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The Role of Credit Unions in Financial Intermediation and Development in The Bahamas

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ABSTRACT

This paper examines the operations of Credit Unions as non-bank financial intermediaries in The Bahamas. It investigates the nature of these operations with emphasis on the size and scope of activities, vis à vis the banking sector, and comments on the adequacy of regulations governing credit unions. This paper will endeavour to determine whether the coexistence of the two types of institutions in The Bahamas are complementary or competitive in nature. It commences with a short historical overview of the growth and structure of credit unions, both pre and post political independence in 1973, and particular focus is contributed to savings mobilisation, loan allocation, and the probable prospects for the credit union movement.

CENTRAL BANK OF THE BAHAMAS
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INTRODUCTION

The view may be held that, the financial system of a country encompasses a combination of financial institutions and financial instruments. Such a system is therefore identified by the intercommunication of all financial institutions, both banks and non-banks, in addition to the accessibility to a melange of financial instruments. To the extent that the latter is limited, the non bank financial institutions can fulfill an important role in offering alternatives to banking activities. Credit unions are a form of consumer cooperative that make short-term personal loans to its members, traditionally at lower interest rates than are available elsewhere. Its funds come from the deposits of members, which are regarded as purchases of shares, usually in small denominations. Credit unions are based on the idea that people working together and combining their savings can produce a worthwhile credit source. All earnings are paid out to the members as dividends.

Credit unions are expected to function efficiently, effectively and productively in a field that is permeated by banks and other financial institutions. Knowles (1998) lists the five greatest roles governing credit unions:

To retain existing members and build member loyalty by expanding, improving, and increasing the use of products and services.

1. To serve more members within the existing fields of membership, particularly eligible primary potential members, youth, young adults, family members, seniors, and members of select/sponsor groups.
2. To expand existing fields of membership to include select employee groups and sponsor groups, where needed and desirable.
3. To charter new credit unions in areas, where needed and feasible.
4. To harness innovative financial and technical support in order to be of assistance to other credit unions.

According to 1996 data, approximately 36,244 credit unions worldwide were registered with the World Council of Credit Unions Table 1. Union membership stood at 89.7 million individuals, whose combined savings were estimated at US\$331.0 billion. Global credit union lending in 1996 was placed at \$253.6 billion and reserves at \$36.1 billion or 9.5% of combined assets. In terms of geographic concentration, North American unions accounted for an estimated three quarters of the international membership and around 90% of the total savings

and assets. Regionally, savings in Latin-America of \$4.3 billion compared to a figure of \$653.6 million for the Caribbean (including The Bahamas), which on a per member basis amounted to an average of \$845 per individual, significantly exceeding the Caribbean's estimated \$603 per head.

In the Caribbean, there were a total of approximately 412 credit unions, with Jamaica's 77 organisations accounting for the greatest number of participants, with 503,821 members. However Trinidad and Tobago's 101 credit unions recorded the highest aggregate asset values of \$337.5 million, compared to Jamaica's \$167.3 million and an estimated \$66.6 million for the Bahamas, the region's third largest aggregate saver. Where the Bahamas does however, show a higher ranking is in terms of average savings per member, estimated at some \$1,982 in 1996. This was more than three times the Caribbean average and at least twice the Latin-American estimate, arguably attributed in both cases to the Bahamas' higher level of per capita income. Accordingly, the United States and Canada were the only two Western Hemisphere countries with higher average member savings in credit unions.

The financial system in The Bahamas, as in many other Caribbean countries, is dominated by the commercial banks and is characterized by the absence of a formal capital market. Simple measures of money supply, consisting solely of M1 and M2, are defined as currency in circulation, demand, savings and time deposits. Credit union shares and deposits reached \$59.6 million in 1997, equivalent to 3.2 percent of commercial banks private individual deposits.

Credit unions are relatively new to The Bahamas compared to other parts of the world, and serve to provide low cost consumer loans to members at below market interest rates. Loans tend to be of a short term nature, directed towards the purchase of consumer goods. Credit union membership today consists of a broad cross section of the working population including hotel workers, teachers, police officers and other civil servants. In addition from its earliest days, credit unions have been organized around religious groupings and this practice continues today.

Although small in the context of the overall financial system, Bahamian credit unions have traditionally played a vital role in diversifying the financial services sector in The Bahamas. Increases in both membership and loans by credit unions have closely paralleled overall economic developments in the country as a whole. The major concern of the credit union movement as it evolves in The Bahamas, is reflected in the increasing efforts to provide the type of prudential supervision and guidelines similar to the regulatory environment governing the

wider banking industry.

Nevertheless, financial intermediation is defined as the channeling of savings and other liquid assets from savers to investors, or as described by Codrington and Coppin (1989), the “bringing together of surplus and deficit economic entities in order to allocate efficiently financial resources”. It brings together borrowers and lenders, making available loanable funds to those willing to pay for their use. Currently, savings and loans institutions, commercial banks, insurance companies, public finance corporations, credit unions, pensions funds, and others participate in the business of channeling funds from savers to investors (Central Bank of The Bahamas, 1989).

This paper examines the operations of credit unions as non-bank financial intermediaries in The Bahamas, investigating the nature and scope of these operations vis-à-vis the banking system; and comments on the regulatory environment in which these institutions operate. In the context of financial intermediation and economic development the paper also examines whether Bahamian credit unions contribute in any way to development in the theoretical sense. Accordingly, section (1) of this paper commences with a short historical overview of the growth and structure of credit unions both pre and post political independence in 1973. Section (2) investigates the nature of credit unions as non-bank financial intermediaries with emphasis on the size and scope of activities vis-à-vis the banking sector and Section (3) focuses on the impact of credit union activity on the Bahamian economy. Section (4) looks at some of the prudential issues regarding credit unions, in the context of the Cooperatives Act (1974) and its to regulation in the banking sector. Section (5) looks at the probable prospects for the credit union movement and the paper concludes in Section 6.

SECTION 1

HISTORICAL OVERVIEW OF CREDIT UNIONS IN THE BAHAMAS

The cooperative movement in The Bahamas did not establish itself until 1974 when the government enacted the Cooperative Societies Act as the general framework for the supervision and regulation of such. The first credit union, the National Workers Cooperative Credit Union, registered under the Act in 1976, established a financial bond among workers in the hotel industry. The organisation, which is still one of the largest financial institutions in The Bahamas, was joined by two other large public sector worker based associations over the remainder of the 1970s; three other significant associations by the mid 1980s, inclusive of another public sector grouping and another hotel sector cooperative.

The credit union league which encompasses the membership of all of the large active unions was formed in April 1977 by the four existing credit unions at the time. It was subsequently registered as a credit union in 1980. Its purpose is to facilitate the operations of credit unions via promoting education in credit union techniques, distributing specialized stationery and liaisons with government and non-government organisations. The League liases with the international credit union movement, providing representation at the Caribbean Conference of Credit Unions in Barbados which is in turn affiliated with The Worldwide Council of Credit Unions in Wisconsin. The League also administers the insurance policies on behalf of credit unions with CUNA Mutual Insurance Society. The League officers encouraged the registration of new credit unions, through public awareness programmes. Even though the League was still young it heightened public awareness to the credit union movement. In 1995 the League became affiliated with International Credit Union National Association of the United States (CUNA Mutual) facilitating its access to a range of services, including deposit and loan insurance. At the time of its affiliation, The Bahamas was one of three Caribbean countries to have become members of CUNA

Regular membership in the League is open to all registered credit unions and honorary membership to those groups contributing to the Credit union movement. A premium for each member of the credit unions is paid annually to support the League. A percentage of this is earmarked for local expenses and the remainder for membership in the international organisations. On a voluntary basis, credit unions also maintain a stabilization fund with the

League in the event liquidation proceedings is necessary for any member.

Growth and Evolution

Added to the smaller financial associations total number of credit unions in The Bahamas stood at 12 in 1992. Amid some fluctuations in the interim period, registration reached 20 in 1997, although only 16 were considered active and able to make premium payments under the CUNA Insurance Scheme (see Table 2). Notwithstanding, a stronger and more established trend was evident in credit union membership and financial growth.

In 1992, the eleven registered credit unions had a recorded membership of 16,733, compared to membership of 6,550 a membership in excess of 23,000. As regard assets growth, both aggregate loans and share capital of credit unions have risen, from less than \$0.5 million in 1977 to \$59.6 million and \$60.0 million, in 1997, respectively. Along with other investments, total assets were placed at \$71.2 million at end 1997 (see Table 2), comprised principally of loans (83.8 percent) with smaller amounts in the form of fixed deposits, cash, and fixed assets. While almost all of the loans of the credit unions are of the consumer nature, efforts are being made to expand the commercial and business loan portfolios and to finance small projects.

Within the sector, there is a high degree of concentration. Six credit unions dominate membership and savings. They account for approximately 94.8 percent of total assets and total loans. These are: the Teachers and Salaried Workers, Public Workers Co-operative Credit Union, National Workers Co-operative Credit Union, Grand Bahama Co-operative Credit Union Ltd., Royal Bahamas Police Force Cooperative Credit Union, and The Paradise Island Resorts & Casino Co-operative Credit Union Ltd.

Five of the major credit unions are located in New Providence and the other in Grand Bahama. Available figures on the loans outstanding, deposit and shares held, and total assets for all of these credit unions can be found in the appendix, Table 2. The prosperity of these credit unions is due to increasing membership and low levels of loan delinquency. In terms of membership distribution, at the end of 1997, the Teachers and Salaried Workers Cooperative Credit Union accounted for 45.5 percent of total membership; 24.0 percent to the National Workers Cooperative Credit Union Limited; 10.2 percent to the Public Workers Cooperative Credit Union; 6.3 percent to the Grand Bahama Cooperative Credit Union Ltd., and 6.9 percent to the Royal Bahamas Police Force and the remaining smaller unions.

The Larger Unions

With regard to The Teachers & Salaried Workers Cooperative Credit Union, a membership drive in 1990 resulted in the organisation being able to accumulate total assets of \$10.0 million. By end December 1994, assets were in excess of \$28.5 million, with total membership at 8,751. Its aim was to provide greater financial security and stability to its members. Through firm leadership and strong consistent performance, the union has been able to secure continuous growth, thereby strengthening its asset base. It boasts the largest staff among all credit unions. It provides a minimum guaranteed dividend of 4½ % annually on share accounts, interest earnings on regular deposit accounts, high yield fixed deposit accounts, convenient bill paying services, convenient payroll deductions, confidential financial counselling and a discount upon presentation of I.D. cards to selected businesses.

At the time of its registration in December 1979, the Public Workers' Cooperative Credit Union Ltd., signed up forty-four members, employing only one person for many years. The credit union was able to invest in Treasury Bonds from the Central Bank of the Bahamas. Funds were borrowed from the Bahamas Development Bank to computerize operations. With the marketing of this credit union as a 'family credit union', its services were expanded to include spouses and children of government employees, and employees of public boards and corporations. In addition, employees of the credit union and The Bahamas Public Services Union are members of the credit union. It pays dividends to its members annually, and as at the end of December 1997, had 2,376 members.

The National Workers Cooperative Credit Union Ltd., was granted its charter to function as the first legitimate credit union in The Bahamas in November 17th, 1976. For the next three years there was significant growth as many employees in the hospitality industry, in particular, those in the bargaining unit of Bahamas Catering and Allied Workers Union joined the credit union. The hotel workers faithfully contributed to the credit union and in return, were able to obtain loans that assisted their families as well as themselves. Although the credit union experienced many difficult days since its inception, it continued to grow and began to realise a profit. Consequently, a new service was added to its share and loan service - The Christmas Savings Account for the members. Additionally, in 1988 several new services were offered to members namely: vacation savings, housing savings, educational savings, bill payment service and increased awareness of financial education to the members.

The Grand Bahama Co-operative Credit Union Ltd., began with voluntary help, and over the

years emerged as a major entity servicing the residents of Grand Bahama with efficiency, courtesy and professionalism.

The success of The Paradise Island Resort & Casino Co-operative Credit Union was due to non-existent hospitalization or pension plans on the job, and the concern for financial security upon retirement, thereby encouraging membership. The initial members were all casino employees, but as a result of the interest and enthusiasm shown by other employees, membership was extended to other casino resort employees in The Bahamas.

The Royal Bahamas Police Force Credit Union has experienced much growth since its inception on April 16, 1985. Members have insurance coverage on members' share and loan accounts, fixed deposit and Christmas Club accounts and financial counselling.

Specific Characteristics of Credit Unions

Loan Policy

As is the common global principle, Bahamian financial cooperatives operate on exclusive the principle of providing loan and deposit facilities to members only. An important distinction relative to banks however, is that all members are required to accumulate some initial savings before being eligible to borrow. The amount of the loan is determined as a ratio of share account balance, and for repeat borrowers, according to their credit history with the credit union. Loans are secured against shares while members with loans pay into a separate loan account. Current interest charges on loans ranges between 10% and 18% on the declining balance.

Recently, a relatively common practice among Bahamian banks has been to grant consumer loans to some borrowing groups (such as public workers) without requiring a cash down payment or equity contribution toward the loan¹. On the other hand, local credit unions' primary consumer lending focus underscores a parallel with the domestic banks, whose portfolios are dominated by personal lending, particularly for consumer purchases. The Teachers and Salaried Workers Cooperative Credit Union has underwritten a few mortgages, but this is not an area

¹ In May 1998 the Central Bank tightened its supervision of consumer lending, to discourage this practice, requesting that banks insist on at least a 25% equity injection on most consumer loans.

they have specifically identified for diversification due to the longer life-cycle of these loans.

Upon joining, members purchase a minimum number of shares (ranging from 1 to five shares). New members become eligible for loans after a waiting period of three to six months according to the policy of the credit union in question. This policy is usually based on the behaviour of the prospective borrower in demonstrating a commitment to savings within the credit union and the supply of loanable funds. The waiting period is also important because, as in the banking sectors, it tends to be longer during summer and Christmas seasons when school fees and vacations are pending.

Insurance

As regard insurance on operations, Bahamian credit union practices meet or exceed those enforced by banks. Of note is the provision for guarantees on savings deposits of up to \$5,000 per member, which contrasts with the banking system, where legal provisions for a deposit guarantee scheme are still in the conceptual stage. As regard loans, the cooperatives obtain insurance on up to \$20,000 of the amounts extended through the CUNA Mutual Insurance Society. The deposit and loan insurance work together, with coverage under the latter continuing up to age 70 for the borrower. In the event that a member dies, the insurance covers the full amount of the loan and the beneficiary receives any remaining savings in addition to \$5,000. Another feature of credit union operations is the use of the insurance bond by some unions to cover misappropriations and property damage. To this end, the regulations require both the Secretary and Treasurer of each credit union to give character references for the handling of funds.

SECTION 2

THE CREDIT UNION \ COMMERCIAL BANKS DICHOTOMY IN DEVELOPMENT AND FINANCIAL INTERMEDIATION.

Compared to Bahamian producer and marketing cooperatives, financial co-operatives or credit unions have the largest impact on the Bahamian economy, accounting for more than three quarters of total membership, and more than four fifths of the Bahamian cooperative assets. This is largely an outgrowth of the structure of the Bahamian economy, where in contrast to many other developing economies, the environment has not been very favourable to non-financial cooperative growth, while simultaneously promoting a North American style consumer financial cooperative. The primary difference between a bank and a credit union is that credit union members are also the owners of the credit union. A savings account with a credit union is also an investment, because members receive dividends at the end of the year. Other membership perks allow members to automatically qualify to borrow twice their savings. Another plus is that Bahamian credit unions allocate a portion of loan repayments to savings accounts for members.

While there is direct competition between credit unions and banks there is also a significant element of peaceful coexistence. This is in marked contrast to the United States for example, where banks are now lobbying the government to enforce tighter restrictions on American credit unions, to limit their direct competition for customers. The direct competition between banks and credit unions stems from the fact that both provide financial services. Indeed, the latest development underscores a joint venture between domestic credit unions and a commercial bank. This occurred in November 1997 when the Bahamas Co-operative League introduced a MasterCard for its members in affiliation with Scotiabank, offering the lowest credit card interest rates in The Bahamas at 15%. Once an individual qualifies for membership within a union, they are entitled to a card. Membership cards are in presently in excess of 2,000, and the level of credit provided ranges between \$500 and \$10,000.

Compared to the rest of the financial system one major advantage of credit unions is their ability to provide lower interest rates on consumer loans than banks. Also, as the profit motive is not as strong as in shareholder owned banks, credit unions are more willing' to accept

narrower spreads on loans and deposits and therefore have an edge in offering above average interest rates on deposits. Also, because of the informational advantage that they have, they are able to accommodate borrowers who would otherwise not qualify for access to bank facilities (Croteau 1963).

For credit unions, convenience exists on the savings side via automatic salary deductions. However, the physical centralization render them less convenient for more frequent banking transactions. Banks dominate the market with automated teller machines, multiple branches, credit cards and a wide display of services.

SECTION 3

THE IMPACT OF CREDIT UNION ACTIVITY 1986-1997

As far as the bulk of depository and lending activities with residents are concerned, The Bahamas' domestic financial system includes nine existing commercial banks, and two savings and loans institutions. In this context, more meaningful comparisons between credit unions and banks can be obtained from a focus on banks deposit and lending activities with the household sector: personal loans and mortgages, and deposit holdings of private individuals. Credit unions cannot extend credit to businesses except in cases where businessmen are members of the union, and cannot accept deposits from or conduct business with the public sector. The data used covers the ten year period from 1986-1997 and can be found in the appendix.

The importance of credit union activity in The Bahamas, as measured by the share of both credit union savings and loans to GDP, has grown steadily over the last twelve years from less than 0.3 to 1.5 percent in the case of loans, and from 0.3 to 1.1 percent for savings. (See table 5.) By comparison, the proportion of private financial savings in banks increased from 25.3 percent to 34.3 percent of GDP over the end of the study, while the corresponding ratio for loans advanced from 25.4 percent to 42.6 percent. Although the magnitude for credit unions is significantly dwarfed by banks, as is the case globally², the relative gains for credit unions are underscored by the scale of the increase in the latter's ratios by a factor of five and four respectively.

In order to examine the relationship between commercial banking and credit union activity the rate of growth in both assets and loans of the two institutions as shown in Tables 2 & 3 of the Appendix are tracked in Charts 1 and 2. In both tables, the rate of growth in credit union and the financial system's assets and loans, have been relatively stable over the review period. Although there is a lack of constraint on the activities of credit unions by the Central Bank, it does restrict banking activity. However, this has not severely affected the banks growth in assets.

² For selective country discussions on this issue see for example Mendoza (1992) on Belize, Kirton (1989) on Jamaica's situation and Good (1996) on the United States.

In the case of assets of the financial system, Table 3 shows that the rate of growth in personal loans was lowest in 1991 when the country underwent a recession. The period 1985-1997 of The Bahamas' economic history was characterised by moderate economic growth rates; the average annual real gross domestic product growth rate was 1.8 percent, with the tourism sector being dominant between 1985-1995, and the construction sector between 1996-97. Real per capita income contracted at an annual average rate of 0.6 percent between 1988-1997. In addition, credit union annual average real savings growth rates for the period 1987-1997 was approximately 17.9 percent. Credit union, annual average real savings growth rates for the same period exceeded the annual average real growth rates of GDP and national income for the same period.

A consideration of Chart 3 in the Appendix, which shows credit union loans as a proportion of bank's personal loans, depicts an inverse relationship between this trend and the intensity of growth in bank credit to the personal sector. Fluctuations in the latter over this period would have corresponded closely to restraint measures undertaken by the Central Bank of The Bahamas to mitigate adverse balance of payments impact of consumer credit expansion. Following the imposition of ceilings on deposit interest rates, in 1988, The Central Bank also instructed banks in 1990 to require a 35 percent borrower equity position in most consumer loans. Interest rate controls remained on the system until 1994, whereas the 35 percent down payment was only enforced through 1993.

The data suggest that credit unions were impacted favourably by tighter measures imposed on banks. Over the 1988-1992 period there was a noticeable acceleration in credit union loans growth, as well as a widening of the gap between growth in credit union and banks personal lending (Chart 2). During 1991 for example, the increase in credit union loans outstanding intensified to almost 60 percent, in contrast to weaker growth in bank lending to the personal loans market of less than five percent. However, during the 1992-1997 period, both union assets and loans growth rates declined sharply, bringing them closer in line with the trend in the rest of the financial system. One factor that would have worked against credit unions during this period was the relaxation of controls on bank lending rates which eliminated the competitive edge vis-à-vis banks. The other significant explanation was the economic recession that retarded Bahamians' ability to accumulate financial savings.

SECTION 4

AN EXAMINATION OF THE LEGISLATIVE FRAMEWORK GOVERNING CREDIT UNIONS.

Other than the common social and economic bond requirements that distinguish the legal requirement for credit union formation from that of establishing a bank in The Bahamas, there is also the minimum membership stipulation of 10 persons. The Department of Co-operative Development is the government agency charged with the responsibility for inspection and supervision (Regulatory) as well as education and development of cooperative societies. The department itself receives technical assistance in cooperative management techniques from the International Labour Organization (ILO) and other international organisations. Its technical staff is allocated into three areas: (1) audit and supervision, (2) education and training, (3) management and development, and a special assignee to the Northern Andros area. In respect of geographical demands, the majority of the credit unions are located in Nassau, except the Grand Bahama credit union. This lends well to the department's central locale in Nassau.

For banks and trust companies the regulatory environment is framed primarily by the Banks & Trust Companies Regulations Act (1965) and the Central Bank of The Bahamas Act (1974). In these instances, other than a host of due diligence procedures that have to be followed by the Central Bank, the minimum requirement for establishment of public bank in The Bahamas is financial: a capitalization of at least \$1 million . In terms of ongoing supervision, domestic banks are also subjected to ongoing minimum capital adequacy and reserves requirements. First, primary reserves of 5.0 percent must be held against Bahamian dollar deposit liabilities (four fifths of which must be deposited at the Central Bank). Additionally, liquidity assets must be maintained, calculated as a fraction of Bahamian dollar demand deposits liabilities (20 percent) and savings fixed deposits (15 percent). The treatment of liquidity covers primary reserves as well holdings of government securities and other specified assets. All of these requirements are designed to provide adequate protection against the various risks that banks undertake on the balance sheet, including those of interest rate, currency exposures, and the comparative maturity structure of assets versus liabilities.

In many respects supervisory provisions for credit unions are less demanding, particularly as regard the frequency of reporting, although new legislation has been proposed that will mandate

monthly filings with the Department of Cooperatives. Currently the only legal reserves requirement is accumulation of at least 25 percent of each financial year's surplus, as a hedge against future withdrawal of shares and deposits by members. This is a provision that has been copied from other international frameworks for cooperative supervision, which unfortunately does not translate into liquidity. Still, it is interesting to note that average reserves held by local credit unions, in the region of 10 percent would have exceeded the primary requirement for banks. However, banks' primary and secondary reserves would have also satisfied a liquidity hedge. Taking a similar approach, the data reveals that during 1986-1995, credit unions' cash, short-term deposits and government securities averaged around 7 percent of their members' total deposits and equity, exhibiting some firming over the latter part of this period.

Liquidity is one of the shortcomings that is addressed in the prudential standards introduced by The Bahamas Cooperative League in January 1998. It specifies that members should target a minimum of 10 percent of their assets toward a specified liquid form. In this respect therefore, the League would appear to be very close to its target. The League's standards also establish guidelines for monitoring the quality of loan portfolios, as well as management of interest rate and maturity risks. Under the existing laws, the supervisory authority has been given the necessary authority to impose sanctions on non-compliant credit unions and to assume control to management in the case of credit unions with serious infractions.

SECTION 5

CREDIT UNIONS AND ECONOMIC DEVELOPMENT

Since financial intermediation is supposed to stimulate economic development, an important issue that should be addressed in the Bahamian context is whether credit unions contribute to this process. For the Bahamas this would first require what development should be considered as. Not only should development encompass growth and technological advancement, it should contribute to more fortified and efficient economic structures, enable the achievement of a more equitable distribution of income over time, and broaden the economic participation of all segments of society. In the global context, credit unions further these objectives in developing countries by promoting increase economic activities in depressed rural areas, funding micro-enterprises particularly in agriculture and fisheries, thereby increasing the participation of the poor, and especially women in the respective economies. For The Bahamas and the rest of the Caribbean, structural fortification would involve internally, the strengthening of inter-sectoral linkages; and externally, achieving more diversified marketing bases for exports.

Other than the competitive dimension that has already been noted, it might seem difficult at first to see how Bahamian credit unions contribute to development, given their focus on consumer lending, as opposed to investments or real savings. Croteau (1963) notes that for consumer financial cooperatives, one measure of actual or potential savings is net repayment of consumer loans. A more relevant measure for Bahamian credit unions would be the share of the unions' assets that are not invested in personal loans. This data is tracked in Table 2. On average, Bahamian credit unions have retained an estimated 15.3 percent of their assets for purposes other than personal loans, whereas for banks, total domestic credit has exceeded the financial system's net domestic assets by about 14.6% on average. This has immediate implications for reducing balance of payments pressures, and net demand on external resources for the financing of non-productive credit, where credit union lending has a far more sustainable element to it than bank lending. It is not difficult to take this analysis a step further and illustrate how the potential net foreign currency savings could be channeled into productive investments elsewhere in the economy.

Still it is interesting to note that within the global context, the savings motive is much weaker within Bahamian financial cooperatives. Table 1 show that for unions registered with

the World Council of Credit Unions the international average ratio of credit union loans to assets was 66.8 percent 1996, with The Bahamas and most Caribbean countries notably above this level. Latin-America performed better than the global average (59.6%), as did Jamaica (62.6%); relative to the region at least. Trinidad and Tobago also registered a below average ratio.

The participation element is also evident in domestic credit unions. However Bahamian unions have not been very instrumental in promoting enterprise development, notwithstanding the fact that producer and marketing cooperative exists within the agricultural and fisheries sectors. In light of this, reform measures could be brought to bear to allow a greater fraction of the unions' financial resources to be channeled into lending for such activities among established non-financial cooperatives. It would of course require a stronger predilection of Bahaman credit unions toward at least more medium term loans.

PROSPECTS FOR CREDIT UNIONS

Although the credit union movement appears to have adjusted positively to changing financial markets, the future growth and structure of the industry are uncertain. One trend likely to continue is the definite dilution of the common bond requirement for membership. Traditionally, only particular sectors of society were eligible for membership in the union. Eligibility requirements have now been slackening to where a credit union can allow anyone to join, substantially increasing potential membership.

The Department of Cooperative Development and the Bahamas Cooperative League have recently put forward a proposal for technical cooperation with regards to institutional strengthening. Their objective is to expand the volume and quality of financial services available to small and micro enterprises, through the strengthening of the cooperative sector. This is envisaged through the strengthening of the Department of Cooperative Development by means of the development of staff capacity, improvement of field inspection services, and the development of regulatory systems including cooperative bye laws to complement proposed legislation. The intention is to include an element for development of a strong stabilisation fund managed by the League incorporating a program to forge linkages between credit unions and producer cooperatives in the areas of: capitalization, management, financing and marketing.

This level of technical assistance to the cooperative movement will enhance the ability of the sector to contribute to the diversification of the economy. Additionally needed services in the

areas of technical and financial assistance for producers cooperatives and micro enterprises would be provided in a systematic manner consistent with good business practices and prudential standards.

As a result, the dominant views of both management and the broad membership of credit unions concerning the future prospects of the credit union movement in The Bahamas are generally optimistic. The main projections, which are outlined for credit unions in The Bahamas, can be summarised as follows. Firstly, credit union growth rates are expected to show increasing trends and the sector is expected to expand in size and importance. Secondly, it is anticipated that commercial banks and other traditional financial institutions will provide significant competition for potential credit union savings deposits. However, credit unions will continue to secure a share of the domestic financial market. It is believed there will be an increase in membership due to marketing strategies of credit unions, and with increased savings, credit union loan capacity is expected to grow. Finally, with generally positive expectations, credit union operations are expected to become more viable, leading to an increase in staff and increased services.

From the available data, trends in credit union numbers and membership have grown steadily. Credit unions savings and loans have risen. Unpublished information indicates that credit union loan delinquencies are minimal, and income has been growing faster than expenses.

Although the general prognosis for credit unions growth in The Bahamas appears to be optimistic, there exists considerable developmental potential with respect to the behaviour and operations of these institutions. In The Bahamas, the largest segment of credit union membership comprises working people, who also participate in the overall management and operations. Most importantly, they share in the profits of the credit unions, which may be interest income on savings deposit (interest expense) and shares (dividends). The experience obtained by this strata of the population, is useful in a developmental sense. A level of financial and management knowledge may be transmitted from within the credit union movement to certain segments of the population, which may not have been able to so easily obtain such expertise. It is to be noted however, that presently, credit union management structures in The Bahamas are generally strong, but there exists a necessity for such skills to be upgraded.

Credit unions in The Bahamas have to review existing services, which they now render with a view towards becoming full service institutions, providing a much wider variety of

commercial bank type services. Furthermore, it may be necessary to expand the prevailing narrow range of financial instruments at hand. With regard to the present trends, credit unions will be required to introduce creative approaches and provide new financial instruments to mobilize incremental savings. A conscientious review of deposit interest rate structures is also necessary.

Presently, credit unions provide loans for small businesses, such as convenience stores, but ought to be required to place more emphasis on productive loans and reduce their existing specialisation on installment credit.

SECTION 6:

CONCLUSION

Credit union activity for the last ten years has become more important especially with respect to its contribution to GDP and its interrelationship with commercial banking activity. The tendency of the credit unions to 'step in' in times of economic need or self imposed restrictions on the part of the commercial banks, together with otherwise smooth trends in the growth rate of the unions assets and loans, suggests a complementary relationship with that of the commercial banks. However, the nearly exact opposing trend in the ratio of credit union loans to those of commercial banks makes it apparent that individuals consider the services of both as alternatives to each other.

It seems that credit unions are unable to compete with the commercial banks when it is a matter of their ability to provide certain conveniences, for example checking, savings-checking and the various other types of deposit instruments the commercial banks operate. The connection between the two may be fairly competitive if particular credit unions are permitted, and the regulations are revised, to allow them to operate checking accounts, and other banking business. Certain credit unions are ready to meet these challenges, which should assuredly place them in more direct competition with the commercial banks.

Equally important, the separate administration of commercial banks and credit unions, leaves the latter outside the scope of monetary policy, and the limitations placed on the amount of dividends they can declare on savings, and the interest they can charge on loans. In the case of the former, the nature of credit union activity is such that there is no need for the Central Bank to directly control them. As a result of the limitation to accepting deposits from or providing credit for members only, and due to their inability to accept public sector funds, the 'leaking' activities of the credit unions in times of tight monetary policy is minimal (Pearce, 1984).

What is likely to continue is the expansion of financial services offered by credit unions. At present, there are considerable differences in the services offered by large credit unions and small credit unions. Many large credit unions have taken advantage of financial deregulation and now offer mortgages, and credit cards. Most small credit unions have yet to offer these services, perhaps because of lack of capital.

Nonetheless, credit unions should be able to compete successfully, as long as they continue

to renew their emphasis on consumer lending.

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Appendix of Tables and Charts

TABLE 1: COMPARATIVE INTERNATIONAL INDICATORS OF CREDIT UNION ACTIVITY

	Number		Savings (US\$ Mil)	Loans (US\$ Mil)	Reserves (US\$ Mil)	Assets (US\$ Mil)	Savings (US\$)/ Member	Selected Ratios		
	of Credit Unions	Membership (Thousands)						Loans/ Assets (%)	Loans/ Savings (%)	Reserves/ Assets (%)
World Council of CUs	36,244	89,685	331,043.0	253,584.0	36,134.1	379,334.2	3,691	66.8	76.6	9.5
Great Britain	384	146	120.8	113.1	17.1	137.9	826	82.0	93.6	12.4
Canada	905	4,106	29,546.6	25,117.6	1,236.1	32,619.0	7,196	77.0	85.0	3.8
USA	10,569	63,789	263,307.8	197,328.7	32,326.5	300,287.7	4,128	65.7	74.9	10.8
Latin America	2,521	5,068	4,284.2	4,785.5	574.9	8,033.4	845	59.6	111.7	7.2
Caribbean	412	1,083	653.6	590.7	113.5	822.6	603	71.8	90.4	13.8
Bahamas	12	22	43.6	53.6	4.4	66.2	1,982	81.0	122.9	6.6
Jamaica	77	504	134.3	104.8	9.1	167.3	267	62.6	78.0	5.4
Guyana	34	20	1.5	2.3	1.5	3.1	74	72.8	151.5	47.9
Barbados	44	20	35.9	33.0	3.5	45.0	1,815	73.2	91.9	7.8
Trinidad & Tobago	101	336	277.8	231.3	74.1	337.5	827	68.5	83.2	22.0
Dominica	19	59	35.9	51.6	8.5	64.8	606	79.7	143.9	13.1
Belize	22	19	9.1	10.7	0.8	12.2	478	87.7	117.6	6.6

Source: World Council of Credit Unions (1996)

Appendix of Tables and Charts

TABLE 2: GROWTH OF CREDIT UNIONS IN THE BAHAMAS (1986-1997) – SELECTED INDICATORS

Year	Number of Credit Unions	Number of Members	Total Savings (B\$)	Total Loans (B\$)	Total Assets (B\$)	Loans/Savings (%)	Loans/Assets (%)
1986	11	6550	7,844,799	7,678,000	9,374,015	97.9	81.9
1987	12	8251	10,395,725	10,798,318	12,833,534	103.9	84.1
1988	11	9010	13,580,066	14,029,603	16,366,068	103.3	85.7
1989	8	10639	17,940,928	19,208,000	22,707,521	107.1	84.6
1990	11	13469	23,320,578	26,664,000	29,675,623	114.3	89.9
1991	11	14536	28,293,590	32,263,000	37,189,971	114.0	86.8
1992	9	16733	39,658,000	37,175,000	41,571,374	93.7	89.4
1993	9	18930	40,030,151	40,924,768	46,875,637	102.2	87.3
1994	9	20457	37,172,286	43,397,417	53,001,708	116.7	81.9
1995	10	20998	39,984,792	46,003,956	57,410,211	115.1	80.1
1996	12	21994	43,457,033	53,594,718	66,222,053	123.3	80.9
1997	16	23261	44,648,405	59,621,597	71,180,524	133.5	83.8

Table 3: **FINANCIAL SYSTEM'S DATA (Millions)**

Year	Fin. Sys. Total Loans	Private Sector Loans	Fin. Sys. Personal Loans (B\$)	Fin. Sys. Deposits (B\$)	Fin. Sys. Savings Private Individuals	Net Domestic Assets	Rate of Growth of Fin. Sys. Personal Loans	Rate of Growth of Financial Sys. Dep. (%)	Rate of Growth of Savings Pvt. Individuals (%)	Rate of Growth of Fin. Sys. Assets (%)
1986	1079.1	944.2	596.8	1068.7	600.4	983.3				
1987	1343.0	1160.2	734.6	1221.0	669.2	1210.9	23.1	14.3	11.5	23.1
1988	1492.1	1238.5	801.8	1305.7	733.9	1345.1	9.1	6.9	9.7	11.1
1989	1668.5	1333.8	829.1	1393.9	815.5	1497.0	3.4	6.8	11.1	11.3
1990	1861.0	1469.9	933.9	1497.5	869.5	1623.0	12.6	7.4	6.6	8.4
1991	1953.2	1515.1	963.0	1570.8	945.0	1715.2	3.1	4.9	8.7	5.7
1992	2054.2	1579.8	1011.5	1637.6	972.9	1779.4	5.0	4.3	3.0	3.7
1993	2206.2	1668.0	1180.4	1796.6	1036.8	1907.1	16.7	9.7	6.6	7.2
1994	2356.2	1859.2	1310.3	1948.9	1122.8	2044.8	11.0	8.5	8.3	7.2
1995	2572.0	2060.1	1323.5	2086.4	1152.6	2214.5	1.0	7.1	2.7	8.3
1996	2776.7	2263.9	1461.6	2206.0	1247.5	2365.4	10.4	5.7	8.2	6.8
1997	3059.3	2551.0	1676.9	2443.5	1352.8	2621.0	14.7	10.8	8.4	10.8

TABLE 4: GROWTH OF CREDIT UNIONS 1986-1997 (%)

YEAR	RATE OF GROWTH OF MEMBERS	RATE OF GROWTH OF CREDIT UNION LOANS	RATE OF GROWTH OF CREDIT UNION ASSETS	RATE OF GROWTH OF OF CREDIT UNION SAVINGS
1987	26.0	40.6	36.9	32.5
1988	9.2	29.9	27.5	30.6
1989	18.1	36.9	38.7	32.1
1990	26.6	38.8	30.7	30.0
1991	7.9	21.0	25.3	21.3
1992	15.1	15.2	11.8	40.2
1993	13.1	10.1	12.8	0.9
1994	8.1	6.0	13.1	-7.1
1995	2.6	6.0	8.3	7.6
1996	4.7	16.5	15.3	8.7
1997	5.8	11.2	7.5	2.7

Table 5: Selected Indicators of Credit Union and Bank Activity (%)

Year	Ratio of Financial System's Personal Savings to GDP	Ratio of Credit Union Savings to GDP	Ratio of Financial System's Personal Loans to GDP	Ratio of Credit Union Loans to GDP	Ratio of Credit Union Loans to Financial System Personal Loans	Ratio of Fin. Sys. Personal Loans to Deposits to Private Individuals
1986	25.53	0.33	25.38	0.33	1.29	99.40
1987	25.96	0.40	28.50	0.42	1.47	109.77
1988	28.28	0.52	30.89	0.54	1.75	109.25
1989	28.41	0.62	28.89	0.67	2.32	101.67
1990	27.74	0.74	29.80	0.85	2.86	107.41
1991	30.48	0.91	31.06	1.04	3.35	101.90
1992	30.93	1.02	32.16	1.18	3.68	103.97
1993	31.79	1.23	36.20	1.25	3.46	113.85
1994	33.11	1.10	38.64	1.28	3.31	116.70
1995	33.03	1.15	37.93	1.32	3.48	114.83
1996	33.19	1.15	38.89	1.43	3.67	117.16
1997	34.33	1.13	42.55	1.51	3.55	123.96

Chart 1

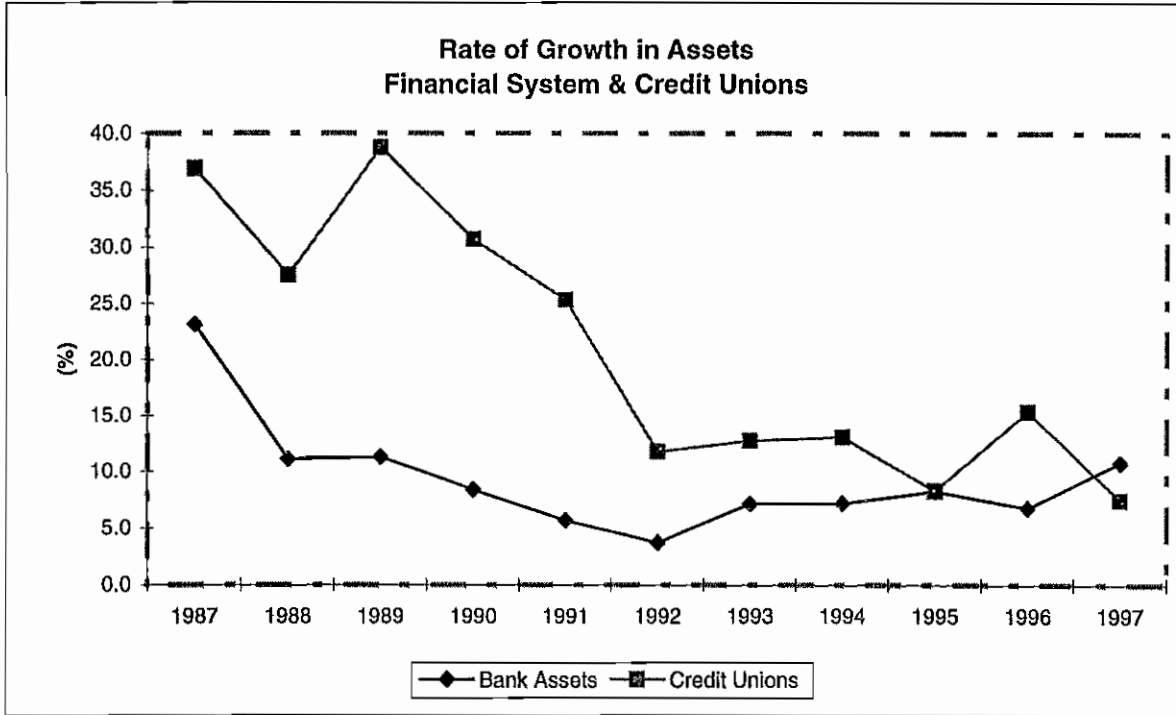


Chart 2

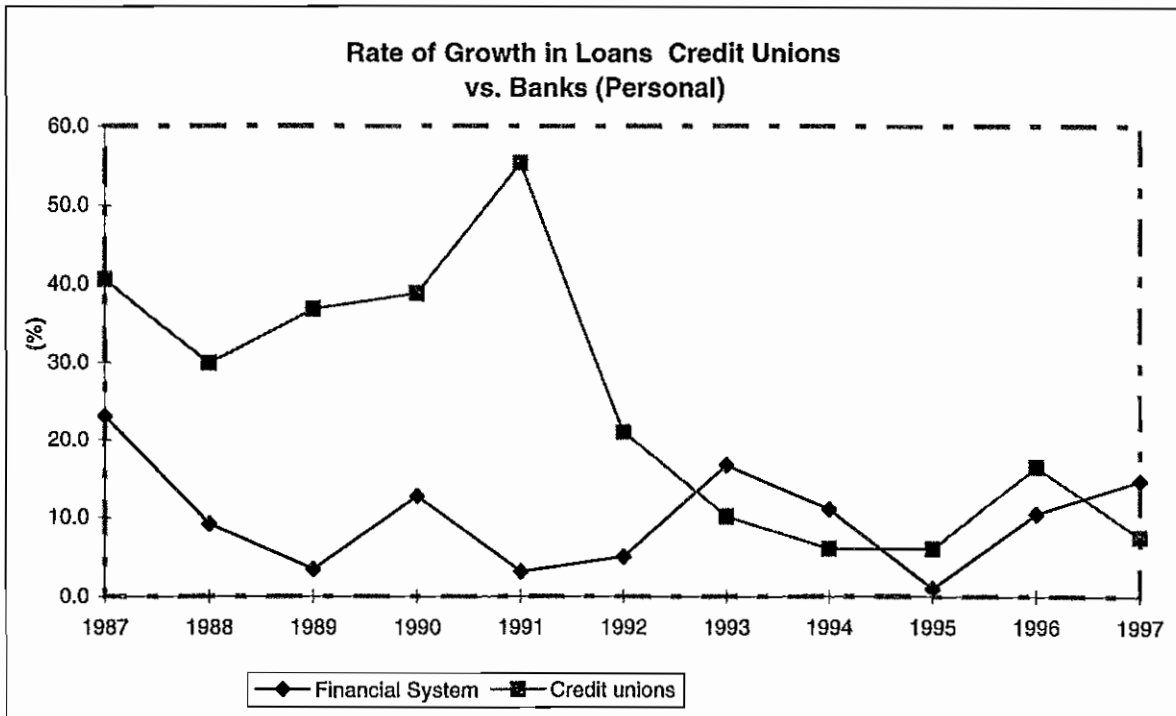


Chart 3

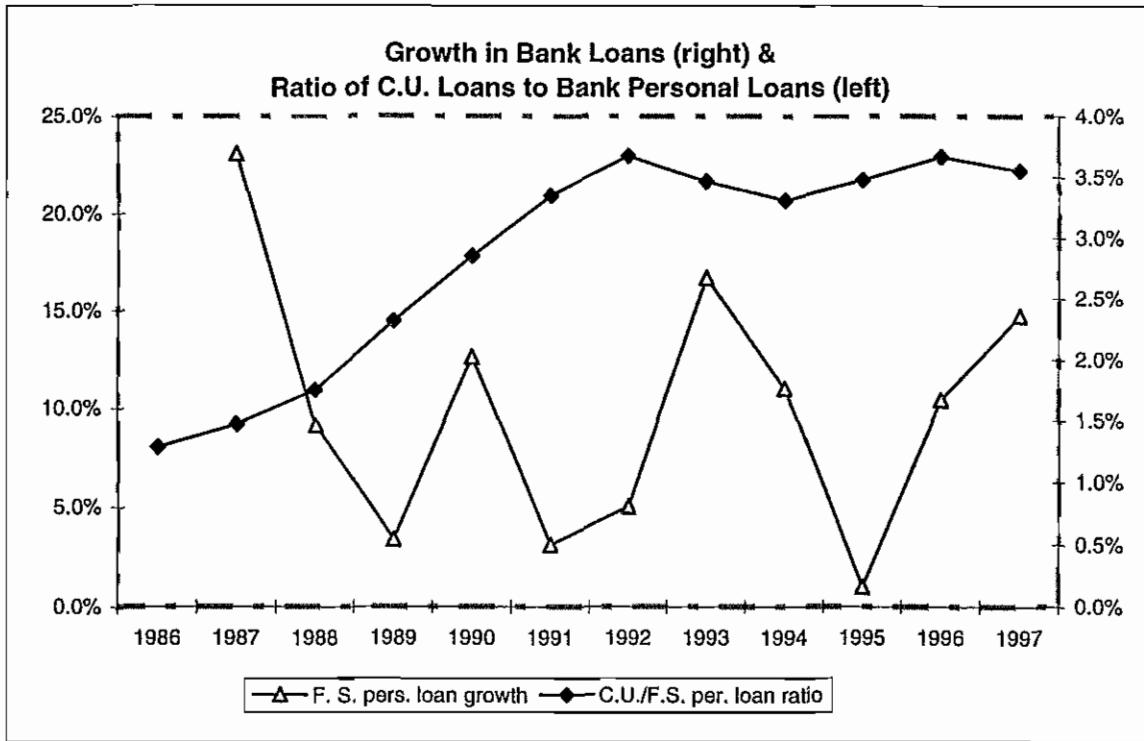
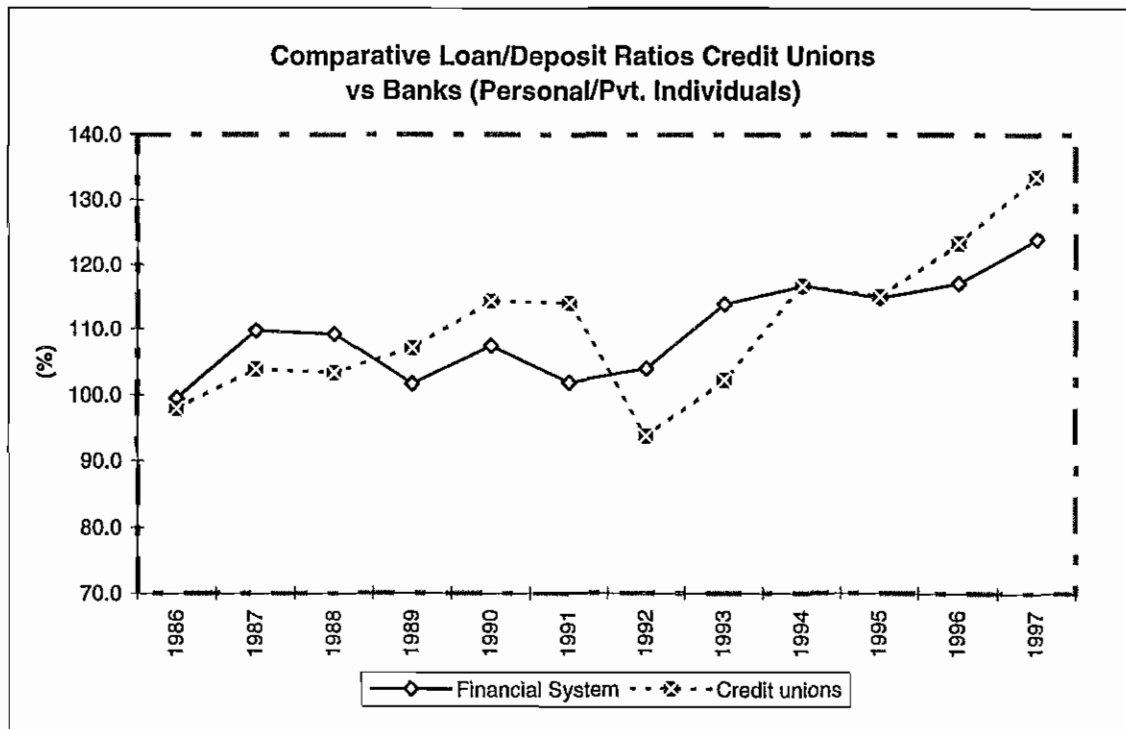


Chart 4



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