THE CONTRIBUTION OF INDIGENOUS BANKS TO ECONOMIC DEVELOPMENT IN THE CARIBBEAN

THE CASE OF GUYANA

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In the post-independence period, a number of countries in the English speaking Caribbean felt it necessary to restructure their financial systems in an effort to make them more responsive to local economic needs. It was the belief by many that the process of asset transformation was not being effectively carried out by the branches of transnational banks, which were the dominant financial institutions at the time. It was also felt that depositors' funds were not being directed to those sectors in the economy, which were considered critical to the attainment of self -sustained growth and development.

This was the main philosophy behind the creation of indigenous commercial banks in some countries in the Region and in particular Guyana where the first such institution was created, in keeping with the political philosophy at the time. These banks were tasked with the responsibility of promoting within the financial sector, the changes that were necessary for the achievement of the economic and socio-political goals. Thus making it necessary for the re-ordering of priorities in the allocation of financial resources and in particular the sectoral distribution of commercial bank loans.

In its quest for rapid economic growth, the government thought it necessary to divert resources away from the distributive trade and to those areas that were considered most productive. This diversion, for the most part was to be accomplished through the newly created indigenous bank.

To what extent has indigenous banks aided in the economic development of countries in the Region? This study attempts to evaluate this contribution/role with respect to the Guyana National Cooperative Bank. The purpose of this study is to examine the contribution of one of the indigenous banks in Guyana, the GNCB, towards the economic growth and development of that country. This will be done to ascertain the extent to which this institution has responded to the challenges, which predicted its existence.

Section one is a brief introduction to the study, section two looks at the theory of finance and economic growth and development. The next section locates the GNCB within the environment by examining the specific reasons for its establishment and the perceived role to be played in order to bring about the required changes to the environment. The main part of the study is divided into two periods – 1970 to 1985 and 1986 to 1999. Within these two periods, the contribution of the bank to economic development will be examined by analysing its role with respect to the mobilisation of deposits and then the allocation of these resources. Part IV will focus on some of the problems faced by the Bank, which tended to limit its ability to successfully discharge its mandate. The final section concludes the discussion and examines some of the challenges ahead.

Finance and Economic Growth and Development

The role of finance and the financial system in the process of economic development has been of some importance in the Caribbean Region. A vast literature supports the thesis that capital accumulation is one of the important sources of growth. Gurley and Shaw (1976) and Goldsmith (1969) were among others who postulated the hypothesis of financial development contributing to the process of capital accumulation and hence to economic growth as it facilitate the transmission of resources from surplus units to deficit units. This theory has placed the financial institutions at the focal point of economic change and has made them necessary factors for the transmission of the process of economic growth and development. Financial institutions perform a critical role in the economy to the extent that their patterns of resource allocation funds can significantly affect levels of economic activity. The link between the banking system and real investment derives from a number of factors:

a) Its impact on the availability of savings for investment and by providing economic agents with a safe place to save;

b) Its role in the intermediation process; and

c) Its ability to ensure the most efficient allocation of resources.

There are some other factors that are equally important in contributing to increased economic growth and development. These include, inter alia, at the micro level, business confidence and the political stance of Government. Additionally, effective market supporting institutions and institutions of economic management are indispensable to the development process.

Commercial banks can influence the pace and pattern of economic growth by their allocation of resources. The importance of this activity is increased by the lack of other appropriate institutions capable of doing so. In view of this, the political directorate in Guyana has raised some concerns that the existing commercial banks had systematically allocated a disproportionate share of their resources to the traditional activities thus effectively starving other potential sectors of needed resources. In particular, it was observed that during the pre ~~1980~~ 1970 period banks had concentrated heavily on short term self-liquidating loans mainly to finance the commercial sector, medium and long term loans, especially for industry and agriculture were largely neglected.

It was observed that the facilities of the commercial bank were heavily tied to supporting international trade and mainly to those in the urban areas. There was then a clear imbalance in the allocation of commercial bank resources and that produced and threatened to perpetuate an imbalance in the pattern of development in the country, which was counter to that expected by the government. In order to stem the flow of bank resources into "low priority" areas and direct them to areas, which were considered "high priority", the government created the GNCB, a specialized banking institution to provide the financing needed for the priority areas of development and growth.

The Establishment of the Guyana National Cooperative Bank (GNCB)

The Guyana National Cooperative Bank (GNCB) was incorporated by a Special Act of Parliament, the Guyana National Cooperative Bank Act 10 of 1970, on February 23, 1970. The bank was established to provide commercial banking services and to help accelerate economic and social development in Guyana. Among the reasons for the establishment of the Bank was to aid the process of miniaturisation of the local operation of foreign commercial banks and thereby facilitate the redirection of credit to aid in the national development effort.

The mission of the bank was to:

- "encourage and foster the development of agriculture, commerce and industries in the public, cooperative and private sectors

- mobilise funds for the purpose of such development
- promote the economic activities of registered trade unions and friendly societies
- exercise such other functions consistent with the functions of a company licensed under the Banking Act to carry on banking business in Guyana." (GNCB Annual Report)

The GNCB was part of a tri-sectoral national economic structure, which included the private, state and cooperative sectors. Through this structure, the cooperative sector would be dominant, laying the foundation for the socialist state. The Bank was seen as a vital link in the economic structure. The goals of the Bank were clearly articulated in the words of the then Minister of Finance, at the opening of one of the Bank's branches.

At the time the Bank was created, the Government had instituted a programme of nationalisation of the 'commanding heights of the economy'. Most of these undertakings would as a matter of policy, look to the GNCB to finance their operations either wholly or in part.

> *"In our efforts to promote Guyanese ownership and control of the Guyana economy, control of the banking sector is vital. Because the development of an economy rests upon the accumulation of savings for investment. In the accumulation of savings, in the mobilisation of savings, the Bank plays the most part. We therefore set out to build a Guyanese institution to mobilise Guyanese savings for the development of Guyana"*

> *"The objective of the Cooperative Bank is to assist in the development of Guyana, to promote the economic development of this country so that you and I and your children and my children can share in the material prosperity as this country moves on in economic development."*

In 1977, the Bank experienced a legal and structural change with the establishment and incorporation of the Cooperative Finance Administration (COFA). This Administration was established under the Cooperative Financial Institutions Act 1976, and its main function was to exercise supervision and control over the financial institutions established under the Act. The GNCB was among these financial institutions.

Prior to the establishment of the GNCB and other indigenous banks in the region, the commercial banks, which were branches of foreign-owned banks, operated in a manner, which was inconsistent with the economic development of the Region.

An examination of the operations of commercial banks in the country showed that all were foreign owned, at the time of the establishment of the GNCB. At the end of December 1969, commercial banks had mobilized deposits of residents amounting to G$114.8m of which the share of individual customers accounted for 80.7 percent; business firms 11.3

percent and the public sector 1.7 percent. In terms of deposit type, time and savings deposits accounted for 80.2 percent while demand deposits made up 19.8 percent.

The role of the GNCB has been explicitly set out in its mission and reasons for its establishment. To what extent the Bank has fulfilled the role for which it had been established will take up the balance of the study.

ROLE OF GNCB – 1970-1985

Economic Developments

Guyana's economic performances during the period 1970-1985 were mixed. During the first half of the 1970s gross domestic product GDP grew by about 4 percent per annum in real terms as a result of a phenomenal boom in commodity prices for all the major exports – sugar, alumina, calcined bauxite and rice.

By 1976, the boom in commodity prices was over, and the economy experienced serious overall economic decline. There was a significant fall in production levels; foreign currency became scarce, the balance of payments accounts recorded large deficits, inflation increased, standards of living declined; and the external debt became unmanageable. The role of the private sector was miniaturised and the public sector became the largest borrower from the domestic banking system, as there was a growing need by Central Government for their financing. The shortage of foreign exchange became very acute and the central bank pursued a policy of limiting certain activities by commercial banks.

From late 1970s early 1980s, the budgetary performance of the Central government deteriorated rapidly primarily as a result of reduced revenues from the traditional sources.

The operations of the public sector corporations started to record overall deficits. With low levels of output, and higher levels of aggregate demand, the consumer price index was put under severe pressure so that the rate of inflation exceeded the 20 percent mark. Because of the continued decline in the terms of trade and the rising share of foreign interest payments, gross national income declined faster. Technical, organisational and financial problems in the key sectors (sugar, rice and bauxite) combined with falling world demand led to a stagnation in output in these sectors and declining Government revenues.

Central Bank policy during much of this period emphasised credit availability as the principal way of influencing economic activity. Selection credit controls are intended to encourage or discourage specific types of investment and expenditure by influencing the lending policy of commercial banks and similar institutions. This was done through direct and indirect regulation of commercial bank lending and liquidity, with moral suasion being the primary means of influencing monetary policy.

The central bank policy was, for the most part supportive of the government's policy of making credit available to the productive real sectors of the economy.

THE ROLE OF GNCB in the Mobilization of Deposits: 1970-1985

One of the main objectives to the establishment of the GNCB was to miniaturise the operations of the foreign commercial banks and thereby facilitate the redirection of credit. In mobilising deposits, the Bank had to devise strategies to compete with the already established foreign banks in the system. According to Bourne (1974), there are four competitive strategies available to indigenous banks.:

1. They can engage in interest rate competition within the limits set by the Central Bank;
2. advertise;
3. Use political propagandisation to compete; and
4. Utilize quality of service competitively.

Of the four competitive strategies that were identified by Bourne, GNCB chose to rely mainly on the use of political propagandization to compete. Accordingly the Bank received considerable assistance from the state in its efforts to mobilise deposits in the system. Every effort was made by the political directorate to support the efforts of the GNCB.

Measures taken by the state to promote the Bank included:

(i) State contribution of 90% to share capital, with the remaining 10% being divided among cooperative societies, friendly and burial societies and trade unions;

(ii) The opening of new branches was encouraged and promoted by the Government. By 1976, nine branches were opened in areas that were previously served by the foreign banks;

(iii) GNCB was promoted as the **Banker to the State Sector** which was expanding;

(iv) With state sector control over major economic activities, in particular, external trading, private trading firms found that it was convenient to hold balances with the Bank;

(v) The absorption by the GNCB of the Post Office Savings Bank, which had an extensive rural network, providing a competitive position.

(vi) Strong advertising campaign was also used; the thrust of the campaign was to appeal to national loyalty by maintaining deposits with the Bank.

At the end of 1985, the GNCB accounted for G$604.5m or 34 percent of the G$1780m deposits in the commercial banking system. This was in contrast, to what existed at the start of its operations in 1970, when the Bank accounted for a mere 4.6 percent of total deposits. By the end of the decade, total deposits mobilized by GNCB had increased to 24 percent.

GNCB's deposits grew at an annual average rate of 37.8 percent compared with a rate of 15 percent for the entire banking system for the period. More than double the growth rate for the entire banking system. The period 1970-1979 was the most successful for the Bank in terms of mobilising deposits. Growth in this period for the various types of deposits were: for demand, 41.8 percent; savings, 53.7 percent; and time 46.8 percent. There was a distinct slackening off of the rate of growth in deposits by the Bank during the period 1980-1985, which registered rates of 16.3 percent for demand; 27.4 percent for savings; and 37.5 percent for time. The period 1970 – 1979 was characterised by fixed interest rates, while for the 1980-1985 period there was active interest rate policy. The aim of monetary policy changes for this latter period was to limit borrowing by the state sector and place more emphasis on deposit mobilisation. With the exception of time deposits, growth rates of all other types of deposits were similar in the two periods. The changes in interest rates, which were intended to induce an increase in deposit mobilisation, did not impact GNCB's deposits in the way that was intended. The results for growth in time deposits for GNCB can be attributed to the fact that while other commercial banks discontinued offering six and twelve month time deposits and discouraged the placing of time deposits by requiring large minimum balances for those accounts; the GNCB pursued an opposite policy which could help to explain the growth rate in time deposits.

Within the GNCB's own deposit structure, time deposits were by far the major type of deposits accounting for 51.3 percent of total deposits in 1985 when compared with 33.9 percent for savings and 14.8 percent for demand. There was also a significant decline in the percentage of demand deposits in GNCB's portfolio. This category of deposit declined from a share of total deposits at GNCB from 36.2 percent in 1970 to 29.3 percent in 1979 and 14.8 percent by 1985. This decline coincided with the policy objectives of reducing state sector borrowing, which also had an impact on deposits.

The dominance of time deposits in the GNCB total deposit is not consistent with the rest of the banking system where time deposit made up 30.7 percent and 29.9 percent of total deposits at the end of 1979 and 1985 respectively.

In the 1970-1985 period, the Bank was able to mobilise 36 percent of the net change in deposits. A further examination showed that in the 1970-1979 period the Bank was able to mobilise 29.4 percent of the net change and increased this to 39 percent in the 1980-1985 period.

Among the different categories of depositors in the banking system, the GNCB had been able to mobilise an average of 74 percent from total public sector deposits, 18.8 percent from total private business enterprises, 16.7 percent from individuals' total and 40 percent from deposits of the financial institutions. The dominance of time deposits in the GNCB's deposits is linked to the type of depositors the GNCB had been able to attract. At the end of 1985, fifteen years after its establishment, the GNCB was still unable to attract the volume of which was envisaged from the ordinary small saver, as a result, the deposits from this category of depositors remained an average of 16.7 percent of deposits. This to some extent meant that the small savers did not respond to the call made by the politicians to utilize the services of the indigenous bank, preferring instead to remain with the foreign owned banks. The bank also was not able to attract high net worth individuals from the already well-established branches of the foreign owned banks.

Continuing its efforts to get the small savers to use the bank, Government, during the period, 1976, on a directive from the State mandated that the salaries of all public sector employees be paid through the GNCB. In order to access their salaries these employees had to open accounts with the Bank. This was done without increasing the institutional infrastructure of the Bank. The GNCB did not have the capacity to deal with this large influx of new accounts into its system, which resulted in poor quality of service being provided to new account holders. The public sector employees, faced with this directive and the low quality of service provided by the Bank, did not terminate their previous banking relations and instead used the GNCB only as a conduit for processing salary payments, leaving the statutory minimum in their GNCB account. Instead of assisting in deposit mibilisation, this move did not increase deposits at the bank but had the effect of increasing transactions costs of maintaining numerous new accounts with just the minimum balances.

Allocation of Resources

Commercial bank credit can be allocated in such a way that they alter the distribution of resources and affect the development of economies. The creation of the GNCB was actually meant to redistribute available credit in the system. Where such redistribution takes place it becomes a tax or subsidy from one sector to the other. In this case, the Government was with the creation of GNCB trying to tax the commercial sector and giving a subsidy to the agricultural sector. The creation of the bank was a way of evening out the distribution of resources in the system.

The GNCB began their operations with the specific objective not to operate like the foreign owned commercial banks. In the words of the then Minister of Finance

> 'The Bank is not interested in lending people money or in assisting people to buy radiograms and record players or in assisting people to put on sprees. This bank is interested in development. Therefore it is interested in citizens who are in need of

> assistance to produce, to produce manufacturers, to produce food, to produce commodities, which will help to increase the material prosperity of this country. That is why the existence of the Bank and the activities of the Bank are so intimately bound up with our Development Programme and with the material prosperity of the various parts of the country in which the Bank operates."

The structure of bank's assets mirrors its line of action with respect to financing economic activity, in keeping with its objective of providing finances for the support of economic activities for the long-term development of the economy. In terms of its allocation of resources, the operations of the GNCB were supposed to be different to that of the foreign commercial banks. There were some marked differences in the asset operations of the local bank and the foreign banks during the review period. The proportion of liquid assets to total assets held by the GNCB declined from 53.4 percent in 1970 to 5.8 percent in 1985, and for the entire banking system the ration moved from 20.6 percent to 31.3 percent for the same period. The decline in the share of liquid assets to total assets in the GNCB's portfolio declined gradually in the 1970-1979 period, from 53.4 percent to 40.2 percent, but dropped dramatically in the 1980-1985 period from 34.5 percent to 5.8 percent. While there was an increase in treasury bills holdings by the banking system as a whole, holding of this asset by the GNCB diminished at the end of the period.

Another big difference in the allocation of resources was seen in the percentage of loans and advances to total assets. For the entire banking system, this ratio moved from 64.3 percent in 1970 to 44.5percent in 1985, while that for the GNCB rose from 39.8 percent in 1970 to 90 percent in 1985. This ratio however for the foreign banks moved from 65.9 percent in 1970 to 19.6 percent in 1985 the complete opposite for the GNCB. The foreign owned commercial banks had adopted a very conservative stance in their portfolio allocation in keeping with the environment. The banks had also started winding down their operations, having closed most of their branches in the rural areas and concentrated instead on the urban base. The GNCB on the other hand, expanded its operations and opened branches in a number of populated rural areas. GNCB also accounted for most of the loans to state sector enterprises.

The sectoral distribution of credit by GNCB did not follow the pattern set by foreign commercial banks. The share of agriculture in the GNCB's loan portfolio accounted for 2.6 percent in 1970, rising to 4.8 percent in 1985 and followed a similar pattern throughout the period. This was similar to what obtained with the other banks in the system. Manufacturing, which was a sector that was to be given some prominence accounted for 15.8 percent of loans in 1970 and increased to 29.5 percent in 1985. Services, of which distribution make up a substantial portion received an average of 28.8 percent, Individual customers received an average of 24-26 percent. At the end of 1985 however, the distribution of credit by GNCB showed that 72.1 percent of loans were accounted for by the productive sectors with mining and manufacturing receiving the bulk share of 37.8 percent and 29.5 percent respectively. Agriculture accounted for 4.8 percent while the combined share of personal consumption and services (distribution) amounted to 27.9 percent.

Additionally, a feature of the GNCB's loan operations was the disproportionate amount of loans and advances distributed to the state sector. At the end of 1975, the share of loans and advances to the public sector was 30.5 percent. By the end of 1985 it was 61.5 percent. Correspondingly, the share of total loans and advances to the private business sector declined from 68 percent in 1971 to 38.5 percent in 1985. By the end of the period

1970 – 1985, the pattern, which evolved, was one of increased allocation of credit to the public sector with the Bank resorting to borrowing from the Central bank to unlend to the public sector. In 1985, advances from the central bank totaled G$413m. This had significant consequences for the Bank, for while loans to the public sector were considered low risk in nature, interest rate on these loans were usually at prime rate and below, with the attendant impact on the Bank's revenues. The re-allocation of credit occurred to a limited extent, for while the productive sectors received the bulk of the credit, these sectors in particular mining and rice milling were state-run and especially during the latter part of the period, these sectors experienced adverse changes in their output and export prices.

1986-1995

The economic decline of the early 1980s continued into the post 1985 period. This was mainly due to declines in the production of the three main productive pillars of the economy – sugar, rice and bauxite. Real GDP growth averaged negative 2 percent for the period. The combined effect of supply bottlenecks, currency depreciation and substantial increases in public sector expenditure caused acceleration in consumer prices. Inflation averaged over 50 percent during this period. To address the deteriorating performance of the balance of payments, which showed deficits on average for the period over 30 percent of GDP, the exchange rate which was previously fixed at G$4.40 to the US$ was devalued toG$10 to the US$ in 1987. Public sector deficits were in excess of 32 percent of GDP and by 1987 were almost entirely financed by borrowing from the banking system as availability of external sources of finances continued to be difficult. As a percent to total exports, total external debt stood at 380 percent. Most of the debt approximately 87 percent was obtained from official bilateral and multi-lateral sources, which limited the scope for possibilities of debt restructuring and rescheduling. Some multi-lateral institutions suspended loan disbursements and loans from bi-lateral creditors were sharply reduced.

In 1989, the Government introduced the Economic Recovery programme (ERP), which was the major part of the resumption of assistance to Guyana facilitated through the

Enhanced Structural Adjustment Facility from the International Monetary Fund and structural adjustment credit from the World Bank. The programme was intended to deal with the macroeconomic fundamentals for restoring the health of the economy. The broad objectives of the programme were:

- Reversing the decline in economic growth and establishing a rapid rate of increase in GDP and real per capita income;
- Incorporating the parallel market into the official economy
- Improving public sector fiscal and other performances;
- Divesting public enterprises;
- Liberalizing commodities and foreign exchange markets in a thrust towards a more market-oriented system;
- Diversifying the economic base;
- Regularizing the external debt situation;
- Providing a basis for sustainable development.

A number of policy measures highlighted activities in the financial sector.

(i) The enactment of the Minimum Holdings of Liquid Assets by Banks (Temporary Provisions) bill in 1989. This was passed in an effort to restrict increases in bank lending by linking such increases to new deposits attracted after 15 March 1989. It also catered for the conversion of excess cash reserves to medium-term debentures.

(ii) The passage of the Dealers in foreign Currency (Licencing) Bill, 1989, which paved the way for the introduction of cambios, and was part of the trade and price liberalisation policy.

The Cambio market was established as a step towards the unification of the exchange rate system. Two markets had come into being in this system. The official market to service external debt and transactions involving sugar, rice petroleum and other essential items, and the cambio market – a floating banking rate determined on the free market to service all other transactions. The government had also taken control of the branches of three foreign banks in the system. Two of these institutions were subsequently merged.

(iii) The introduction of the Banking Laws (Amendment) Bill, which increased the penalty for failure to maintain minimum balance on, required resources.

However, immediately after the introduction of the ERP, a combination of bad weather, world oil price increases, unstable industrial climate and delays in policy implementation and corresponding external financing contributed to an adverse effect on the recovery programme. As a result, real GDP declined by 4.8 percent and 3.2 percent in 1989 and 1990. There was a massive devaluation of the exchange rate, which resulted in the rapid upward spiraling of prices adding to already highly inflationary conditions prior to 1989. Consumer prices went up 89% and 65% in 1989 and 1990.

By 1991, some recovery signs were visible in 1991. Agriculture and non-traditional mining led the recovery. There was noticeable growth in the private sector as apart from the divestment of public entities, foreign investors became more involved in economic ventures such as mining and manufacturing, fiscal policy adhered strictly to the adjustment programme as part of efforts to intensify revenue collection and the efficient and effective management of expenditure. As a result of the new interest rate structure, the Bank rate increased from 14 percent to 35 percent per annum. This was the highest interest rate increase ever experienced in Guyana. The prime-lending rate was increased to 36 percent while savings deposits rates were 32.5 percent.

In a continuing effort to restrain lending and constrain excess liquidity, commercial banks were required to

- Convert 75-80 percent of their excess reserves into variable interest rate debentures
- Increase their required holdings of liquid assets from 20 and 15 percent to 25 and 20 percent of demand and time liabilities respectively

- Increase reserve requirement from 6 and 4 percent to firstly 4 and 9 percent and later 16 and 14 percent of demand and time liabilities respectively

Other monetary management activities included the introduction of a system of competitive bidding for treasury bills. The determined rate, which resulted from this system, acted as the baseline indicator for all interest rates. The divestment programme was the corollary to the decided shift towards the market oriented mechanism and included the Government's partial divestment of its shares in two of the state owned banks during the early years of the 1990s. By the end of 1995, full divestment had been obtained and legislation was introduced in the form of the Financial Institutions Act (FIA).

Mobilization of Deposits

At the start of this period, 1986, GNCB accounted for 42 percent of total deposits in the banking system. This figure was almost halved at the end of the period of 1995, when it merely accounted for 23.6 percent of deposits mobilised in the system. This situation can be contrasted with the share of deposits for the other leading commercial banks in the system. The National Bank of Industry and Commerce (NBIC), one of the state owned banks, taken over from Royal Bank of Canada, accounted for 20 percent of total deposits in 1986 and increased its share to 37.5 percent in 1995. The same trend was shown by the other bank, The Guyana Bank for Trade and Industry (GBTI), taken over from Barclays Bank and Chase Manhattan bank, whose share of the deposits in the system increased from 15 percent in 1989 to 22.4 percent in 1995. During this period, the GNCB has lost its place as the biggest bank in terms of total deposits mobilised.

During the first part for the period 1986-1989, when the economy was in serious decline, deposits mobilised by the GNCB grew at an annual average rate of 50.5 percent, compared with a rate of 42.1 percent in the entire banking system. Leading the growth of deposits in the GNCB's portfolio was savings deposits with an average annual rate of 55 percent. The leading type of deposits for the banking sector during this same period was demand deposits at 49.3 percent per annum. This situation can be attributed to the high inflation rates in the economy, which was a disincentive to savings; in fact, growth of time deposits was the lowest for the different types of deposits.

The period 1990 – 1995 was characterised by a policy of stabilising excess liquidity in the system. The growth of deposits in the GNCB during this period was the lowest in its history, achieving an average annual rate of 24.8 percent. The highest growth rates were seen in savings deposits at 38.4 percent per annum followed by demand deposits at 30.1 percent. Growth in time deposits had fallen to a mere 11 percent per annum. In contrast, the other major banks in the system recorded growth rates of 50 percent and 50.6 percent per annum for total deposits. Growth in the various types of deposits for the two banks also surpassed those of GNCB.

Of the total types of deposits in the banking system in 1995 GNCB was only able to muster 29 percent on savings deposits and 16.5 percent of time deposits. These two types of deposits are the more stable deposits in the system. GNCB was able to garner 14 percent of the demand deposits in the system.

Time deposits' share of total deposits in the GNCB's system fell from 53.6 percent in 1986 to 47.4 percent in 1989 then further to 21.1 percent in 1995. The share of demand deposits declined marginally from 13 percent in 1986 to 14.6 percent in 1989 then remained unchanged at 14.4 percent in 1995. In contrast, savings deposits increased from 33.4 percent in 1986 to 37.9 percent in 1989 and increased further to 64.4 percent in 1995. For the banking system as a whole, the share of savings deposits maintained its dominance throughout the period with the other two types remaining relatively unchanged.

After 25 years of establishment, with the objective of minaturising the operations of the foreign banks in the system, the GNCB has been unable to effectively mobilize the deposits of the largest depositor group in the banking system, that is, individual savers. Individuals accounted for the bulk of deposits in the banking system as well as the major contributors of savings deposits. Except for a brief period, 1986 to 1990, the GNCB could also not account for a major share of longer-term and less volatile deposits in the system. The decline in importance in the share of demand deposits by GNCB can be accounted for by the divestment of public sector entities and the loss of importance of this sector in the economy.

Allocation of Resources

In terms of the allocation of its resources, the operations of the GNCB during this period, 1986-1995 was markedly different from the pattern established in the previous period, 1970-1985. Whereas, there was a decrease in the proportion of liquid assets to total assets in the previous period, this situation reversed itself and this ratio increased from 29.6 percent in 1986 to 47.1 percent in 1995, and at the time when the Bank is being prepared for sale, 2000, 33 percent. When compared with the other major banks in the system, the ratio for NBIC declined from 74.8 percent in 1988 to 53.4 percent in 1995 and the same trend was seen for GBTI decreasing from 67.8 percent in 1989 to 39.4 percent in 1995.

The average ratio of liquid assets to total assets for the GNCB during the period 1986 – 1989 was 29.4 percent, which showed that the bank's portfolio was heavily in favour of loans and advances. It was only after the restructuring of the Bank, which began in 1990, that the basic structure of the bank underwent some changes with a shift away from loans and advances to more liquid assets.

One of the reasons for the shift was to correct the extensive mismatching of assets and liabilities, which occurred in the earlier periods in a continued attempt to stabilize the bank's portfolio. The bank had thus moved ~~from~~ to an asset structure, which could have been regarded as appropriately balanced from the point of view of customer security, earnings maximisation, and flexibility to participate fully in business expansion and development as a result of the changing economic environment.

While the GNCB was moving in one direction that is away from loans and advances the other banks in the system moved in the opposite direction. This move could be effected by the other banks since at the start of the adjustment programme, their balance sheets were sound and not exposed as GNCB's was to non-performing loans and advances, which was a consequences of the prevailing economic environment.

Another feature was the loan/deposit ratio, this ratio showed a different trend between the GNCB and the other banks. At the start of the period, the loan/deposit ratio for the GNCB was 74.3 percent and declined to approximately 40 percent in 1995. This was in direct contrast to the other banks in the system, whose ratios showed movements form 20.1 percent in 1988 to 46.1 percent in 1995 for one of the banks, NBIC, and from 32.5 percent in 1989 to 62 percent in 1995 for the other bank. By the end of the 1995, the other banks in the system, who had adopted a very conservative stance in the period 1970 – 1985, moved aggressively to have loans and advances as a major feature of their portfolios. Some monetary policy changes forced them to adapt this course of action since; the central bank had withdrawn a 'special deposits' facility, which had offered attractive rates to the banks. Added to this, the Treasury bill auction was open to other institutions and to the public at large, which made it a bit difficult for the banks to invest in these instruments. Faced with this situation banks had little alternative to loans and advances as a major investment policy.

An examination of the sectoral distribution of credit for GNCB shows that, at the start of this period 1986, agriculture received a small share of its loans, approximately 5 percent, while the productive sectors; namely, mining and quarrying and manufacturing together accounted for approximately 68 percent of funds outstanding. Consumption and services sector made up the remaining 27 percent. It is evident that, of the productive sectors in the economy, agriculture was the only one to be discriminated against by the bank. This can be understandable in light of the existence of a specialized financial institution for agriculture. The Guyana Cooperative Agriculture and Industrial Development Bank. In comparing GNCB's performance with the banking sector as a whole. There was similarity in loans allotted to the agriculture sector, less than 10 percent of total loans with the same trend shown to the manufacturing sector. Loans to consumption and services accounted for 55.5 percent of loans in the entire banking system while for the GNCB this ratio was 27 percent. In 1986, following previous years the highest sector to be allocated loans by the GNCB was mining and quarrying, the banking sector only ... 11.8 percent to this sector. This was in keeping with credit being readily available to the public sector in the form of the bauxite industry.

At the end of 1995, the sectoral allocation of credit showed some differences as well as similarities between GNCB and one of the banks in the system GBTI and also the banking system. Agriculture accounted for just 10.7 percent of total loans and advances extended by the GNCB and the combined share of credit to personal consumption and services amounted to 54 percent. For the GBTI, agriculture accounted for 24.4 percent of total loans in this bank's portfolio while consumption and services share of total loans amounted to 48 percent. The banking system showed a slightly different trend with loans going to the agriculture sector at 16.2 percent and for the latter mentioned category, the share was 62.7 percent.

It must be noted that even though agriculture accounted for 10 percent of loans at GNCB, manufacturing which made up 30.8, had as its main component, rice milling which can also be considered as part of agriculture. Additionally, at the end of 1995, the share of loans and advances to non-financial state enterprises was 1.6 percent of GNCB loans. Correspondingly, the share of total loans and advances to private non-financial accounted for 84.3 percent. The other banks in the system as well as the banking system also showed similar trends.

It is evident form the above, that the only truly indigenous bank in Guyana, the GNCB, have brought about some change in the allocative distribution of loans to the major productive sectors in the economy of Guyana.

Problems faced by the Bank

Economists have for sometime recognized that asymmetric information is particularly relevant for the allocation of credit to the productive sectors, especially in developing countries such as Guyana where, although the sector is a large employer of labour and a significant contributor to GDP, it tends to attract a reducing proportion of commercial bank financing. Even though the GNCB was specifically created to provide financing to those sectors that have not been able to bring about the transformation that was envisaged nor have they attracted the volume of resources that was thought possible by the policy makers at the time. Notwithstanding the need for a greater proportion of credit to the agricultural sector and other productive sectors, the performance of the Bank was hampered by a number of factors including:

1. Political Influence – Political factors caused a negative response to the Bank's attempts at mobilizing funds from the various depositors' groups in the society especially the ordinary person for whom the creation of the Bank was targeted. Mistrust of political influence by the general public retarded efforts by the Bank to capture significant amounts of deposits. The Bank was thus unable to induce a switching of deposits away from the foreign owned banks in the system. Fears of confidentiality plagued the Bank from inception to 1995. There were fears for the government could confiscate the safety of depositors' funds held in the Bank, which people felt. The compulsory payment of salaries of public sector employees into the Bank did not help the situation since this was perceived as an unnecessary imposition on the basic rights of individuals.

2. Scarcity of relevant skills – At the time of the establishment of the GNCB, there was a conscious effort made to employ persons whom it was felt were previously excluded from employment by the foreign banks for a number of reasons. The Bank also recruited staff from the foreign banks in managerial positions, who did not possess the relevant skills for the transformational role to be played by the Bank, for example, credit assessment. These persons were ill-equipped to deal with the credit risk assessment critically required in the Bank's operations at the time. Their experiences at their former places of employment did not also include policy-making and the lack of this affected the performance of the GNCB in a negative way.

3. Conflicting objectives - The Bank was established to play a developmental role in the economy. It also found itself in competition with the other institutions, which were all well established and enjoyed the highest confidence levels in the society. Therefore, the profit-maximization objective became of some importance to the Bank.

4. Laxity of supervision - During the 1970s and 1980s, the Bank operated in a largely unregulated environment.

SUMMARY AND CONCLUSION

The paper attempted to show that the establishment of the Guyana National Cooperative Bank (GNCB) was a deliberate economic and political expression of the objectives of government in the realization of its development plans. It has examined the role and contribution played by the indigenous bank in its efforts to mobilize the deposits of the society and allocate those resources to productive uses. The Bank was partially successful in achieving some of these objectives. The expected and much heralded miniaturization of the foreign commercial banks did not materialize. Depositors did not find it prudent to sever ties with the well-established banks at the time. Political influence was one of the debilitating factors in the Bank's ability to mobilize the deposits of the major group in the society. The Bank had only been able to capture, by and large, the deposits of the public sector.

The paper further showed shifts in the asset composition of the Bank during both periods of the analysis and its limited success in the allocation of resources to the productive sectors. The Bank encountered problems in its quest to fulfill its mandate and in particular its attempt to foster and unite a transformational role to one of profit maximization.

Table 1
Sectoral Composition of GDP (%)

Sector	1987	1988	1989	1990	1991	1992	1993	1994	1995
Agriculture	38.2	30.1	47.1	43.2	47.0	50.7	43.8	45.0	48.8
Mining and Q....	6.0	10.0	11.3	10.1	15.6	11.3	20.7	21.5	17.0
Manufacturing	8.2	8.6	6.1	5.2	4.3	4.4	4.0	3.6	3.8
Financial and Business Services	-	-	7.6	12.0	9.3	9.0	8.0	7.2	6.9
Other Services	-	-	2.5	2.2	1.6	1.6	1.5	1.4	1.4
Wholesale and Retail Trade	5.7	8.1	5.5	6.6	5.2	5.0	4.7	4.4	4.3

Source: Statistical Bulletin, Bank of Guyana
Annual Report and Statement of Accounts, Bank of Guyana

Table 2
Sectoral Distributions of Credit to the Private Sector

Sector	1966	1967	1968	1969	1970
Agriculture	6.2	5.0	7.0	7.0	7.0
Mining and Q......	1.0	1.0	1.0	1.0	1.0
Manufacturing	37.0	23.0	30.0	24.0	28.0
Distribution	29.0	29.0	28.0	32.0	29.0
Individuals	14.0	14.0	15.0	17.0	14.0

Source: Bank of Guyana reports.

Table 3
Growth of Deposits in GNCB (%)

Year	Demand	Savings	Time	Total
1971	92.0	94.1	40.7	72.5
1972	37.5	24.2	207.9	88.2
1973	39.4	107.3	29.1	46.4
1974	48.9	45.9	13.2	31.7
1975	119.7	153.2	83.0	114.8
1976	33.9	6.7	25.9	22.0
1977	-0.5	-3.0	2.8	0.0
1978	17.7	51.7	-10.9	17.1
1979	-14.4	2.0	29.9	3.8
1980	45.0	23.9	44.3	37.0
1981	-9.6	14.6	32.2	13.4
1982	22.3	8.8	50.2	29.5
1983	-15.0	22.8	26.0	15.5
1984	29.6	58.3	51.2	49.6
1985	25.4	35.8	21.0	26.3
1986	30.4	46.3	55.1	48.5
1987	88.0	79.5	49.8	64.6
1988	97.3	46.0	46.3	53.8
1989	3.6	48.1	38.3	35.1
1990	12.8	59.3	40.8	43.7
1991	127.4	73.7	20.7	55.2
1992	-8.6	54.5	25.0	33.3
1993	18.7	14.7	-0.9	9.8
1994	10.3	22.5	-23.8	6.8
1995	20.3	6.0	4.0	7.4

Source: Bank of Guyana Reports

Table 4
Deposits by Type –GNCB (%)

Year	Demand	Savings	Time
1970	36.2	24.6	39.1
1971	40.3	27.7	31.9
1972	29.5	18.3	52.2
1973	28.0	25.9	46.0
1974	31.7	28.7	39.6
1975	32.4	33.8	33.7
1976	35.6	29.6	34.8
1977	35.4	28.7	35.8
1978	35.6	37.2	27.2
1979	29.3	36.5	34.1
1980	31.1	33.0	35.9
1981	24.8	33.4	41.8
1982	23.4	28.1	48.5
1983	17.2	29.8	53.0
1984	14.9	31.6	53.5
1985	14.8	33.9	51.3
1986	13.0	33.4	53.6
1987	14.8	36.4	48.7
1988	19.0	34.6	46.3
1989	14.6	37.9	47.4
1990	11.5	42.1	46.5
1991	16.8	47.1	36.1
1992	11.5	54.6	33.9
1993	12.5	57.0	30.6
1994	12.9	65.3	21.8
1995	14.4	64.4	21.1

Source: Bank of Guyana reports.