for Surinam. Since 1986 however, Jamaica has had as a principal objective the creation of an environment more conducive to the effective implementation of Monetary Policy "intensifying its use of open market instruments and interest-rate policy in 1989" (Lue Lim).

Trinidad, Barbados and Belize have also implemented stabilization programme. Writers on these Central Banks' monetary policies during stabilization periods all point to liberalization and financial sector reform. Da Silva and Forde (1994) in explaining Trinidad's monetary policy of the 1990s in Trinidad said "The country entered into a Stand-by Arrangement with the IMF in early 1989 and subsequent monetary policy was substantially shaped by the conditionalities and financial liberalization thrust of the programme."

Haynes (1996) in explaining the conduct of monetary policy of the 1990s in Barbados explains that the Bank initially set prime rates then targeted the average lending rate. This policy was maintained until 1991 when "as part of the stabilization package, the Bank initiated a process of financial deregulation."

In the case of Belize, Vellos (1991) recognizes the role of the IMF Stand-by Programme (1984-86) in enabling the Central Bank to increase its information flow from commercial banks and recognizes also the use of the said information in the conduct of monetary policy. Vellos points too to the use of open market operations but explains the limitations of its success.

A distinct phase of monetary policy which involves the use of open market operations has emerged in many Caribbean economies. This operational tool is a distinct transplant of the Central Banks of developed countries. Its success in our economies so far has varied. The total success of open market operations, however, depends on financial information flows, attitudinal changes within the financial sectors and the development of financial markets.

Exchange Rate Policy in Foreign Exchange Management

In keeping with their objective of currency stability the Caribbean Central Banks have had exchange control as a generalized function. These banks have emerged over time as the principal custodians of their countries' foreign reserves and as such they become crucial to the articulation of exchange rate policy and in the management of foreign exchange. For none of the Central Banks in this study has this been an easy task. Like most third world countries, their host countries are and were at some point or the other faced with low reserves and declining terms of trade. In addition at least two countries in the study Jamaica and Guyana have been faced with relatively huge foreign debts, the repayment of which placed an onerous strain on foreign reserves.

Many of the Central Banks within the Caribbean played and continue to play crucial roles in determining legal access of individuals, businesses and government agencies to foreign currency. Banks therefore have married the day-to-day allocation and management of foreign exchange with the broader articulation of exchange rate policies. So much so, that for some countries the two distinct functions became almost indistinguishable.

Exchange Rate Policy

All Central banks within this study presided over fixed exchange rate regimes and fought assiduously for nearly two decades to maintain such regimes at a time when the entire world seemed to have been heading towards market determined rates. Barbados, Belize, the Bahamas and the OECS countries represented by the ECCB still maintain fixed-parity exchange rates. Jamaica, Guyana, Surinam and Trinidad and Tobago now have flexible exchange rates. Guyana, Jamaica and Surinam have gone through what I term "denial phases" during which policy makers ignored emerging signs of fundamental structural weaknesses which warranted an actual and psychological divorce from past economic policies and practices. For them, movement away from a fixed exchange rate was the very last resort. Before finally institution a totally flexible and "market determined" rates, these countries have each in turn gone through a series or combinations of exchange rate regimes. Interestingly enough, Guyana and Surinam were almost exact replays of the Jamaica situation as if there was nothing to learnt from the Jamaica's experience. The countries have had similarly traumatic economic conditions.

Their commonalities include, weakened terms of trade, deteriorating balance of payments, huge budgetary deficits, sever shortages of foreign exchange, large distortions in prices, parallel market activity and black-marketing of currency.

In an effort to combat the parallel market for currency these Central Banks and governments implemented all or some combination of the following exchange rate practices.

1. An Auction system for Foreign Exchange with an aim of arriving at a market rate.
2. A Dual exchange rate system where certain imports were done at the subsidized rate.
3. Multiple exchange rate system.
4. Free foreign exchange market system operating in conjunction with the official system.
6. The establishment of Cambios (Exchange Bureaus) to incorporate the parallel market.
7. Unification of the Exchange Rate.

Table 1
Exchange Rates for US$1 in selected Caricom Countries as at the end of 1970 and 1995

Countries with Flexible rates	1975	1995
Guyana	G$2.5	G$140.0
Surinam	Sf1.8	Sf412.0
Jamaica	J$0.7	J$39.6
Trinidad & Tobago	TT$2.4	TT$5.9

Table 1 shows exchange rates for the US dollar as at the end of 1975 and 1995 for countries that implemented flexible rate regimes. Rate movements were largest in Surinam. Trinidad and Tobago has gone through a less colorful history with regard to exchange rate policy. Da Silva and Forde explain that when persistent weaknesses in oil prices and declining production had precipitated an economic downturn there were sentiments in favor of devaluation after the failure of import controls. They further explained that

it took another year before a devaluation was announced in 1985. This effectively operationalized a dual rate system in that economy.

That country's exchange rate moved from TT 2.40 = US$ 1 to TT$ 3.60 = US$1. for all imports with the exception of food, drugs and other "basic" items which continued at the previous rate (Da Silva & Forde, 1994). The unification of that rate came in 1986 and by 1988 another devaluation moved the rate to TT$ 4.25 US$ 1 after fiscal and external deficits seemed a permanent feature of that economy. In 1993 the TT $ was allowed to float and by the end of 1995 had reached a rate of TT $ 5.99 = US $ 1. The official exchange rate now averages from rates in the inter-bank market.

Exchange Controls

Exchange controls are features of all the economies of the Caribbean included in this study. This function falls to the Central Banks in almost all territories with the exception of the ECCB and to some extent the Central Bank of Surinam. Anthony-Brown and Samuels explain that for the ECCB Area most of the foreign exchange earned was channelled through the commercial banks of the various territories. Foreign exchange controls arrangements were, according to Anthony-Brown and Samuels. administered by the individual Ministries of Finance. They pointed out that while quite liberal practices obtained, these varied widely across countries despite the Central Bank's effort to harmonize practices. Generally, however, the payment for imports were automatically done by commercial banks while other transactions were subjected to "case by case approval".

In Surinam there still exists a Foreign Exchange Board but much of the authority for exchange control is vested in the Central Bank and the Ministry of Economic Affairs.

Exchange controls and rate fixing must be determined in conjunction with the Minister of Finance.

Guyana, Surinam and Jamaica have seemingly implemented the most restrictive exchange control measures during times of economic crisis. Restrictions were aimed at demand management as well as garnering foreign exchange for approved purposes. For Guyana Danns 1990 identifies the following impositions.

- Total suspension of travel allowance.
- Banning of motor care over 1600cc.
- An Import quota system.
- Prohibition of commercial banks from approving foreign payments.
- The establishment of an External Payment Deposit Scheme for Importers with respect to the commercial debts.
- Restrictions on imports licences.
- Restrictions on allocations for students studying abroad.
- Restrictions on payment for personal services.

Jamaica and Surinam have had combinations of the above restrictions. Restriction in these economies seemingly did not work to correct the external deficits nor did they halt the exchange rate slide. Parallel markets flourished in these environments as more and more funds were lured from the official banking system to satisfy the needs for imports, outside of the formal banking system.

The practices of the Central Banks of Jamaica, Guyana and Surinam though excessive, were not unique to these economies only. Trinidad had during the late 1980 introduced a system of trade allocation on an annual basis to importers after earlier devising other systems in attempts to control imports.

Da Silva and Forde explains, these were at the time of their implementation, the chosen alternative to devaluation or a multiple exchange rate systems. Other Caribbean Central Bank implemented exchange controls to a lesser extent and in more formal and legal setting.

Bank Supervision

The Banks' roles in promoting sound banking systems informed their supervision activities of the commercial banks and other financial intermediaries. Most regional Central Banks gleaned authority for this function from the laws that brought them into being while some had to acquire that authority from other laws and acts of parliament.

The dominant emphasis of the Central Banks' supervisory activity was and still remains in most countries on the activities of the commercial bank. Importantly so, as this sub-sector still garners most of the public deposits. They are also monetary institutions. Their failures tend to have a greater negative effects than the failure of other financial institutions. Bank supervision targets commercial banks' credit portfolio with a view to improving the quality of loans. In addition, supervision covers the level of exposure of banks in an attempt to safeguard depositors, the institutions and the integrity of the banking system.

Increasing emphasis was placed on the supervision of the non-bank financial institutions as these institutions developed. Haynes (1996) explains that for Barbados the failure of one such intermediary gave impetus for the introduction of new legislation designed "to broaden the powers of the Central Banks as it related to financial institutions. Such failures have given impetus to other Central Banks to provide greater supervision. For Trinidad it took a financial crisis in 1980 to bring to the fore the inadequacies of the NFI Act. According to Da Silva and Forde, this crisis initiated sweeping joint reforms of the Central Bank Act as well as the Financial Institution (Non-Banking) Act.

The Central Bank of Surinam in 1986 extended its supervision to non bank institutions in the mid 1980s . The Bank of Guyana is only now focussing attention on these institution after recently instituting the New Financial Institutions Act (FIA) 1995.

Governments on the advice of Central Banks have been passing legislation (in most cases the Financial Institutions Act) which brings commercial banks and non-bank financial institutions under the same legislative framework. This has led to the repealing of old Banking Acts (some of which date back to the 1960s). The new legislations have collectively enhanced the Central Banks' authority over banks and other non-bank institutions and even the previously-labelled informal financial institutions. Many Central Banks have been prodded in this direction as they implement structural programmes aimed at providing more lee-way to commercial bank and other financial institution in determining resource allocation and cost of credit. As such. Central Banks must enhance their legal regulatory capacity in the interest of a sound financial system.

Regional central banks during the 1990s have collaborated in the interest of unification of their bank supervisory and regulatory framework. These instructions have been assisted each other and acquiring the assistance of consultant to successfully implement their mandate and bring into being new regulations. Trends also point to more on-site bank inspection.

COMMERCIAL BANKING

Commercial Banks are the bastions of the regional financial sector. This institutional type has its roots in the Caribbean economies dating back to the 1830s when banks were established in many territories to serve the needs of the planter class. They provided mainly trade and commerce financing.

Guyana, Trinidad and Tobago, Barbados and Jamaica were the first territories to host commercial banking in the region during the mid 1830s. The Colonial Bank of the U.K. was one of the first commercial banks to operate in several countries throughout the region. Commercial banking came to other territories later. In Belize, for example, the first commercial bank - the Royal Bank of Canada was established in 1912. Surinam, the only Dutch territory included in the study had its first commercial bank in 1865. This entity De Surinaamsche Bank besides carrying on its commercial banking business, acted as the bank of issue for the local currency for over 95 years.

The smaller territories of Antigua, St Lucia, etc., have had commercial banking establishments for over 100 years. Commercial Banking, therefore, is a well-entrenched institutional type in the financial sectors of the Caribbean.

Ownership Structure of Banks

While earlier banks were predominantly British owned, the early 20th century saw the establishment of Canadian banks, especially the Royal Bank of Canada which established offices in Guyana, Jamaica, Trinidad, Barbados and Belize to name a few. This bank purportedly followed developments in the bauxite industry but never confined activities to countries only with a bauxite sector.

American Banks - the Chase Manhattan, First National City Bank and others, made the debut in these territories in the 1960s. They seemingly found interest in the economies that were soon to be independent states.

Commercial Banking as a sub-sector has been widely criticized by scholars and economists in the region especially in the pre-independence phase. Their entire operations were seemingly geared towards the export of wealth and too little emphasis was placed on the development of the local economies. This criticism gained more ground when political independence for the region as a whole was imminent. The task of development for nationalist governments seemed onerous in these underdeveloped primary-product economies. It was feared that commercial banks held the key to resource allocation and had the collective institutional capacity to determine lasting outcomes in the economies.

The history of pre-independence commercial bank practices and the determination of nationalist leaders in office after independence is what makes the 1970s an extremely interesting phase in the commercial banking history of the Caribbean territories.

Governments dealt with commercial banks during the 1970s in one way or the other. Some were more subtle than other. Da Silva & Forde report that in Trinidad in 1970 the "assets of a foreign bank branch were nationalized leading to the creation of the fully local National Commercial bank". In 1971 in that same territory the Workers' Bank was established with substantial assistance from government and in 1976 a savings bank with limited lending capacity was converted to a full commercial bank. Currently five (5) of the six (6) commercial banks operating in Trinidad are either fully or majority owned by nationals (DaSilva & Ford. 1994).

Similar developments took place in Guyana leading to a more dominant share of commercial banking resources in the hands of governments and nationals. The Guyana National Co-operative Bank (GNCB) was established on February 14, 1970 to coincide with the country becoming a Republic. The mandate of the institutions as to assist in the tri-sectoral development of Guyana, that is the co-operative, private and public sectors. That bank was further instructed to make special allocations to the co-operative sector which was viewed by government as the vehicle for development in that nation. Needless to say, that GNCB was fully supported by government, with state ownership of over 95%. It developed rapidly garnering patronage from government ministries, parastatals and other agencies. Public sector workers were encouraged to use the bank.

The closure of the Post Office savings banks in 1974 allowed the GNCB to capture additional funds through its extensive branch network. The bank shortly grew to be the largest bank in Guyana with respect to assets but its viability was constantly questioned and challenged.

The unease with commercial bank operations in Guyana continued throughout the 1970s although these entities were not nationalized. The Prime Minister of Guyana in delivering an address in 1975 to mark the 10th anniversary of the Bank of Guyana sought advice from Central Bankers. As quoted by Danns 1990 the Prime Minister said:

> "As from tomorrow October 17. 1995, what I would like to see the Bank advising us is ... how do we really relate the operations of the commercial banks to the development of the country, along the lines decided by the government or whether or not, I know not ... whether or not the presence of foreign commercial banks in Guyana is consistent with our development thrust and objectives. (Burnham 1975)"

The government never initiated nationalization of commercial banking institutions but one British, one American and one Canadian Bank handed over their operations to government in the 1980s as economic problems deepened. In 1994 another local bank was established. Four of the seven banks currently operating in Guyana are local entities.

In Jamaica changes started as early as 1967 with the establishment of the Jamaica Citizens Bank. The Workers' Saving and Loan Bank was established in 1973 after taking over assets of the government savings bank while the National Commercial Bank (formerly Barclay's Bank International) was also established.

Anthony Brown and Samuels (1996) explaining developments of the 1970s in the OECS state:

> "The mood towards political independence that swept across the Caribbean in the early 1970s significantly influenced development in the banking sector. This era was characterized by an upsurge in national banks which were promoted by the countries' governments, as part of a general move towards the control of their internal affairs. These banks were expected to operate in a manner which was more consistent with the development priorities of these countries."

Throughout the Eastern Caribbean there are currently 19 locally incorporated banks, many, products of that era.

Barbados's move towards ownership and localization of its financial sector in the 1970 was less intense than its Caribbean counterparts. The Barbados National Bank was established in 1978 after the Barbados Savings Banks shifted operations to commercial banking. In addition, the new entity took over the assets of the Sugar Industry Agriculture Bank and incorporated it as its Agricultural Division. Of the seven commercial banks that currently operate in the Barbados economy, two are fully Barbados owned, another has been incorporated in Barbados with its ultimate parent body being CL Financial Co., Ltd. of Trinidad.

The Surinam experience with commercial bank ownership structure differs from that of the English-speaking Caribbean. This country's financial sector was never dominated by foreign concerns but rather by government ownership of banks. By 1975, the year of Surinam's independence and up to the present time there were/are six (6) commercial banks operating in the economy. The ABN AMRO is the only foreign owned bank. Four (4) of the others are fully government owned and have always been so. De Surinaamsche Bank was once wholly owned by the ABN AMRO but upon the government's request 1% was divested in 1977. Thus divestment resulted in an ownership structure that includes government, private shareholders and another foreign bank.

In the Bahamas foreign commercial banks predominate because of that country's offshore banking operations.

Commercial Bank Activity:

Together Jamaica, Guyana, Trinidad and Tobago, Surinam, the OECS, Barbados and Belize report a total of eighty-five (85) commercial banking institutions with a network of over two hundred and fifty (250) branches operating in their economies. The Bahamian commercial banking system is different because of the widespread offshore banking entities. This country has over four hundred and fifteen (415) commercial banks and unit trusts, many of which are offshore entities with which the Bahamian public never interacts.

Some countries had sizable networks of branches while others report much less branches. Trinidad and Tobago, for example, had just six (6) commercial banks at the end of 1993, but there were one hundred and twenty-five (125) branches in that economy. Barbados in 1995 had seven (7) commercial banks with a network of forty-two (42) branches. Guyana had at the end of 1995 a total of seven (7) banks with branches numbering fifteen (15). For Jamaica in 1990 there were some eleven (11) banks with a network of over one hundred and seventy (170) branches and agencies. Surinam in 1995 has a total of six (6) banks and over fifteen (15) branches. In addition the Postpaabank (Postal Savings Bank) in Surinam reached small savers in rural areas through post offices.

Currently in Guyana there is a wave of commercial bank activity as the economy show signs of expansion. Within one year (1994) two new commercial banks were established after twenty four years. One of the new entities is locally owned while the other has its head office in Jamaica. Branching is foremost in the mind of bankers and indeed the Bank of Guyana has reported recent requests for permission to establish branches in areas outside the capital city of Georgetown. Some banks within the last year or two have established or re-opened branches. If one should draw some inference from this situation then certainly an economy like Surinam just emerging from economic decline and stagnation may soon find an expansion in the Branch network.

Bank Liabilities and assets

Country studies explain that if the Central Bank assets are excluded commercial bank share of financial assets and liabilities range between 50% and 90% of total assets. At the lower end is Trinidad which has a proliferation of non bank financial institutions competing with the commercial bank for deposits. For Surinam this figure is close to 95%. These assets are mainly credit. Therein lies the dominance of commercial banks in most economies and their ability to determine economic outcomes.

While some variations in lending patterns can be observed over time, commercial banks still largely support trade and commerce in preference to the other sectors. Lending for trade and commerce, for distribution and for consumption is relatively high in some economies. In countries where the dominant activity is agriculture some commercial banking have taken up the challenges of agricultural lending. The Landbouwbank in Surinam for example was established as a commercial bank with an agri-sector focus. This institution carries out its mandate alongside other activities.

In third world economies British-type commercial banks specialize in short-term lending, to businesses through trade and export financing and working capital financing. They provide also short term personal loans. They hardly ever provide long term lending. This trend has continued to a large measure in the Anglophone Caribbean. However, some banks have been extending longer term loans and are being quite innovative with their lending portfolio. Leasing financing for example is becoming more popular and banks are now more disposed to providing mortgage loans for house building.

Deposits

Deposits from the public remain the major source of commercial band funds. On average they accounts for over 75% of bank liabilities. Savings mobilization therefore is still a primary function of commercial banks. However, deposits are encouraged only in so far as the profit motive is being achieved. During periods of economic decline in Surinam and Guyana deposits were actually discouraged as banks found little avenues for lending. As these economies experience growth and demand for credit increased these very commercial banks found new and innovative ways of packaging deposits. Bankers in Surinam, for example now report an insatiable demand for credit and a lack of funds to satisfy these demands.. A wide range of time and savings deposits to attract funds has been developed by the leaders in the economy. In these financial sectors new products include overnight funds. weekly interest accounts and interest bearing demand deposits. Some deposits carry Jack pot features and others raffle.

In other countries involved in this study new product developed mainly in response to competition from the non-bank financial institution. Most financial sectors now have foreign asset accounts although many restrictions are imposed on the uses of these deposits. Correspondingly banks have been able to extend foreign currency loans.

NON-BANK FINANCIAL INSTITUTIONS

The Caribbean economies have a history of non-bank institutions that date almost as far back as commercial banks. The first real non-bank institutions were Savings Banks established just prior to or after the abolition of slavery. These were established as depository institution to "inculcate habits of thrift in the freed men and women". These provided little more than a safe-keep for funds. The inadequacies of these institutions were always recognized and savings banks are today almost defunct in the Caribbean economies. Some have had their assets taken over by commercial banking entities which provide a wider range of services.

Besides the Savings Banks, Insurance Companies have had a long history in the Caribbean economies with establishments dating back to the mid nineteenth century. Other non-bank financial intermediaries have developed over the years mainly from the 1960s.

Odle (1972) in the most comprehensive work on non-bank financial institution in the Caribbean classified NFI as of then into four (4) types:

1. Saving institution
2. Insurance institution
3. Unorganized Money Market operators

and 4. Public Finance Corporation

Odle's work covered the economies of Trinidad, Jamaica and Guyana primarily but in large measure reflected the developments of the non-bank financial institutions in other territories.

At that time of research and writing or soon after, a number of other institutional types started to mushroom in the Caribbean. Further classification today can include Hire purchase financing institutions, longer-term business lenders which will cover the merchant banks. Perhaps the Public Finance Corporation as a classification could be replaced by the Development Banks which tend to have government ownerships and fund.

The non-bank institutions that exists in the collective financial sector of the region are insurance companies, merchant banks, finance companies Development Banks, thrift societies, credit unions, Trust Companies, Unit Trust Companies, Mortgage banks, building societies, pension funds. The combination of non-bank financial institutions to be found in the economies of the region vary both in terms of types and number of institutional type.

Trust Companies seem to be institutional developments of the 1950s and 1960s while merchant banks are developments of the 1970s and 1980s. In Jamaica the 1980s saw the establishment of financial institutions that combined the functions of merchant banks and trust companies.

Many of the non-bank financial institutions, with the exception of the insurance companies, are subsidiaries of commercial banks. In Surinam for example there are six (6) finance companies, five (5) of which are subsidiaries of the three (3) large commercial banks. In Jamaica many of the Trust Companies and finance companies are subsidiaries of Commercial Banks. In Guyana this is so for some trust companies. In Barbados all of the trust companies are subsidiaries of the existing commercial bank. These subsidiaries provide avenues for lending and deposit taking outside of the normal commercial bank activity. It enables commercial banks also to access finance held in trust and to specialize in certain types of lending.

The development of these bank subsidiaries also allowed commercial banks avenues to operate outside the purview of the Central Bank's supervision but with the operationalizing of the new Financial Institutions Act this advantage may disappear.

Table 2 shows the various types of non-banks operating within economies. Jamaica and Trinidad are ahead in terms of institutional types having 9 and 10 NFI types respectively.

The ECCB Area as a union of countries are reported as having eight (8) non-bank financial institutional types while Guyana and Barbados each have seven (7). Insurance Companies Development Banks and credit unions are common to all countries across the region. Like the Commercial Banks, insurance companies have had a stable existence in the region.

Merchant Bank seem popular in Jamaica, Trinidad and Tobago and Barbados only. There is no doubt that this type of institution seems to follow and emerge in economies with heightened trade and commerce and very soon many more economies in the region will witness the establishment of them. In Guyana there have been enquiries about the establishment of a merchant bank. Central Banks may be more disposed to approving their establishment once the regulatory framework has been established.

Non-Bank Financial Institutions Activities

In Trinidad which has the greatest proliferation of non-bank financial intermediaries, there is much evidence of NFI growth within the financial intermediation process. In 1993 these

Non-Bank Financial Institution by Countries (1990)

Institutional Types	Countries							
	Jamaica	Trinidad & Tobago	Guyana	Surinam	Belize	Barbados	ECCB (Area)	The Bahamas
Insurance Co.	x	x	x	x	x	x	x	x
Merchant Banks	x	x				x		
Finance Companies	x	x		x		x	x	
Development Bank/Dev. Finance Companies	x	x	x	x	x	x	x	x
Trust Companies	x	x	x			x	x	x
Unit Trusts		x						
Mortgage Banks/Co..	x	x	x			x		x
Building Societies	x	x	x				x	
Pension Funds	x	x	x	x				
Credit Unions	x	x	x	x	x	x	x	x
Thrift Institution/Savings Banks		x			x		x	
Provident Funds				x				
Savings & Loans Association							x	x

Source: Regional Central Banks 1993-1996

institutions accounted for 40.2% of total financial assets compared to 28.6% in 1970. They have been competing fiercely with commercial bank which in 1970 had a 53.9% share of total assets compared with a 40.1% share in 1993. Da Silva and Forde explains that in Trinidad and Tobago the proliferation of NFI in the 1970s "was a direct consequence of the then prevailing economic boom and the failure of several of them in the 1980s was equally a consequence of the end of that boom." (DaSilva and Forde). Data however, suggest that these institutions are once again controlling sizable assets. In Surinam at the other end the non-bank institutions hold between 5-10% of financial assets.

In general non-bank financial intermediaries garner funds through deposits from the public, insurance premiums, transfers from governments, through equity financing, from multilateral financial institutions in the case of Development banks and for some finance houses from their parent commercial banks.

On the other hand they lend to the private and public sectors on a long term basis, provide trade financing and start-up capital, give the more risking agricultural credit, doing leasing arrangement, provide trust services, pay claims, provide mortgage and hire purchase loans and do general lending and provide investment services. As a collectivity of institutions their sphere of operations is much more diverse than are commercial banks and together they offer a wide range of services. This is not to suggest however, than any one non-bank institutional type in the Caribbean can seriously challenge the activities of commercial banks.

FINANCIAL MARKET ACTIVITY

Financial Markets in the Caribbean unto today remain largely underdeveloped. A few countries have stock exchanges while others have had call exchanges that never really developed into full-fledged stock exchanges.

Trinidad and Barbados have established stock trading for some while. Surinam has only recently (1994) established its stock exchange while Guyana has made several futile attempts at arousing interest in such a development. The ECCB in its "facilitator role" explains that germane to a current programme for the development of money and capital markets is the establishment of an Eastern Caribbean Stock Market among other institutions (Anthony Brown and Samuels, 1996).

For the countries that have stock exchanges there are reports of a slowing of activity. Da Silva and Forde (1994) in explaining the Trinidad situation state "The establishment of a formal stock market has not resulted in any substantial new investment funds... Between 1956-1990 no new issue of shares were made, however in 1992 two new issues were made."

Data reveal that for Trinidad the number of listed companies on the stock exchange is decreasing. In 1989 there were thirty-one (31); companies listed, thirty (30) in 1991; twenty-eight (28) in 1992 and twenty-six (26) in 1993. A corresponding fall in shareholders was also see.

For Barbados, Haynes (1996) explains that "liquidity in these (the bond and stocks) market is limited as secondary markets to trade bonds and stocks are now in their infancy and trading remains relatively thin."

For Surinam, Danns (1996) explains that after gaining momentum shortly after establishment, trading on that country's stock exchange declined somewhat.

The Bonds market too is little developed although some writers (Haynes 1996, Danns 1990) point to the fact that much trading of government securities is done in the primary markets. Government securities have had a long tradition in the market. Institutions and individuals feel secured investing in them. Not much can be said for the trading in private sector bonds. This is little known in the Caribbean economies.

Secondary market for bonds is also in need of development. In Guyana the Central Bank has recently introduced heavy penal rates for re-discounting bills and has introduced a new system of accounting to facilitate an inter-bank market for trading in securities. This has provided little if any impetus for those institutions to trade on the secondary market. Thus attitude transcends to the broaden economy that knows little of secondary markets.

Direct financing in the Caribbean economies is therefore little practiced except for government securities and some private sector shares. Maybe the approach to be taken by the ECCB in which it identifies "the development and implementation of a comprehensive public education programme for the development of money and capital markets, is the way to start or re-start for many of the region's economies.

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