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Caribbean Financial Sector Assessment (Annexes)

Submitted by:

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ANNEX A: THE FINANCIAL SECTOR

This Annex corresponds with the Financial Sector chapter of the Caribbean Financial Sector Assessment. This Annex is divided into two parts:

- *Part A – Reference Tables and Charts to Chapter One* contains all the tables and charts that relate to sections within the report and should be used as a reference guide when reading the Financial Sector, Section One.
- *Part B – Country Reports* contains the relevant Country Reports for each of the Focus Countries covered in this study, which includes a major economic overview for each of the Focus Countries.

Part A – Reference Tables and Charts to Part One – The Financial Sector Assessment

Overview of Banks

An overview of the financial sector composition and structure of the Focus Countries is provided in Table 1 below, which shows the contribution of banks, non-bank credit organizations and the capital markets to total financial sector assets. (Microfinance institutions are not shown because they represent a minute proportion of total financial sector assets.)

There are two key characteristics to note in this table. First, banks dominate the non-bank credit organizations in terms of total assets. Second, it is only in Trinidad and Tobago that non-bank credit organizations, including finance companies and mortgage institutions, have a significant combined weight in the financial sector (14 percent) compared with the banking sector (33 percent). This greater financial sector diversity corresponds with Trinidad and Tobago's efforts to position itself as the most sophisticated financial market in the region.

Table 1: Financial Sector Assets[1]

	Barbados December 2001			Trinidad & Tobago December 2002			OECS Countries June 2002		
	No.	Assets (US$M)	% of Total Assets	No.	Assets (US$M)	% of Total Assets	No.	Assets (US$M)	% of Total Assets
Banks	7	2,708.6	36.87%	6	6,865	32.99%	43	4,104.70	51.11%
Domestic	1	215.6	2.93%	3	4,246	20.40%	9	938.63	11.69%
Foreign	5	1,978.0	26.92%	2	1,582	7.60%	30	2,468.48	30.74%
State-Owned	1	515.0	7.01%	1	1,037	4.98%	4	697.59	8.69%
Non-bank credit organizations		638.3	8.69%		2,845	13.67%		359.15	4.47%
Finance Companies	7	140.6	1.91%	na	1,012	4.86%	8	125.59	1.56%
Mortgage Institutions	6	250.9	3.42%	na	1,376	6.61%	5	114.78	1.43%
Credit Unions	41	246.7	3.36%	143	457	2.20%	353	118.78	1.48%
Market Capitalization, 2002		4,000.00	54.44%		11,100.00	53.34%		3,567.00	44.42%
Total financial sector assets		7,346.92			20,810.00			8,030.85	

[1] Sources: OECS data is from IMF, "Eastern Caribbean Currency Union: Selected Issues," March 2003, Table 1, p. 62. Barbados data is from IMF, "Barbados: Financial System Assessment," Country Report 03/35, February 2003, Table 2, p. 14. Trinidad and Tobago data is compiled from information in reports of Central Bank of Trinidad and Tobago and bank annual reports.

The following discussion will focus on three key credit-providing institutions in the Focus Countries: (1) banks, as the dominant source of credit; (2) credit unions, which have been growing as a source of finance; and (3) microfinance lenders, which, while their contribution to total lending is not high, nevertheless represent an important policy issue for the Focus Countries. Mortgage institutions are not highlighted in this discussion because they do not raise significant policy issues related to the economic growth focus of this project. Part II of this report addresses the capital markets.

Banking Sector Structure

A more detailed view of the banking sector in the Focus Countries is provided in Table 2 below. Because the Organization of Eastern Caribbean States (OECS) countries have a large number of foreign bank branches (and in some cases subsidiaries), these are shown by name to give a sense of the regional presence of a number of large banks, including such regionally based banks as First Caribbean International Bank (created in 2002 as a result of the merger of the Caribbean operations of Barclays Bank and Canadian International Bank of Commerce) and Royal Bank of Trinadad and Tobago (RBTT), as well as Canadian banks such as the Royal Bank of Canada and Bank of Nova Scotia.

Table 2: Banking Sector Structure as a Percentage of Banking Sector Assets[2]

	Barbados	Trinidad & Tobago	Antigua & Barbuda	Dominica	Grenada	St. Kitts and Nevis	St. Lucia	St. Vincent and Grenadines
% Domestic private ownership	4	62	46	0	10	5	28*	0
% State ownership	0#	15	0	59	0	48	0*	37
% Foreign ownership	96	23	54	41	90	47	72	63
Foreign branch/subs			RBC FCIB RBTT BNS Caribbean Banking Corp	RBC FCIB - BNS Banque Francaise Commerciale -Antilles Guyana	- FCIB RBTT BNS National Commercial Bank	RBC FCIB RBTT BNS	RBC FCIB RBTT BNS Caribbean Banking Corp	- FCIB RBTT BNS

* Note that Bank of St. Lucia, which was formerly majority state-controlled, has had its state ownership reduced to 38 percent. Formally speaking, therefore, it is a privately owned bank. However, the fact that the state remains the largest single-owner, including having a blocking minority share, makes it likely that the state continues to play the dominant strategic role.

[2] Sources: For Barbados and Trinidad and Tobago, central bank publications and Bankscope. For OECS, IMF, "ECCU," Table 3, p. 63. OECS figures are for June 2002, Barbados figures are for year end 2001 (except that they have been updated to incorporate the sale of the state-controlled bank that took place in 2003), and Trinidad and Tobago figures are for year end 2002.

[#] The majority share of the state-controlled bank was sold in 2003.

In addition to the regional presence of many banks, a second important characteristic to note in this table is that all of the countries except Trinidad and Tobago have at least a 40 percent foreign ownership share in their banking system.

Finally, with regard to the OECS, three of the six countries have very large state-controlled banks; St. Lucia could arguably be included in this category as well; as described in the asterisked footnote, the state is the single largest owner, with a blocking minority share of 38 percent.

Because regionally based large banks and financial groups play an important role in the region encompassing the Focus Countries, they are summarized briefly in Table 3 below. It is particularly important to note the cross-holdings between insurance companies and banking groups, such as CL Financial's holdings in Republic Bank and RBTT's cross holdings with regional insurance giant Guardian Holdings (about which there have been rumors of an imminent merger). Also, although Scotia Bank TT is not included in this table because it is not part of a regionally based financial group, it is noteworthy that its shareholders include RBTT and Republic Bank.

Following Table 3 is a country-by-country description of the banks in each focus country. Readers not interested in this level of detail should move to **Part I, 1, a, ii. Credit Unions**, which begins on page 10.

Table 3: Major Financial Sector Players

Name *Headquarters* Total Assets	Ownership	Major Activities	Other Comments
First Caribbean Int'l Bank (FCIB) *Barbados* App. US$ 9 B	43.75 % Barclays 43.75% CIBC 12.5% public	Banking in 15 Car. Countries	Result of 2002 merger
RBTT Financial Holdings Ltd. *TT* App. US$ 4.5 B	14 % Guardian Holdings (ins.) 10% National Insurance Board 38% other institutions 18% individuals	RBTT Bank, TT; 32 subs & associates in 11 jurisdictions. Includes 8 commercial banks and RBTT Merchant Bank, TT, and 3 insurance companies. 47% of assets in TT.	Recent expansion into Jamaica, Aruba and N. Antilles has increased TA by over US$ 1 B. Also purchased 21% interest in Guardian sub in 2003.
Republic Bank Ltd. *TT Tobago* US$ 3 B	22.1% Colonial Life Ins. (CLICO) 17% Trintrust Ltd. 11.5% CLICO Inv. Bank Ltd. 9.6% Roytrin Securities Ltd. 8.8% FCIB	Republic Bank, TT; Fincor (largest mtg provider in TT); controlling owner of Banco Mercantil(DR), Barbados National Bank, Nat'l Comm. Bank of Grenada and National Bank of Ind. & Comm. In Guyana. 7 other subs and 3 associated companies.	Acquired 63% of BNB in 2003 as well as 100% of Banco Mercantil
CL Financial *Barbados* Over US$ 1 B	Private	Insurance in 7 Caribbean countries, property and real estate, energy and petrochemicals	Also owns 2 banks(incl. CCB in Barbados) Holding co. for CLICO, whose combined holdings in Republic Bank is 33.6%

Table 4: Barbados Banks, 2001[3]

Bank	Ownership	% of TA
First Caribbean International Bank	Foreign	34%
Barbados National Bank	State/foreign	20%
Royal Bank of Canada	Foreign branch	19%
Bank of Nova Scotia	Foreign branch	18%
Caribbean Commercial Bank	Foreign	5%
Mutual Bank of the Caribbean	Domestic	4%

Table 5: Trinidad and Tobago banks, 2002[4]

Bank	Ownership	% of TA
Republic Bank Limited	Domestic	44.6%
RBTT Bank Limited	Domestic	17%
Scotiabank Trinidad&Tobago Ltd	Foreign	15%
First Citizens Bank Ltd	State	15%
Citibank (TT) Limited	Foreign	7.8%
Intercommercial Bank Ltd	Domestic	0.70%

Financial Sector Soundness: Capital Adequacy, Asset Quality, Liquidity, and Earnings

BARBADOS

Average capital adequacy ratios of 18.2 percent at year-end 2001 are fully acceptable, with the caveat that non-performing loans showed a decreasing trend in asset quality as of year-end 2001. It is likely that this trend may have continued into 2002 and 2003, as the rate of loan growth has been slow (and therefore there are few new loans to raise overall loan quality) and as the economy slowed after the terrorist attacks in the United States. The IMF calculates that the Barbados banking system could absorb a 90-percent increase in non-performing loans before reaching the minimum capital adequacy level.[5]

Table 9: Barbados Banking Sector Indicators[6]

	2000	2001	Mar-02
Capital adequacy			
Capital adequacy ratio	15.9	18.2	18.3
Capital/total liabilities	10.3	10.6	Na
Asset quality			
NPL/total loans	3.8	5.0	Na

3 Source: IMF, "Barbados," and Bankscope

4 Source: Bankscope. Note that the Republic Bank figures are for 2003. These figures illustrate a point made later in this report, which is that the different year end reporting dates for the banks makes it extremely difficult to compare bank performance and also to create a composite picture of the banking sector.

5 IMF, "Barbados," p. 21.

6 IMF, "Barbados," Table 4, p. 19.

	2000	2001	Mar-02
Liquidity			
Loans/deposits	66.4	62.1	59.9
Demand deposits/total deposits	30.5	29.5	32.8
Liquid assets exceeding RR/TA	5.8	7.4	9.0
Earnings			
Profit before tax/TA	2.5	2.2	Na
Non-interest expense/TA	4.0	3.7	Na

It should be noted nonetheless that the banking sector has relatively high exposure to the tourism industry (18.6 percent of total loans at year end 2002) and to entertainment (21.6 percent); it seems likely that these are related risks, because tourists are presumably large consumers of entertainment. Also, as is the case in all of the Focus Countries, the Barbados banking sector has a relatively high exposure to the consumer market, which accounts for 46 percent of all private sector lending and whose creditworthiness in many cases depends on employment in the tourism and entertainment sectors. While the banking business in any country is inevitably tied to the fate of the economy, these loan concentrations indicate that this may be particularly the case in Barbados, where tourism accounted for 15 percent of GDP in 2001 but had fallen to six percent in 2002.

The only obvious liquidity-related concerns are due to excess liquidity, again caused by the slow down in lending and economic growth that has been noted. Table 9 notes in particular the ratio of liquid assets in excess of reserve requirements, which was on a growing trend as of March 2002.

High liquidity did not hurt the sector's earnings; however, with profit before tax/total assets achieving a respectable level of 2.2 percent in 2001. Although net interest margin figures for the sector as a whole are not available, these are said to be relatively high in Barbados and therefore would have contributed to the earnings results. The ratio of non-interest expense/total assets of 3.7 is within the range of acceptable performance, albeit at the high end. It is not possible to assess from the available information whether this ratio reflects inefficiencies that still need to be addressed or whether the ratio incorporates expenses that have been incurred for the purpose of increasing efficiency.

TRINIDAD AND TOBAGO

This assessment of the soundness of the banking sector of Trinidad and Tobago is based on the results of the three largest privately owned banks, which together account for 73.3 percent of banking sector assets.

Table 10: Trinidad and Tobago Banking Sector Indicators[7]

	Republic	Scotia	RBTT
% of banking sector assets	35%	19.60%	18.70%
Year	2002	2002	2003
Capital adequacy			
Capital/total assets	15.40%	11.75%	13.96%
Asset quality			
Nonperforming/total loans	5.0%	0.3%	4.6%
LLR/total loans	3.84%	0.74%	3.04%

[7] Sources: Bankscope, annual reports.

	Republic	Scotia	RBTT
Liquidity			
Liquid assets/ST funding	40.49	31.36	38.14
Earnings			
ROAA	17.98	25.46	15.38
ROAE	2.5	2.85	1.97
Net interest margin	4.91	6.1	6.65
Op. exp/op. income	50.47	40.48	70.96

Capital adequacy appears to be within an acceptable range judging from the ratio of capital/total assets – with Scotia Bank's figure being the lowest at 11.75 percent – although the more relevant risk-weighted capital figures are not available.

Asset quality is also acceptable, although the Scotia Bank figure of less than one percent seems so low as to be almost difficult to believe. Looking at the banking sector more generally, the largest area of loan concentration is in consumer finance, which accounts for 44 percent of private-sector lending. It is important to bear in mind, however the observation of Fitch Ratings that banks in Trinidad and Tobago only reserve against the unsecured portion of non-performing loans: Fitch Ratings considers this an aggressive approach to loan loss reserves.[8]

Liquidity is also within a normal range, with liquid assets ranging from 31 percent to 40 percent of total short term funding.

The earnings figures are particularly interesting because of their variation; RBTT reported the worst performance (although note that the RBTT figures are for 2003, while those of the other banks are for 2002), with ROAA of 15.38 and ROAE of 1.97 percent. These results compare with Scotia Bank's ROAA of 25.46 percent and its ROAE of 2.85 percent. Although RBTT reported the highest net interest margin – 6.65 – it was also hampered by the highest costs, with a ratio of operating expenses/operating income of 70.96 percent. Scotia Bank's ratio, in turn, was the lowest of the three banks', at an appreciably low 40.48 percent.

Based on the recent performance of these three key banks in the sector, there are no obvious causes for concern regarding financial soundness.

OECS

It should be stressed that the following discussion of banking sector soundness in the OECS concerns only domestically incorporated banks; non-incorporated branches of foreign banks operating in OECS countries, which in some cases account for approximately half of banking sector assets, are not included because they do not report independently to the ECCB. The following comment by the IMF is also relevant to the following discussion: "The unavailability of detailed individual bank data thwarts a robust assessment of the banking sector. Nevertheless, the aggregated banking soundness indicators that are compiled by the ECCB, point at some issues of concern but without suggesting an overall assessment that the banking sector is unsound."[9]

8 Fitch Ratings, "RBTT Financial Holdings Limited," February 2003.

9 IMF, "ECCU," p. 81.

Table 11: OECS Banking Sector Indicators (December 2001 Percentages)

	Antigua & Barbuda	Dominica	Grenada	St. Kitts and Nevis	St. Lucia	St. Vincent and Grenadines
Capital Adequacy						
RW-CAR	14.3	35.4	14.1	29.0	13.9	17.7
Tier 1	12.9	34.1	11.7	33.5	11.5	18.4
Capital/Assets	10.3	23.3	9.7	11.9	9.8	11.5
Asset Quality						
Past Due/Loans	6.8	11.8	4.5	11.3	7.5	6.4
Unsatisfactory/Loans	17.5	31.5	0.3	17.2	24.5	18.8
LLR/ Unsat Loans	25.8	18.0	40.7	28.2	23.7	30.4
Liquidity						
Loans/Deposits	88.5	85.9	76.2	77.4	91.1	71.1
Liquid/Curr. Lia.	8.9	8.9	14.9	16.7	7.1	8.4
Liquid/Total Assets	22.4	22.4	23.2	38.1	15.7	33.2
Earnings						
RoAA	0.5	3.0	2.2	3.4	1.6	1.0
RoAE	44.6	13.5	23.5	28.6	16.6	8.3
Net Interest Margin	4.5	5.0	5.9	5.0	5.2	4.1
Interest on Loans	11.1	9.9	10.9	11.5	11.4	9.8
Avg. Cost of Funds	5.3	4.1	4.1	4.7	5.5	4.0
Op exp/op income	47.7	47.1	49.6	32.6	42.0	45.6

SOURCE: IMF, p. 74, Table 8.

Risk-weighted capital adequacy in all of the OECS countries was relatively high at year-end 2002, reaching a low of 14.1 percent in Grenada and a high of 35.4 percent in Dominica.

Given the poor loan quality that exists throughout the region, with a high ratio of unsatisfactory loans/total loans of 24.5 percent in St. Lucia and a low of 0.3 percent in Grenada, high capitalization levels are appropriate, although presumably sufficient reserves have already been taken against these weak loans. (It is not possible to comment on the adequacy of loan loss reserves (LLR) without knowing more about the loan portfolio, because not all loans require 100-percent reserves.)

One point to note regarding loan quality is the high level of housing-related lending throughout the OECS; as is discussed later in this report, such lending ranges from 27-43 percent of private sector lending. Not only is the level of lending high on an absolute basis, but also the lack of real estate price information in the region makes the potential risk of such exposure difficult to control. Also, as is discussed later in this report under Market risk, the high level of state-controlled bank exposure to government-related risk is an additional concern, particularly because these banks also have significant public funding.

As is also discussed later in this report under Intermediation, lending in relation to total assets is relatively high in the OECS; correspondingly, liquidity ratios are somewhat low, with ratios of liquid assets/total assets largely in the mid 20 percent range, with a high of 38.1 percent in St. Kitts and Nevis and low of 15.7 percent in St. Lucia. However, it is not possible to comment extensively on liquidity parameters without having detailed asset-liability management information that is not available.

The earnings of the banks range dramatically from 0.5 percent of average assets in Antigua and Barbuda to 3.4 percent in St. Kitts and Nevis. (The return on average equity figures is somewhat more difficult to relate to actual performance. In the case of Antigua and Barbuda, for example, the high ROAE level is significantly affected by the relatively low capital level.)

There appear to be two reasons for these profitability levels, which on the whole seem unusually high in light of the loan quality issues that were noted. First, the ratio of operating expenses/operating income is extremely low; all of the countries have ratios of fewer than 50 percent, whereas a ratio of fewer than 60 percent is considered an international benchmark for good performance. It is even possible that such a low ratio may be a harbinger of potential problems in the future, if it indicates that banks are not making the necessary long-term commitment to upgrading their staff and infrastructure. Second, net interest margins in the range of four to five percent, while within the norm for emerging economies, provide substantially more cushion than the one percent range more typical of advanced-market economies. However, the OECS banks may find that they can keep their net interest margins relatively high even in a more competitive environment, because of the high proportion of high yield consumer lending in their portfolios (discussed later in this report under Intermediation).

Table 12: Government Finance in the OECS

	Est. Debt/GDP ratio[10]	Gov't debt/BSA[11]
Antigua and Barbuda:	96 percent (end 2003)	2.17
Dominica:	105 percent (end 2003)	4.76
Grenada:	104 percent (end 2002)	4.62
St. Kitts and Nevis:	160 percent (end 2002)	8.28
St. Lucia:	57 percent (end 2002)	n/a
SVG:	72 percent (end 2002)	8.19

Table 13: Intermediation[12]

	Barbados	Trinidad & Tobago	Antigua & Barbuda	Dominica	Grenada	St. Kitts	St. Lucia	SVG
TL/TA	50%	42%	63%	58%	62%	55%	71%	60%
TL/GDP	27%	27%	100%	75%	101%	118%	92%	81%
TA/GDP	53%	65%	158%	130%	162%	216%	130%	134%
public lending/TL	6%	8%	19%	16%	12%	32%	10%	17%
private lending/TL	94%	92%	81%	84%	88%	68%	90%	83%
housing/private lending	19%	11%	27%	31%	35%	32%	Na	43%
consumer/private lending	46%	44%	54%	52%	66%	58%	24%	67%
non-bk housing/bk housing	76%	1.28%						

Table 14: Sectoral Lending[13]

	Barbados	TT	Antigua	Dominica	Grenada	St. Kitts	St. Lucia	SVG
Agriculture/TL	1.67%	0.81%	0.39%	1.88%	1.67%	19.94%	1.75%	1.86%
Manufacturing/TL	3.15%	9.58%	2.65%	3.30%	3.35%	2.06%	3.08%	2.52%
Distribution/TL	na	7.08%	11.48%	14.20%	7.86%	11.67%	12.44%	11.23%
Tourism/TL	10.58%	2.87%	8.28%	3.99%	5.27%	5.21%	11.05%	3.80%
Entertainment/TL	12.30%	na	1.09%	0.47%	1.70%	0.48%	1.28%	1.04%
Prof'l services/TL	5.80%	3.81%	7.44%	3.89%	3.47%	3.73%	7.90%	4.31%
Total	33.49%	24.15%	31.33%	27.72%	23.31%	43.08%	37.49%	24.77%
non-cons. private/TL	50.35%	51.36%	37.71%	39.81%	30.37%	28.41%	68.34%	27.73%
non-cons. private/TA	25.40%	21.65%	23.77%	23.02%	18.89%	15.58%	48.44%	16.67%

10 IMF, "ECCU," pp. 54-56

11 www.eccb-centralbank.org

12 Calculated from information published by central banks.

13 Calculated based on information published by central banks.

Economic factors/indicators

Barbados

Expansionary fiscal policies, including large public sector wage increases and the deterioration in the finances of public enterprises, have led to rising fiscal deficits and public debt. Barbados suffered GDP declines of 2.8 percent in 2001 and 0.6 percent in 2002 for many of the same reasons that other Focus Countries also experienced negative growth. While agriculture accounts for only 5.5 percent of GDP, sugar accounts for two-thirds of agriculture and fell by 14.5 percent in 2001. Tourism's weight of 15 percent of GDP also played a role. Barbados has limited manufacturing, partly due to relatively high labor costs; therefore services account for 73.4 percent of GDP.

The government is in need of implementing a program of fiscal tightening that would include:

- Wage restraint in the public sector;
- Reductions in government spending on tourism projects that can be undertaken by the private sector;
- Removal of tariff rates that have been imposed on some products and represent a continuation of selective protection policies;
- Privatization of those public enterprises that demonstrate unsustainable operating deficits.

Trinidad and Tobago

The data for Trinidad and Tobago emphasizes its position as the only focus country with a significant manufacturing sector (44.9 percent of GDP) as well as the only country not to suffer any output declines in 2001. The other major contributor to GDP is services (53.5 percent); while tourism is less important than in the other Focus Countries, financial services (17 percent of GDP) plays a significant role.

The IMF estimates GDP growth of 4-6 percent p.a. for 2003-05. Over the longer term, the government plans to achieve developed country status by 2020, based on transforming the economy into one that is knowledge-based. However, despite the country's natural resource wealth and strong growth performance, a poverty rate of 21.2 percent and an unemployment rate of 10.8 percent indicate that these objectives will not be achieved easily.

Government finances remain unpredictable, given the substantial boom anticipated by the exploitation of oil and gas reserves. How TT manages this challenge will shape its overall economic competitiveness, affect its potential for value added, and clearly determine the country's ability to provide for long-term social stability. Expectations are high, and the government's Green Paper stresses the objective of becoming a knowledge-based economy and simultaneously alleviating poverty. These two objectives can be achieved simultaneously, particularly given the time frame. However, much of what is accomplished will be based on where the emphasis is. There will predictably be substantial political pressure to focus immediately on the alleviation of poverty, some of the measures of which will detract from the economy's long-term capacity to become increasingly knowledge-based.

Specific key challenges include:

- Keeping the inflation rate to less than 7 percent per year for two decades. There is a risk that significant increases in petroleum production will add to inflationary pressures.
- Keeping the unemployment rate below 10 percent, but doing so in a way that is productive.
- Raising education, health standards, and capacity, which will require costly and sustained expenditure as well as sound management. (Health alone is projected to require 8-10 percent of GDP in annual expenditure.)
- Commercializing and privatizing state enterprises to reduce the substantial and growing losses of this sector. Privatization of the sugar company may lead to job losses or higher performance targets to

justify wages. Privatization or commercialization of WASA could lead to higher tariffs paid by consumers. Both could cause political tensions.

OECS

A review of the OECS countries is provided in the following table.

Snapshot of Economic Trends
Antigua & Barbuda
Antigua is the only OECS focus country without a significant reliance on agriculture, largely as a result of soil erosion and low rainfall. Correspondingly, agriculture accounted for 4.2 percent of GDP in 1991 and 4 percent in 2001. The service sector is one of the largest in the Focus Countries, accounting for 74.9 percent of GDP. Tourism receipts as a proportion of GDP were approximately 40 percent of GDP in 2002. The limited manufacturing is in the beverages and constructions materials sectors.
Antigua managed to achieve growth of 0.2 percent in 2001, with the major decline in the services sector (down 0.7 percent). There is no information about unemployment, nor prognoses regarding future growth.
As with other OECS economies, government finances appear to be a bit fragile and unpredictable. Anecdotal reports indicate that Government workers face delays on payments, and that the Government has built up payables with recent construction and other projects. Such weakness increases the scope for corruption, which is reported to be more of a problem in Antigua than elsewhere among the OECS.
Dominica
There are numerous areas of vulnerability. government finances remain weak and unpredictable; given the difficulties Dominica faces in terms of export markets and tourism receipts. In the case of Dominica, weak tourism receipts are exacerbated by the absence of an airport with a landing strip that can accommodate planes that carry significant passenger loads. The unemployment rate remains high, which further adds to expenditure strains and weakens revenue flows. Banks are contending with high levels of nonperforming loans, which reduces credit and/or adds to the cost of borrowing for businesses and households. Meanwhile, under such difficult circumstances, it may be difficult for the Government to privatize the banana-marketing corporation, or to pass on higher tariffs to customers for water and sewerage services. However, as the Caribbean Community (CARICOM) liberalizes, it will be important for Dominica to adapt to more open market conditions, particularly as its trade figures show the increasing importance of CARICOM markets for exports as well as imports.
Grenada
Grenada has the advantage of having a slightly more diverse economy than its OECS neighbors, in addition to a main export crop – nutmeg – that does not suffer from the global trade issues affecting sugar and bananas. GDP nevertheless declined by 3 percent in 2001 as a result of factors affecting all of the OECS countries, with an estimated additional decline of 0.5 percent in 2002 due to the effects of tropical storm Lili (which is estimated to have caused damage equivalent to 2 percent of GDP).
Like other countries in the Caribbean region, it faces a difficult economic and financial situation, with a decline in growth, an increasing fiscal deficit, and a high level of public debt. Tropical storm Lilli, that hit the island in September 2002, retarded economic recovery by destroying agricultural output and infrastructure. Nevertheless, the Government has taken steps to reduce current and capital spending and to increase revenues in 2002. For 2003, the government targeted a 2 percentage point decline in the deficit to 6 percent of GDP - a goal that will require implementing measures to cut exemptions and incentives, strengthening revenue collection, increasing the efficacy of spending, and careful prioritizing of capital spending.[14]
Although poverty is among the highest in the region at 32.1 percent (unemployment is 12.2 percent), prospects for long term growth are promising, based on agro-processing, nutmeg and other agricultural products, tourism, and construction. The IMF estimates that steady GDP growth of 4 percent per annum is achievable.
In addition to the above measures, the government would do well to strengthen its current shift towards private sector participation in large infrastructure projects.
St. Kitts and Nevis
Agriculture has had less of a wrenching decline in St. Kitts and Nevis than in some of its OECS neighbors, with a decline from 6.7 percent of GDP in 1991 to 2.9 percent in 2001. However, these figures do not tell the entire story, because the sugar industry is arguably the major

[14] Ibid, pp. 3;10.

economic policy issue in St. Kitts. Not only is the sugar company state-controlled and financed by the state-controlled bank, but it makes a negative contribution to GDP and, during the peak growing season, employs up to 30 percent of the adult population. Poverty levels of 30.5 percent underscore the need for this type of employment.

The sizable budget deficit and the sharp increase in public debt that stem from not only the costs of post-hurricane reconstruction, but also from a rapid growth in other expenditures, from a steady erosion of the tax base owing to exemptions, and from losses in the sugar industry represent significant causes for concern. Prompt remedial action is warranted in order to avoid jeopardizing recovery, damaging the country's credit worthiness, and weakening the banking system.

Attaining a sustainable fiscal position will depend on action taken to address the large and persistent losses of the sugar industry, as well as the financial weakness and inadequate reporting of all the state-controlled enterprises. The sugar company's losses should be eliminated, if necessary, through a phasing out of production. Such a move would require a strategy that considers the use of the sugar lands, an adequate framework for retraining, and safety net arrangements for displaced workers. In addition, the state-controlled enterprises need to be subjected to external audits that meet international standards of accounting.[15]

St. Lucia

There are many areas of vulnerability. Agriculture decreased by more than half as a proportion of GDP in St. Lucia since 1991 and accounted for 6.6 percent as of 2001. The difference has been taken up by the services sector. It is noteworthy, however, that bananas jumped to 74 percent of exports in 2001 (from approximately 50 percent previously) as the only export sector able to maintain its 2000 levels. 2001 was a particularly bad year for St. Lucia, with a GDP decline of 3.7 percent representing the worst performance of the Focus Countries except for Dominica. Although 2001 poverty levels were relatively low for the region at 18.7 percent, unemployment of 18.9 percent was among the region's highest and clearly contains the risk of converting into higher poverty levels.

The IMF estimates that GDP growth recovered to the 1.5 percent level in 2003, based on improvements in banana production and tourism. It estimates steady long term growth potential at 3 percent, based on growth in services, tourism, and non-traditional agriculture.

As with other OECS economies, government finances remain weak and unpredictable, given the difficulties St. Lucia faces in terms of export markets and tourism receipts. In the case of St. Lucia, tourism receipts are about 10 percent less now than in 1998-2000, which is a steeper decline than any other OECS country except St. Kitts & Nevis. This will sustain a dual problem of fiscal and current account deficits, with interest payments increasing and adding to the strain. The unemployment rate remains high at about 20 percent, which further adds to expenditure levels and weakens revenue flows. Banks are contending with high and growing levels of nonperforming loans, which has affected banks' earnings and capital, and puts pressure on banks to reduce credit and/or add to the cost of borrowing for businesses and households. Notwithstanding declines in ECCB discount rates (to 6 percent) and the minimum passbook savings rate (to 3 percent), there has been little incremental lending activity in the banking sector.

St. Vincent and Grenadines

St. Vincent and the Grenadines is another example of a country that has made a significant adjustment in the agricultural sector; whereas agriculture accounted for 18.6 percent of GDP as of 1991, this figure had declined to 10.3 percent in 2001, with the difference made up by the services sector. One of the biggest ongoing economic adjustments in St. Vincent and the Grenadines is in the banana sector, which accounted for 53 percent of exports as recently as 1999 but had fallen to an estimated 35 percent in 2002. These adjustments in the agricultural sector have presumably been a significant contributor to St. Vincent and the Grenadines' estimated poverty level of 37.5 percent (the second highest of the Focus Countries).

Following a 0.6 percent decline in GDP in 2001 and an estimated 0.75 increase in 2002, the IMF estimates 2003 growth at slightly over 2 percent, with a best case scenario of 2.9 percent for 2004. Factors contributing to the increase in growth include residential and tourism construction projects that are planned and/or underway and an anticipated recovery in cruise line traffic.

According to an IMF document, the Government has made strides in improving public sector governance, restructuring the banana sector, strengthening the financial sector, and building consensus for difficult policy issues, including a wage freeze for the public sector. Also, public enterprises have come under increased scrutiny in an effort to improve their financial performance. These efforts to rein in government expenditures need to be continued, given that: (i) the overall public sector deficit rose in 2002 to an estimated 6 percent of GDP, largely because of capital spending; and (ii) capital expenditures and wages led to a 1 percent increase in the central government's deficit to 3.5 percent of GDP. [16]

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[15] Ibid, p. 3.

[16] Ibid, p. 9.

Table 15: Country Data Table

	Barbados 2002*	Trinidad & Tobago 2001	Antigua & Barbuda 2001	Grenada 2002	Dominica 2001	St. Kitts and Nevis 2001	St. Lucia 2001	St. Vincent & Grenadines 2001
GDP (US$ m)	5,093	8,955	668	398	260	340	690	361
Population	272,000	1,300,000	70,000	102,000	70,000	42,000	160,000	120,000
GDP per capita	9,370	6,888	9,543	4,000	3,714	6,434	4,313	3,116
GDP Growth	(0.60)	4.5/3.2	0.20	(0.50)	(4.50)	1.7/(2-3)	(3.70)	(0.80)
Government current account surplus, % of GDP, 2001	2.40	1.40	(2.90)	2.30	(4.00)	(4.90)	2.00	1.40
Government debt/GDP	60.50	66.20	84.50	103.80	92.10	138.00	42.70	72.30
Unemployment	10.30	10.80	7.00	12.20	20.0+	na	18.90	na
Poverty (% of pop.)	13.90	21.20	na	32.10	39.00	30.50	18.70	37.50
Inflation	0.50	5.50	na	3.00	na	2.60	na	1.00
Exchange rate^	2.00	6.23	2.70	2.70	2.70	2.70	2.70	2.70
Current account	(123.20)	126.40	na	(82.60)	(47.90)	(113.00)	(65.00)	(115.00)
Agriculture as % of GDP	5.50	1.40	4.00	8.40	17.20	2.90	6.60	10.30
Tourism as % of GDP	15.00	na	40.00	9.10	na	na	14.00	na
Exports as % of GDP	53.20	54.00	68.90	58.80	51.20	44.10	48.90	50.00

Data for the year 2001

Grenada GDP figure is from 2001

Table 16: Structure of Economy[17]

% GDP 2001	Agriculture	Industry	Manufacturing	Services
Barbados	6.0	20.6	9.3	73.4
TT	1.6	44.9	7.7	53.5
Antigua	4.0	21.1	2.3	74.9
Dominica	17.2	22.8	7.9	60.0
Grenada	8.2	23.2	8.4	68.6
St.Kitts	2.9	29.2	10.2	68.0
St. Lucia	6.6	18.2	4.4	75.2
SVG	10.3	24.4	5.4	65.3

Table 17: Agriculture and Industry as a % of GDP, 1991 and 2001[18]

% GDP	Agriculture		Industry	
	1991	2001	1991	2001
Barbados	na	6.0	na	20.6
TT	2.5	1.6	42.7	44.9
Antigua	4.2	4.0	20.9	21.1
Dominica	23.8	17.2	18.7	22.8
Grenada	13.1	8.2	20.0	23.2
St. Kitts	6.7	2.9	26.5	29.2
St. Lucia	13.1	6.6	18.9	18.2
SVG	18.6	10.3	23.5	24.4

Table 18: Balance of Payments[19]

USD million	1999	2000	2001	BP/GDP
Barbados	36.40	177.60	222.40	4.37
Trinidad and Tobago	162.10	441.10	502.20	5.61
Antigua	3.84	(2.30)	6.00	0.90
Dominica	4.07	0.19	1.67	0.64
Grenada	1.73	3.70	2.16	0.54
St. Kitts	1.01	(1.60)	4.26	1.25
St. Lucia	2.89	3.01	4.39	0.64
SVG	1.43	5.19	3.36	0.93

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17 Source: Economist Intelligence Unit

18 Source: Economist Intelligence Unit

19 IMF International Financial Statistics

BARBADOS

The Government of Barbados implemented a fiscal stimulus program in the fourth quarter of 2001 to counter the impact of the terrorist attacks in the US as well as ongoing declines in agriculture and manufacturing. These measures included shifting government spending to promote tourism, agriculture and manufacturing; protecting some agricultural production; public wage increases; and accelerating several public investment projects. As a result of these measures, together with the weaker financial performance of public enterprises, government debt rose from two percent of GDP in fiscal year 2000/01 to 4.25 percent in fiscal year 2001/02.

Subsequently, in October 2002, the Government announced a medium-term program to tighten fiscal policy and introduce structural reforms. The program includes promoting private investments, personal income tax reform (which is also intended to restrain public wages), tax and social security reform, and financial sector liberalization (the latter in the context of Caribbean financial sector integration).

In its 2002 Article IV consultation, the IMF urged the government to take three additional steps: freezing public wages, adjusting retail petroleum prices so that all costs are passed through to end-users, and replacing public sector investment in the tourism sector with private sector investment.[20]

TRINIDAD AND TOBAGO

Although Trinidad and Tobago is expected to have achieved its tenth consecutive year of economic growth in 2003, high energy-related revenues have concealed a deterioration in the country's fiscal situation, with the domestic tax base decreasing at the same time that there has been an increase in non-discretionary spending. According to IMF estimates, the country's energy wealth of approximately USD 8.6 billion can be maintained indefinitely at an public consumption rate of USD 302 million, which is the equivalent of approximately 4.5 percent of the 2002 non-energy GDP. In contrast, the actual non-energy GDP deficit was ten percent; at this rate, energy wealth would be exhausted within approximately ten years. The IMF therefore has recommended that Trinidad and Tobago implement the following measures:

- Investing part of energy revenues offshore through the proposed Revenue Stabilization Fund (RSF), in order to sterilize part of the earnings and diversify sources of government revenue.
- Restructuring of non-financial public sector companies (including the sugar company), which together created a deficit of three percent of GDP in fiscal year 2001/02.
- Pension reform and reviews of public expenditures, VAT design and procurement policies.[21]

OECS

A preliminary fiscal policy review of the OECS by the IMF stated: "The majority of the countries lacked a well-defined and coherent medium-term economic framework (MTEF) to guide fiscal management and create space for counter-cyclical policies." Issues of particular note include passively pro-cyclical fiscal policies, recent increases in debt due to "poorly conceived" investment projects that have not produced the anticipated returns in terms of growth, and the use of tax concessions for investment promotion.[22] The need to revise fiscal policy is also clear in the government debt/GDP ratios shown in Table 12, and which have also been discussed above with regard to government securities.

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[20] IMF, "Barbados: 2002 Article IV Consultation," February 2003, IMF Country Report, No. 03/44, pp. 3-7.

[21] IMF, "Trinidad and Tobago: 2003 Article IV Consultation – Staff Report," IMF Country Report No. 03/232, July 2003.

[22] IMF, "ECCU," pp. 41-42. Note that comprehensive studies of fiscal policies in Grenada, St.Kitts and Nevis, St.Lucia and Dominica were due to be completed by the World Bank at the end of 2003.

Country Reports

Barbados

I. ECONOMIC OVERVIEW

Barbados is one of the most stable and prosperous countries in the Caribbean, demonstrating steady growth and low rates of inflation. Economic growth averaged 3.2 percent annually between 1994 and 2000. After this period of steady expansion, economic growth contracted 2.7 percent in 2001 owing to the global economic recession, as well as the September 11th terrorism attack. The slump continued in 2002 with a contraction of 0.6 percent. On a more optimistic note, the Central Bank of Barbados (CBB) reported year-on-year growth of 2.1 percent for the first quarter of 2003, compared with the contraction of 4.5 percent experienced during the first three months of 2002. [23]

GDP per capita, which had increased from $8,285 in 1997 to $9,706 in 2000 and represented an income level higher than most other countries in the Caribbean region, suffered a downturn owing to declining tourism, sugar revenues, manufacturing, agriculture, informatics and financial services. By 2002, GDP per capita had fallen to $9,370. Following this trend, the unemployment rate rose from 9.4 percent in 2000 to 10.3 percent in 2002.[24]

Rising unemployment and declining demand for tourism and other foreign-exchange-earning products led the government to adopt fiscal stimulus measures that included: shifting spending to promote tourism, manufacturing, and agriculture; reintroducing import licenses for selected agricultural products; and accelerating the implementation of public investment projects. The fiscal deficit was allowed to widen to 3.6 percent of GDP in 2001 and 5.4 percent of GDP in 2002, financed mainly through domestic borrowing. The rising fiscal deficit allowed the government to sustain investments in the port, airport, sewer system, and roads, but certainly such borrowing on the part of the government represented a crowding out of possible private sector borrowing. The Central Bank of Barbados projects a fiscal deficit of 4.7 percent for financial year 2003/2004 (April to March), with expenditures rising sharply in the last quarter owing to a back pay settlement in the public sector. [25]

A widening current account deficit reduced international reserves in 1999. However, international reserves rose again in 2000 - 2001, boosted by precautionary borrowing by the Government that amounted to $100 million in June 2000 and $150 million in December 2001. By the end of 2001, net international reserves, excluding gold, totaled $707 million, an amount equivalent to over 6 months of projected imports. Reserves fell somewhat to $665.8 by the end of 2002. The current account deficit is predicted to widen again in 2003, owing to a further decline in manufactured exports, investment in public-sector capital projects and continuing high oil prices. During the first quarter of 2003, consumer goods imports declined compared with the same period one-year previously, but imports of capital goods increased by 21.4 percent and intermediate goods by 19.8 percent.[26]

Due to public sector wage increases, the fiscal stimulus measures implemented by the Government, and the deterioration in the finances of public enterprises (including a hotel), the overall deficit of the

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[23] See IMF, Barbados: Financial System Stability Assessment, February 2003, p. 9; EIU, Barbados: Country Profile 2003, p. 23.

[24] See EIU, Barbados: Country Profile 2003, p. 22.

[25] Ibid, p. 23.

[26] Ibid, p. 29.

nonfinancial sector widened substantially from 0.75 percent of GDP in FY2000/01 to 3.75 percent of GDP in FY2001/02 (fiscal year reflects April-March). [27]

Strong reserves have helped the Government to maintain the target exchange-rate, BDS$2.01:US$1. The real effective exchange rate depreciated by nine percent during the 12 months ending October 2002, reflecting the depreciation of the U.S. dollar against the euro. Despite the depreciation in the real effective exchange rate, exports continued to fall. [28]

Broad money grew 5.5 percent in 2001, reflecting capital inflows and the above-mentioned increase in international reserves. The Central Bank of Barbados tried to ease credit conditions by requiring banks to lower their lending rate from 11 percent to 8.5 percent. Nevertheless, credit to the private sector stagnated. In 2002, sluggishness in the private sector continued and the level of international reserves declined only slightly. Broad money again rose 5.5 percent. The central bank removed the required maximum lending rate in March 2003.[29]

GAPS/VULNERABILITIES

Expansionary fiscal policies, including large public sector wage increases and the deterioration in the finances of public enterprises, have led to rising fiscal deficits and public debt. The Government is in need of implementing a program of fiscal tightening that would include:

- Wage restraint in the public sector;
- Reductions in government spending on tourism projects that can be undertaken by the private sector;
- Removal of tariff rates that have been imposed on some products and represent a continuation of selective protection policies;
- Privatization of those public enterprises that demonstrate unsustainable operating deficits.

II. BANKING/NBFI SECTOR COMPOSITION AND STRUCTURE

At year-end 2001, Barbados had seven commercial banks (five foreign-owned, Barclays, Royal Bank of Canada, Bank of Nova Scotia, CIBC Commercial, Caribbean Commercial; one government-owned, Barbados National; and one local/private, Mutual Bank), 14 non-bank financial institutions, 41 credit unions, nine life insurance companies and ten general insurance companies. The assets of the commercial banks accounted for 81 percent of the assets of all deposit-taking institutions and 105 percent of GDP.[30]

About 74 percent of the assets of commercial banks belonged to either branches of foreign banks or subsidiaries of foreign-owned entities from Canada, the United Kingdom, and Trinidad and Tobago. In 2002, some of the Caribbean activities of Barclays PLC and CIBC have been merged with the formation of First Caribbean International (FCIB), headquartered in Barbados, with operations in 15 countries and eight jurisdictions. The merger has brought about further concentration in the banking system, with FCIB accounting for approximately 33 percent of total assets and Royal Bank of Canada about 19 percent of total assets.[31] The government divested itself of its majority ownership of Barbados National Bank (BNB) in August 2003. [32]

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[27] See IMF, Public Information Notice, No. 03/16, February 2003, p.2.

[28] See IMF, Barbados: Financial System Stability Assessment, February 2003, p.11.

[29] See IMF, Public Information Notice, No. 03/16, February 2003, p.3.

[30] See IMF, Barbados: Financial System Stability Assessment, February 2003, p. 13.

[31] See IMF, Barbados: Financial System Stability Assessment, February 2003, p.13.

[32] Reported by BNB managing director, Louis Greenidge in an interview 8/6/03.

Other financial institutions in the financial sector encompass trust companies, finance companies, merchant banks, and mortgage companies (including Barbados Mortgage Finance Company). These institutions are not permitted to accept demand deposits, to offer checking accounts, or to utilize the central bank's discount facility. They are not subject to required reserves and their minimum capital requirement is lower than that of the banks. At year-end 2001, total assets of such institutions amounted to about 19 percent of GDP.[33]

Credit unions have increased in number and size in recent years and are competing with banks in the consumer lending area. They are restricted from accepting demand deposits, issuing checkbooks and accepting deposits or making loans denominated in foreign currency. As of year-end 2001, there were 41 credit unions with 94,718 members -- more than one third of the total population -- with total assets equivalent to 9.5 percent of GDP. The largest credit unions are almost as large as the smallest bank. Credit unions are allowed to accept deposits of nonmembers but are prohibited from lending to them.[34]

Insurance companies account for the bulk of nonbank onshore financial activities, offering a broad range of insurance products. The industry is in the process of consolidation with the takeover in May 2002 of Life of Barbados by the Barbados Mutual Life Assurance Society. The merged company will be the largest, accounting for a local market share of about 65 percent. Privatization of the state-controlled Insurance Corporation of Barbados was initiated in late 2000, but so far the government has remained its largest shareholder. Up-to-date aggregate statistics on the industry are not available.[35]

GAPS/VULNERABILITIES

The banking/NBFI sector appears to encompass a diversity of institutions. Significant foreign ownership of the banking system provides some assurance of support by the parent in the event of distress. However, recent examples (e.g., Argentina) of parents walking away from a subsidiary suggest that the CBB should not fully rely on parental support.

It is important to consider the extent to which these diverse institutions efficiently utilize their resources to respond to the growth and development needs of the country's private sector.

III. BANKING/NBFI POLICY AND REGULATORY INFRASTRUCTURE

Under the Financial Institutions Act of 1996, the Minister of Finance is responsible for the supervision, regulation and licensing of commercial banks, trust companies, finance companies, merchant banks, and certain other non-bank financial institutions. The Act enables the Minister of Finance to delegate to the CBB supervisory and regulatory powers, save for granting and revoking licenses and issuing regulations.[36]

A fixed exchange rate regime and exchange controls allow the CBB to give less priority to day-to-day liquidity management. Monetary policy is largely conducted through adjustment to administered interest rates. Excess liquidity mounted in 2002, reflecting the persistent weak demand for credit following the economic slowdown. In June 2002, total bank reserves stood at almost three times the required reserves, while banks' holdings of government securities were 30 percent higher than the prescribed minimum. The excess liquidity ratio (the ratio of the sum of excess reserves and excess government securities holdings relative to the deposit base) increased to more than 17 percent from eight percent at the end of

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33 See IMF, Barbados: Financial System Stability Assessment, February 2003, p. 13.

34 Ibid, p. 13.

35 Ibid, p. 15.

36 See IMF, Financial System Stability Assessment, February 2003, p. 28.

2000 and the treasury bill rates declined to historically low levels (the three month treasury bill rate stood at around 2.5 percent at end-quarter 2002).[37]

The CBB's tools for liquidity management include both direct and indirect instruments. At present, the main instruments are changes in cash reserves and securities requirements, regular tender sales of government securities, and adjustments in official interest rates. The central bank does not conduct active open market operations and currently has only a small amount of government securities in its portfolio. It also maintains a discount facility that has not been used by banks for some time because of excess liquidity.[38]

Interest rates have been regulated. The current policy of stipulating a minimum savings rate (2.5 percent) introduces downward rigidity in interest rates. The imposition of an average lending rate (eight percent) represented an attempt to reduce the banks' intermediation spreads. However, this policy tended to produce the effect of restraining bank lending and creating an incentive for banks to compensate via higher fees and other charges. In April 2003, the CBB removed its guidelines on weighted average interest rates for bank loans. The minimum savings rate remained unchanged.[39]

The Cooperatives Societies Act of 1993 established the regulatory and supervisory framework for credit unions, while day-to-day supervision was delegated to the Registrar of Cooperatives. Governance in credit unions has been found to be lax. Furthermore, adequacy of equity capital has been in question, not to mention the large number of nonperforming loans.[40] Unlike the banks, the credit unions are not required to meet strict regulatory standards, such as reserve requirements, capital adequacy, loan classification and provisioning, etc. The credit unions are inspected periodically with the help of bank supervisors from the CBB, who provide on-the-job training. The PEARLS system is utilized to rate the credit unions, a system not unlike the CAMELS rating system for banks.[41]

Supervision and regulation of the insurance sector has relied primarily on the good will and integrity of industry participants. Recognizing that steps to formalize and improve regulations would help to protect the reputation and charter value of the insurance business in Barbados, the Office of the Supervisor of Insurance has requested assistance from the Caribbean Regional Technical Assistance Center (CARTAC) in conducting on-site inspections. Also, a proposal is being considered by the Ministry of Finance to amend the insurance legislation to enhance, among other things, capital adequacy requirements.[42]

Banks are required to follow International Accounting Standards. Accounting, auditing, and disclosure practices are reported to be in line with international standards. Legislation requires that banks and nonbanks be audited annually, three months after the end of the financial year.[43]

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[37] Ibid, p. 21.

[38] Ibid, p. 11

[39] Ibid, p. 11.

[40] These problems pertaining to the credit unions were observed by the Deputy Director of the CBB, Carlos Holder, during a meeting held August 6, 2003. Corroborating statements may be found in the Barbados: Financial System Stability Assessment, IMF Country Report No. 03/35, February 2003, p. 7 and p. 23.

[41] The use of the PEARLS system was noted in an interview with Carlos Holder, deputy director of the CBB, as well as, an interview with Anthony Pilgrim, General Manager, Barbados Cooperative & Credit League.

[42] See IMF, Barbados: Financial System Stability Assessment, February 2003, pp. 17; 25.

[43] Ibid, p. 33.

There is neither a credit information bureau nor a credit rating agency in Barbados. Some of the bankers interviewed felt that there was a need for a credit information bureau, so long as the information was kept strictly confidential.[44]

In December 2003, a compulsory deposit insurance scheme for institutions licensed under the Financial Institutions Act will be in place. Until then, the government of Barbados guarantees bank deposits. The level of coverage is anticipated to be related to GDP per capital, an approach similar to that used by other countries that have deposit insurance in the region. The premium will initially be uniform across institutions.[45]

GAPS/ VULNERABILITIES

The IMF has observed gaps in the country's compliance with some of the Basel Core Principles for Effective Bank Supervision. In particular, it has called attention to the need for:

Banks:

- Increase supervisory resources of the CBB so as to enable it to conduct on-site examinations on an 18 to 24 month cycle;
- Amend the Financial Institutions Act to strengthen the independence of the CBB;
- Impose aggregate limits on large exposure and connected lending;
- Facilitate license revocation and distressed bank resolution;
- Require CBB's prior approval of the external auditor for licensees.

Credit unions:

- Make the CBB-assisted on-site examinations of the five largest credit unions something that is done on a regular basis;
- Strengthening the capacity of the Registrar of Cooperatives to effectively supervise credit unions.

Insurance companies:

- Instituting effective supervision and regulation of the insurance sector via increased supervisory resources, independence and transparency.

The government's interest rate policy has not stimulated lending, since the banks take the view that the rate does not adequately compensate them for the credit risk inherent to the loans. In theory, complete deregulation of interest rates and the opening up of cross-border banking services would promote greater competition.

IV. FINANCIAL SOUNDNESS

A. BANK SOUNDNESS

Aggregate information, as of year-end 2002, suggests that commercial banks are on a sound footing. The average capital adequacy ratio of the four locally incorporated banks increased from 14.9 percent at yearend 1999 to 18.2 percent at yearend 2001. Profits before tax remained above two percent of total

44 The issue of confidentiality was expressed as a major concern by BNB's managing director during the interview 8/6/03

45 See IMF, Barbados: Financial System Stability Assessment, February 2003, p. 26.

assets in 2001. Fees and other income also increased from 23 percent to 33 percent of gross revenue during 2001.[46]

The economic slowdown affected asset quality such that nonperforming loans increased from 3.8 percent of total loans at year-end 2000 to five percent at yearend 2001. The trend toward increasing nonperforming loans continued into 2002. In the meantime, deposits increased 10.2 percent in March 2002, year-on-year. Excess liquidity reached record levels and contributed to lowering interest rates on deposits and loans. [47]

The banks monitor their assets and liabilities according to maturity/ repricing intervals. Limits are set on the permissible size of the mismatches. Presumably, the periodic mismatches are related to a measure of periodic earnings. Currently, interest rate movements are quite minimal and largely controlled. Their rigidity and lack of responsiveness to liquidity conditions, the existence of large spreads, the mandatory floor on savings rates all suggest that the market mechanisms are not at liberty to work efficiently.

With respect to foreign exchange risk, banks may accept deposits in foreign exchange, which accounts for 11.3 percent of total deposits (as of March 2002), and are allowed to lend in foreign exchange, although such intermediation in foreign currencies is reportedly limited since it requires the CBB's permission. Banks are generally allowed to have open positions in foreign exchange related to working balances up to 15 percent of their spot liabilities.[48]

B. CREDIT UNION SOUNDNESS

Credit unions have expanded rapidly so that their assets are equivalent to ten percent of GDP. The larger institutions are capable of competing with banks and should be subject to prudential supervision similar to that of the banks, particularly since their ratio of nonperforming loans to total loans has reached 20 percent. Institutional concentration is apparent as the two largest credit unions (Barbados Public Workers and City of Bridgetown) account for about 70 percent of the membership base and 64 percent of total assets of all credit unions. Because of their orientation towards members that fall into low-income brackets and because of social welfare considerations, credit unions are not subject to compulsory reserve requirements, the 0.2 percent tax on assets or the income tax. Recovery on nonperforming loans has been prejudiced by the nature of its membership and the relative inexperience of its staff.[49]

Gaps/ Vulnerabilities:

Credit risk represents the main threat to commercial banks in the current environment. Barbados's economy is particularly sensitive to business cycles in the United States, the United Kingdom, and Canada through their effects on tourism. Another consideration is that the construction sector expanded significantly during a boom that ended in 1999. As a result, land and real estate prices that had accelerated during the boom suffered a decline. This decline suggests a fall in the value of banks' collateral. Finally, the manufacturing sector has suffered owing to rising costs and increased competition from producers abroad.[50]

The lack of adequate supervisory staff (6 inspectors for 41 credit unions) and resources has prevented the Registrar of Cooperatives from attaining its goal of one on-site inspection per annum. To remedy this

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[46] See IMF, Barbados: Financial System Stability Assessment, February 2003, pp. 6;18.

[47] Ibid, p. 18.

[48] See IMF, Barbados: Financial System Stability Assessment, February 2003, p. 21.

[49] Ibid, pp. 7; 23.

[50] Ibid, p 18.

situation, inspections of the five largest credit unions, which account for 81 percent of the total assets of the credit unions, are in the process of being carried out with the cooperation of the CBB. Inspectors from the CBB provide on-the-job training. This CBB assistance to credit union examinations is intended to be an ongoing process.[51]

There is a need for further expansion and upgrading of the supervision of the credit unions. Also, regulations pertaining to the credit unions need to be developed.

V. INTERMEDIATION

A. BANK FUNDING

As of April 2003, the loan/deposit ratio for the six banks stood at 55 percent. When total deposits (BDS $5,106,617,000) are divided into demand, savings, and time deposits, the banks appear to have a healthy longer-term component. That is, savings deposits, considered long-term with an average maturity depending on the particular bank's runoff rate, make up 45 percent of total deposits. The banks concurred that runoff tends to be high on savings accounts around Christmas. Time deposits are fixed term and vary in maturity from six months to twelve months, although occasionally they go out five years. They represented 16 percent of total deposits. Short-term deposits, like demand deposits came to about 39 percent of total deposits.[52]

As of April 2003, the banks paid from 2.5 percent to 3.0 percent on their savings deposits, depending on account size. In December 2001, a 3.0 percent minimum had been required on commercial bank savings deposits but this floor was dropped to 2.5 percent in October 2002. Returns on term deposits depend on maturity. In April 2003, a 12-month fixed-term deposit paid from 2.5 to 2.75 percent. Time deposits tend to be rolled over so the actual maturity of the deposit is extended.[53]

B. BANKING LENDING

Loans and advances made up 46 percent of commercial bank assets at year-end 2002. Approximately 47 percent of these credits had maturity greater than five years. The largest share of credit (41 percent) went to households, about half of that went to housing and land purchase. Lending to tourism came next with 11 percent of the credit extended. Credit to the central & local government, as well as to state-controlled enterprises, was about six percent. Credit to construction was another six percent. Agriculture received only two percent and manufacturing five percent. The rest of the credit was distributed to "professional & other services" and "distribution," each nine percent, and financial institutions, three percent. Transportation, entertainment, mining, fisheries, and miscellaneous received the remaining 15 percent.[54]

Credit to business firms was not separated out as a category in the CBB's Annual Statistical Digest 2002. Also, trade-related credit was not separated out. Trade financing, in the form of letters of credit, bills of exchange, bankers acceptances or export credit refinancing, is probably subsumed in the "distribution" category and possibly even the "professional and other services" category.

At year-end 2001, lending rates varied between 7.25 percent and 8.75 percent, down from yearend 2000 figures of 9.5 percent and 10 percent, respectively. No information was provided on mortgage rates, large business loan rates, or small business loan rates. However, it was pointed out at the Caribbean Development Bank (CDB) that, among low-income groups, it has been very difficult for borrowers, who

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51 Verified with the CBB's Department of Bank Supervision, 9/11/03.

52 See CBB, Economic and Financial Statistics, June 2003, Table B2, p. 12.

53 Ibid, Table E1, p. 57.

54 Ibid, Table B5, p. 20 and Table B9, p. 24.

are often seasonal workers, to service their loans. Therefore, financing to low income individuals tends to come from the CDB via one of its housing development projects or from the Basic Needs Trust Fund that provides financing to the poor for housing, roads, schools, etc.[55]

The banks require collateral in accordance with their perception of the borrowers' ability to repay. The process of registering, taking title to, and realizing the collateral via the judicial system is protracted. A certificate of title can take more than six months to obtain.[56]

Investments on the commercial banks' balance sheet were 19 percent of total assets at year-end 2001. These investments were predominately in treasury bills, government bonds, and bonds issued by development banks and state-controlled enterprises. With high levels of liquidity, the demand for these instruments was such that the Treasury bill rate fell from 3.9 percent in 2000 to 1.97 percent at the close of 2001 and to 1.5 percent at the close of 2002.[57]

C. BANK BORROWING AND LENDING

There are no legal or institutional impediments to a fully operating interbank market. However, the substantial excess liquidity in the banks has tended to drive down activity. Commercial banks are estimated to conclude only two to three transactions per week. They impose counterparty limits on their interbank exposures and transactions are typically overnight and unsecured. [58]

The size of spreads that banks can enjoy is high - averaging eight percent in 2001. It is likely that the large size of the spreads reflect comparatively high reserve requirements, high operating costs and risk premiums designed to take account of large exposures to credit risk. The average return on assets for 2001 was a healthy 2.2 percent.[59]

D. CREDIT UNIONS

Credit unions have shown themselves to be an important instrument for mobilizing the savings of the population. They have been growing at an average annual rate of 14 percent between 1999 and 2001, compared with 8 percent for the banks. Their loans outstanding as of December 2001 stood at 71 percent of their total assets, while share capital was 60 percent of total assets. According to the General Manager of the Barbados Cooperative & Credit Union League, their portfolios of credits tend to be concentrated in mortgage, vehicle and education loans. The proportion of loans that go to small businesses is small in comparison. A three-to-one ratio of loan amount to security is commonly requested by the credit unions and security includes member deposits, title to assets or government paper. Operating costs tend to be high, encompassing an excessive number of inefficient, less-qualified employees and expensive technology geared to competing with such commercial banking products as ATM machines, telephone banking facilities, and bill-paying services.[60]

Gaps/ Vulnerabilities:

A systemic liquidity crisis would be very unlikely, given the substantial excess liquidity. Notably, the excessive liquidity reflects an over-determined system with a mandatory minimum savings deposit rate of

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55 See CBB, Annual Statistical Digest, 2002, Table E1, p. 123.

56 Observation made by BNB's managing director during an interview 8/6/03.

57 CBB, Annual Statistical Digest, 2002, Table F1, p. 127 and Economic and Financial Statistics, June 2003, Table F1, p. 59.

58 See IMF, Barbados: Financial System Stability Assessment, February 2003, p.11

59 Ibid, Table 4, p. 19.

60 See CBB, 2001 Annual Report, p.11.

2.5 percent, a maximum average lending rate of eight percent (taken off in March 2003), and a pegged exchange rate regime supported by exchange controls. Thus, the banking system is marked by a high level of rigidity that does not foster a market determined interest rate environment.

In order to benefit the small borrower, particularly the micro-enterprise borrower, the needs of the credit unions in Barbados should be carefully studied and addressed. Given the lack of rigorous supervision and comprehensive prudential regulations, there is a paucity of relevant data on the credit unions. According to the Barbados Cooperative & Credit Union League, there is considerable variation across the 41 credit unions in terms of size, management, and financial performance. It is more than likely that some of the smaller, weaker credit unions would benefit from being merged into one of the larger, stronger ones.

Aside from the credit unions as a source of credit, loans extended to low income individuals tends to come from the CDB via one of its housing development projects or the Basic Needs Trust Fund that provides financing for housing, roads, schools, etc. to the poor. Also, BNB claims to have a micro-loan unit designed to meet the needs of the small business borrower.

Commercial Bank Assets
(Barbados Dollars)

Barbados			Year End		
			2002	2001	2000
CLAIMS ON	CENTRAL BANK	Cash	103,885	105,678	92,041
		Statutory Reserves & Deposits	429,504	222,421	163,615
	Other Local Banks		68,936	79,260	95,213
Loans and Advances			2,910,320	2,732,487	2,712,611
INVESTMENTS		Treasury Bills	491,702	470,908	487,835
		Gov't Securities	666,989	553,791	455,102
Foreign Assets			1,204,471	667,685	516,425
Other Assets			409,664	585,063	388,829
Total Assets			6,285,471	5,417,293	4,911,671

Source: Central Bank of Barbados (CBB)

Commercial Bank Liabilities
(Barbados Dollars)

Barbados			Year End		
			2002	2001	2000
	EC$ DEPOSITS	Demand	2,003,267	1,298,112	1,246,407
		Time	962,188	1,060,626	939,313
		Savings	2,176,650	2,038,945	1,901,574
Foreign Currency Deposits			814,785	484,232	398,125
Total Deposits			5,142,105	4,397,683	4,087,294
	BALANCES DUE TO	CBB	26,417	29,582	19,568
		Other Local Banks	2,353	8,099	27,045
Foreign Liabilities			370,210	258,932	223,263
Other Liabilities			414,380	568,724	407,000
Total Liabilities			784,590	827,656	630,263

Source: Central Bank of Barbados (CBB)

Antigua & Barbuda

I. Economic Overview

Antigua is classified as a middle-income country according to World Bank figures, with 2002 per capita income of about US$9,012.[61] ECCB figures for GDP at market prices were EC$1,947 million in 2002, or about US$721 million-equivalent. GDP has grown more than the OECS norm in the last few years, with average 2001-02 GDP about five percent higher on average than average GDP from 1998-2000. By contrast, the OECS norm has been about 2.8 average annual increases.

The unemployment rate is not available. However, Antigua has long relied on foreign workers. While per capita incomes are relatively high, distribution is an issue. (Poverty indicators were not available).

Structurally, the economy is heavily geared to services and exports. Gross tourism receipts have fallen since 2001, and approximated US$269 million in 2002. Tourism receipts in 2001-02 were about 94 percent of average receipts in 1998-2000. Thus, annual receipts over the last two years have been about three percent less than the annual averages from 1998-2000. Agriculture is only 4 percent of GDP.

Exports were 69 percent of GDP in 2001, the highest among OECS countries. Merchandise exports have increased each year since 1998. The figure for 2002 was US$17.4 million, or 15.5 percent of GDP. This suggests that service exports account for about 54 percent of GDP, with most of it from tourism.

As elsewhere in the region, there is a need for fiscal reform, particularly given the increasing share of public debt. In 2001-02, government borrowings have totaled more than $81 million, as opposed to only

[61] Per capita income figure is ECCB GDP at market prices divided by population.

$30 million the prior three years. Thus, on average, current Government borrowings are approximately four times average borrowings from 1998-2000. This has resulted in rising interest costs, totaling US$39 million in 2001-02.

Information on CPI and inflation was not available. However, as elsewhere in the OECS, there is very little risk of major increases to the inflation rate given the tight monetary policy applied by the ECCB to maintain the exchange rate peg. Thus, in all likelihood, CPI has not been high on average.

As with the other ECCB countries, Antigua has moderate foreign exchange controls. Purchases above EC$100,000 must be done with the approval of the central bank. Any purchases below that level require no central bank authority. Apart from this, there are no restrictions on payments and transfers for current international transactions.

Balance of payment figures for 2001 indicate a moderate current account deficit of US$47 million, or about 6.5 percent of GDP. This is relatively low for the region. Both goods and services exports have declined, although imports have also come down.

Gross tourism receipts have declined since 2000. After averaging US$287 million-equivalent in 1998-2000, tourism receipts have declined to about US$270 in the last two years. This decline is less severe than in some other OECS countries. However, it is still a decline. Along with the drop in merchandise exports and the increase in debt service, this adds to current account deficits.

As noted above, Antigua's debt profile shows rising borrowings, which may point to increasing long-term vulnerability. Public debt-to-GDP was a very high 84.5 percent of GDP in 2001, although this ratio likely declined a bit in 2002.

GAPS/VULNERABILITIES

As with other OECS economies, government finances appear to be a bit fragile and unpredictable. Anecdotal reports indicate that government workers face delays on payments, and that the Government has built up payables with recent construction and other projects. Such weakness increases the scope for corruption, which is reported to be more of a problem in Antigua than elsewhere among the OECS.

II. Banking/NBFI Sector Composition and Structure

There are several foreign (mainly Canadian), regional indigenous (mainly from TT) and Antiguan banks. These include the Antigua Commercial Bank, Antigua Barbuda Investment Bank, and the Bank of Antigua (domestic), RBTT (indigenous Caribbean), Scotiabank and Royal Bank of Canada (both from Canada), and First Caribbean International (a joint venture between CIBC of Canada and Barclays of the UK).

Total assets in the commercial banking system approximated EC$2,666 million, or about US$987 million-equivalent. This makes Antigua the largest banking system in the OECS, accounting for 25 percent of total OECS assets. Bank assets-to-GDP approximated 137 percent, reflecting a high level of penetration in the market that is consistent with the OECS norm.

There were only five credit unions in Antigua in 2002, with 10,768 members.[62] The penetration ratio for credit unions (members to economically active population) was 24 percent, low for the Caribbean far lower than most OECS countries. Credit union assets totaled US$18 million, less than two percent of the banking system. This ratio is very low by Caribbean standards, and reflects the very limited role played by credit unions in Antigua.

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[62] Figures are from WOCCU.

Apart from credit unions, there is little information on Antigua's NBFIs. Insurance company premium revenues were not available. Thus, it is not possible to identify per capita coverage, life vs. non-life forms, etc. Nor is there any information on finance companies or trusts.

GAPS/VULNERABILITIES

There is a problem of transparency and information disclosure in Antigua. There is also the risk that banks with close links to Government are engaged in connected and insider transactions that are sometimes imprudent, and potentially illegal.

III. Banking/NBFI Policy and Regulatory Infrastructure

The legal framework for banking in Antigua is consistent with that of the entire OECS, and is based on the Uniform Banking Act. The ECCB is responsible for monetary policy and banking supervision. Legislation and supervisory practices are currently being strengthened to include more suitable prudential norms for solvency and liquidity, and a mandate for the ECCB to intervene and implement corrective actions when banks face problems. Antigua, as the rest of the region, will be moving increasingly to risk-based and consolidated supervision.

Antigua also serves as an offshore financial center. Laws and regulations have tightened in recent years, and the introduction of a new Financial Intelligence Unit is responsible for anti-money laundering efforts and related activities to counter financial crimes.

The legal framework for the credit unions in the OECS is generally based on the Cooperative Society Act, which is viewed as inadequate. Credit unions have been supervised by the Department of Cooperatives (of the Ministry of Labor and Cooperatives). Changes to the supervisory structure include a greater role for the ECCB to be involved in regulatory oversight. However, the penetration ratio and general role of the credit unions is less in Antigua than in most other OECS countries.

GAPS/VULNERABILITIES

It may be a challenge for some financial institutions to adapt to stricter reporting guidelines and tougher regulations. Credit unions will also need significant support to comply with tougher enforcement of PEARLS, as well as to develop needed management capacity and systems.

IV. Financial Soundness

A. BANK SOUNDNESS

Banks are likely sound in Antigua, although there are some troubling fundamentals that may point to weakness at one or more of the banks. For instance, banking system capital adequacy was 14.3 percent in 2001, which is at the low end of OECS ratios, but still acceptable if risks have been properly identified and provisioned for. However, there is a risk that one or more banks may have high levels of quasi-fiscal liabilities, which would be risky given the deterioration of Government finances. The foreign banks (e.g., Scotiabank, Royal Bank of Canada, First Caribbean International) and regional indigenous banks (e.g., RBTT) are parts of or associated with larger parents. Thus, the greatest risk is likely to be greatest with one or more of the domestic banks.

Antigua's nonperforming loan ratios were 17.5 percent of total loans in 2001. Applied to 2002 loan figures, this would approximate EC$259 million, or US$96 million. More to the point, they would be virtually identical to banking system capital, suggesting that one or more institutions may be technically insolvent. Meanwhile, provisions were only 26 percent of total "unsatisfactory" loans in 2001, which may mean underprovisioning of bad assets and overstated income figures.

Earnings data from 2001 show very weak returns of 0.5 percent of average assets, although return on average equity was 44.6 percent. The implication here is that banks may be undercapitalized. Net interest margins were only 4.5 percent, lower than in most OECS banking systems, while the average cost of funds was slightly higher at 5.3 percent.

Antigua's banks have moderate loan-to-asset ratios. As of end 2002, the ratio of bank claims on the private sector was 52 percent of total deposit money banks' assets. Total loans (including to NBFIs and state enterprises) were 56 percent of assets. However, with nominal net interest spreads of only 4.6 percent in 2002 combined with high levels of nonperforming loans, 6 percent reserve requirements, and minimum passbook savings rates of three percent, it is doubtful that earnings are sufficient. This is reflected in the low RoAA ratio of 0.5 percent return.

B. CREDIT UNION SOUNDNESS

Credit unions play a limited role in Antigua, and likely the least important role among OECS markets. Figures on soundness were not available. However, if they are like their counterparts in other OECS countries, they are experiencing problems with their loan portfolios. This was evident at one of the largest credit unions that reported reversals of income and recovery of negative reserve positions after write-offs of cumulative uncollectible loans in 2000. That the ECCB is planning to strengthen regulation and supervision to include closer surveillance of credit unions indicates weakness to date in Department of Cooperatives oversight (largely due to manpower and financial constraints), as well as deficiencies in some credit unions' management systems. In general, credit unions appear to be weak in Antigua, and are less dynamic than their counterparts in some of the other OECS countries.

The system as a whole showed US$2.2 million in total reserves in 2002, which is 12.2 percent of total assets. This would mean that if nonperforming loans were 17.5 percent of total loans (as with the banks) and they proved to be uncollectible, the aggregate credit unions' financial position would show only a small level of reserves (US$128,259[63]). Thus, reserves barely cover loosely estimated nonperforming loans. In fact, several credit unions are likely technically insolvent.

GAPS/VULNERABILITIES

Domestic and other banks may be vulnerable to exposure to quasi-fiscal liabilities at a time when the Government's fiscal and debt position is weak. This, combined with high levels of nonperforming loans, represents weak fundamentals for banks. Earnings ratios are low, and banks generally appear to be undercapitalized, albeit their capital adequacy ratios may be satisfactory. Margins and spreads appear narrow relative to the risks associated with a vulnerable economy.

Many credit unions are likely insolvent. Reserves are low relative to problem loans. Credit unions in Antigua need significant investment in systems for modernization. To date, their penetration rate in Antigua has been low by OECS standards.

V. *Intermediation*

A. BANK FUNDING

Deposits placed with banks approximated EC$1,778 million, or US$659 million-equivalent at year-end 2002. This was equivalent to 67 percent of total liabilities and capital. Of the deposits, EC$247 million were demand deposits, and EC$1,531 million were term (i.e., time/savings) or foreign currency deposits. The proportion of term deposits is significant, accounting for 57 percent of total banking system funding.

Beyond deposits, deposit money banks have smaller proportions of foreign borrowings, Government deposits, and capital. There has been a small amount of ECCB credit over the years, and central

63 .175 x $11,537,308 = $2,019,029 in hypothetical uncollectible loans, which is slightly less than $2,147,288 in reserves.

Government deposits have been fairly stable through 2002. However, these deposits began to decline in early 2003. However, Government deposit liabilities were not all that significant at year-end 2002, at EC$63.5 million, or 2.4 percent of total liabilities and capital. Net capital (gross capital less other items net) was reasonable, at EC$257 million, or 9.6 percent of total assets.

Banks are liquid. Loans to deposits were 83 percent in 2002.

B. BANK LENDING

Total lending by banks approximated EC$1,480 million at the end of 2002, or US$548 million-equivalent. This was about 56 percent of total assets, and includes loans to state enterprises (but excludes loans to/investments in government).

The largest areas of credit concentration for the banks in 2002 were to households (43.4 percent), mainly mortgage financing for land acquisition and housing construction. This was followed by Government (11.9 percent) and commercial trade (11.5 percent). Tourism accounted for 8.3 percent of credit.

Exposure to Government has actually been higher. While loans were about EC$214 million, the banks also posted EC$301 million in claims on central and local Government (in 2002). Combined with actual loans and advances, this would have brought the total to about EC$514 million, or about 19 percent of total banking system assets. Reserves would bring the figure up further to about EC$687 million, equivalent to about 26 percent of banking system assets. Adding loans to state enterprises would bring the total up further, to EC$763 million, or 29 percent of bank assets. Thus, nearly one third of the banking system's assets are dedicated to direct financing of the state and state enterprises. This is lower than several other OECS countries, and consistent with many G7 countries.

C. BANK BORROWING AND LENDING

Banks average annualized cost of funds was estimated to be about 5.3 percent in 2001. As of end 2002, T-bill rates were 7.0 percent, and deposit rates across maturities averaged about 5.9 percent. Lending rates were about 11.5 percent, although non-prime rates likely went much higher. Net spreads on comparable maturities (on a weighted average basis) show that the gap is at 5.6 percent, which is higher than may other OECS markets. This is worrisome, given the poor earnings ratios (against average assets) and the possibility that bad loans have been under-provisioned.

D. CREDIT UNIONS

As of end 2002, loans totaled US$11.5 million, equivalent to a very low 2.1 percent of bank loans. Credit union balance sheets show lower proportions of credit to total assets than their counterparts in other OECS countries, at about 66 percent. Thus, credit unions do not appear to be able to accommodate members with easier access to credit when compared to the banks, considering the banks have nearly half of their credit exposure out to households. On the other hand, loan-to-member ratios are consistent with ratios in other OECS markets, at US$1,071. Thus, the issue may be one of limited membership and savings, as well as financial discipline and collectibility.

On the savings side, credit unions had mobilized US$13.8 million in savings as of 2002, equivalent to a low 2.1 percent of deposits mobilized by banks (not including government deposits). On average, credit union loan-to-deposit ratios are virtually identical to those at banks, at 84 percent. Savings per member averaged US$1,280.

GAPS/VULNERABILITIES

Banks are liquid, as they are throughout much of the region. However, they have high levels of problem loans, the possibility of under-provisioning, past overstatement of earnings, and poorer earnings ratios relative to assets than found in other OECS markets despite having slightly higher spreads. Under such circumstances, some institutions may be undercapitalized, and this could weaken intermediation prospects.

Commercial Bank Assets

Antigua & Barbuda			Year End		
			2002	2001	2000
CLAIMS ON	CENTRAL BANK	Cash	21,589	21,131	27,071
		Statutory Reserves & Deposits	162,472	182,083	89,941
	Other Local Banks		34,820	28,570	11,524
	Other ECCB Area Banks		82367	15902	19351
Loans and Advances			1,810,108	1,702,971	1,674,703
INVESTMENTS		Treasury Bills	29,562	33,007	33,007
		Gov't Securities	20,407	14,397	14,367
Foreign Assets			513,507	421,065	392,211
Other Assets			144,868	112,611	188,990
Total Assets			2,819,701	2,531,707	2,451,165

Source: Eastern Caribbean Central Bank (ECCB)
Eastern Caribbean Dollar denominated

Commercial Bank Liabilities

Antigua & Barbuda			Year End		
			2002	2001	2000
	EC$ DEPOSITS	Demand	306,509	326,829	270,424
		Time	914,432	773,148	702,470
		Savings	574,675	548,487	519,295
Foreign Currency Deposits			402,957	355,513	355,618
Total Deposits			2,198,773	2,003,977	1,847,807
	BALANCES DUE TO	ECCB	2,774	31,042	10,405
		Other Local Banks	64,153	16,996	11,703
		Other ECCB Area Banks	134905	87511	196639
Foreign Liabilities			130,304	117,609	146,945
Other Liabilities			287,332	260,680	237,666
Total Liabilities			2,818,241	2,517,795	2,451,165

Source: Eastern Caribbean Central Bank (ECCB)
Eastern Caribbean Dollar denominated

Dominica

I. *Economic Overview*

Dominica is currently classified as a low to middle-income country according to World Bank figures, with 2002 per capita income of about US$3,625.[64] IMF data report GDP at market prices to have been EC$721 million in 2002, or about US$267 million-equivalent. Real GDP has fluctuated in recent years, increasing at declining rates from 1998-2000, then negative in 2001-02, and projected to be positive in 2003. From 1998-2003 (preliminary projections), real GDP will have increased at only 0.25 percent year-on-year since 1998 (on an unweighted basis).

In addition to Dominica's low to middle-income status, income distribution is a challenge. A significant portion of the population lives in poverty, estimated to be as high as 39 percent (2001). The effects are partially offset by Government and donor assistance for health, education, environmental protection, and the social safety net. However, with two in five people in poverty and a vulnerable economy, this puts enormous strain on the public sector. Meanwhile, the unemployment rate was estimated to exceed 20 percent in 2002, reflecting an increase from the already high 16 percent in 1999. As an example, the numbers of people employed in the critical yet declining banana sector have diminished from 5,000 in the early 1990s to less than 1,500 by 2001.

Structurally, the economy has been concentrated in banana exports and tourism, both of which have declined in recent years. Based on 2001 figures, the largest share of GDP is currently Government services (21 percent), followed by agriculture (17 percent), banks and insurance (12 percent), and commercial trade (12 percent). Trends since 1997 indicate that agriculture is declining while Government services are increasing as shares of GDP. However, the weak state of banana exports and tourism show how vulnerable the economy is, as reflected in flat growth in real GDP and growing levels of debt.

There are several important state-controlled enterprises whose consolidated accounts reveal small losses year to year. While the cumulative 1998-2002 losses of EC$94 million (US$35 million) are not major, they are not affordable given the weak fiscal position of the Government. Losses at the state enterprises—the banana marketing corporation, water and sewerage authority, export-import agency, port authority, and broadcasting corporation—have generally been financed by central Government or foreign grants. There are plans to liberalize trade, remove monopolies and protection, and to privatize the Dominica Banana Marketing Corporation. In all likelihood, cost recovery measures will also be introduced at the water and sewerage company. All together, losses at state enterprises (prior to capital grants received to cover losses) accounted for about 2.6 percent of GDP from 1998-2002. With government deficits projected to decline steadily through 2006, these losses at key state enterprises are expected to drop.

In terms of monetary and related issues, CPI has been well contained throughout the years. The unweighted average CPI since 1998 has been only 1.4 percent (including projected 2003 of two percent). There is very little risk of significant increases to the inflation rate given the tight monetary policy applied by the ECCB to maintain the exchange rate peg, a policy in effect since 1976.

As with the other ECCB countries, Dominica has moderate foreign exchange controls. Purchases above EC$100,000 must be done with the approval of the central bank. Any purchases below that level require no central bank authority. Apart from this, there are no restrictions on payments and transfers for current international transactions.

Fiscal deficits have been troublesome, particularly in recent years. The consolidated public sector deficit (before grants) was a manageable 5.4 percent of GDP in 1998. However, from 1999 on, deficits have

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64 Per capita income figure is ECCB GDP at market prices divided by population.

ballooned to a range of 10.9-24.2 percent of GDP, averaging 15.5 percent per year since 1999 (on an unweighted basis). This has triggered renewed financing from creditors abroad, as well as fiscal and structural reforms domestically. As part of the exercise, domestic public debt is expected to show steady declines, as it has since 2002, to 17.9 percent of GDP by 2006.

Balance of payment figures reflects the considerable erosion of Dominica's traditional banana export market, as well as the flatness and decline in gross tourism receipts. This has resulted in growing current account deficits, rising from US$21.5 million in 1998 to double those levels from 1999-2001 (average $44 million) and then tapering off to projected deficits of about US$35 million each year from 2002-03. Overall, this translates into current account deficits averaging 13.9 percent of GDP from 1998-2003. This has been a challenge as well in the other OECS countries, given their limited resources, low levels of merchandise exports, high levels of merchandise imports, and dependence on gross tourism receipts. Under such a weak scenario, net official reserves have shown little movement in recent years. Reserves were US$33.2 million in 2003, about 3.8 months' import cover.

Dominica's debt profile shows rising borrowings and increasing long-term vulnerability. External public debt-to-GDP has increased from only 35 percent in 1998 to 79.5 percent in 2003. The increase has been steady year-on-year, and is projected to level off in 2004 and then to gradually decline. Average interest rates have increased during this recent period, from 2.4 percent in 1998 to double these rates since 2001. Given the precarious fiscal and balance of payments position, Dominica's debt has been restructured to contain interest rate increases and to ensure that scheduled principal and interest payments are feasible and sustainable. There is no immediate vulnerability at this level with the strong donor support that Dominica has. However, the situation will remain sensitive, as the debt service ratio (as a percent of exports) has increased substantially since 2000 and is only expected to diminish by 2006.

GAPS/VULNERABILITIES

There are numerous areas of vulnerability. Government finances remain weak and unpredictable; given the difficulties Dominica faces in terms of export markets and tourism receipts. In the case of Dominica, weak tourism receipts are exacerbated by the absence of an airport with a landing strip that can accommodate planes that carry significant passenger loads. The unemployment rate remains high, which further adds to expenditure strains and weakens revenue flows. Banks are contending with high levels of nonperforming loans, which reduces credit and/or adds to the cost of borrowing for businesses and households. Meanwhile, under such difficult circumstances, it may be difficult for the Government to privatize the banana-marketing corporation, or to pass on higher tariffs to customers for water and sewerage services. However, as CARICOM liberalizes, it will be important for Dominica to adapt to more open market conditions, particularly as its trade figures show the increasing importance of CARICOM markets for exports as well as imports.

II. Banking/NBFI Sector Composition and Structure

Dominica's financial system is relatively small in terms of numbers of institutions and financial measures. There are five banks, of which four are foreign-owned (i.e., Scotiabank, Royal Bank of Canada, First Caribbean International, Banque Francaise Commerciale—Antilles Guyane), and one is the traditional National Commercial Bank of Dominica. The last bank accounts for about 40 percent of banking system deposits, has absorbed other Government financing vehicles in recent years, and has been a traditional provider of credit to Government. The four private banks tend to focus more on the private sector.

Total assets in the commercial banking system approximated EC869 million, or about US$322 million-equivalent. This translates into relatively small banks in terms of size. However, bank assets-to-GDP approximated 127 percent, reflecting a high level of penetration in the market.

There were 17 credit unions in Dominica in 2002 with 68,102 members.[65] This is substantial for a country with 70,000 people, and the penetration ratio for credit unions (members to economically active population) was 152 percent. This is the highest penetration ratio *in the world*. Credit union assets totaled US$92 million, about 29 percent of the banking system. This ratio is also high, as Caribbean countries' credit unions typically only have about ten percent of the assets of the commercial banks. As elsewhere, there is likely significant concentration among a few credit unions, with several other smaller credit unions.

Dominica's NBFIs (apart from credit unions) include 20 insurance companies and one finance company. Insurance company premium revenues were not available. Thus, it is not possible to identify per capita coverage, life vs. non-life forms, etc.

GAPS/VULNERABILITIES

The market is small, which will mean ongoing high per unit costs in many areas, and higher general costs of operations resulting from the need for advanced IT to be internationally competitive. Bankers, credit unions, and insurance companies will all need to acclimate themselves to stricter regulation and supervision, in keeping with international standards. This includes a tightening of conditions with regard to money laundering, fraud, and related crimes. While financial institutions have already adapted to these burdens, this will continue to consume management time and systems.

The weakest link in the chain is the credit union movement. Given the extraordinarily high penetration rate of the movement and the comparatively high level of resources mobilized, this will be an important vehicle for private sector development in a country struggling with high unemployment, high levels of poverty, and major public sector deficits. However, many credit unions are limited in what they provide, and nonperforming loans of EC$14.5 million (2001 figures) were equivalent to about two-thirds of 2002 reserves.[66] Thus, in addition to operational modernization, credit unions will need tightened credit risk management to play a vital role in Dominica's ongoing structural adjustment.

III. Banking/NBFI Policy and Regulatory Infrastructure

The legal framework for banking in Dominica is consistent with that of the entire OECS and is based on the Uniform Banking Act. The ECCB is responsible for monetary policy and banking supervision. Legislation and supervisory practices are currently being strengthened for better compliance with Basle Core Principles. This includes tighter supervision of banks to detect nonperforming loans early on, systemic risks and issues related to market risk and rising levels of Government debt (and banks' exposures to Government), strengthening prudential norms for solvency and liquidity, providing the ECCB with more of a mandate to intervene and implement corrective actions, as well as to enforce requirements for internal systems and audit and maintain standards for fit and proper management and boards.

The legal framework for the credit unions in the OECS is generally based on the Cooperative Society Act, which is viewed uniformly as inadequate for current times. Traditionally, credit unions have been supervised by the Department of Cooperatives (of the Ministry of Labor and Cooperatives). This has been supplemented on paper by self-regulatory capacity based on assistance from the Caribbean Confederation of Credit Unions. However, the CCCU has not had the resources or staff to be as effective as needed, nor has the Department of Cooperatives. Meanwhile, the ECCB is tooling up its own supervisory capacity. While it has provided some guidance and added assistance for credit union supervision, it has generally been inadequate.

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65 Figures are from WOCCU, and are assumed to be active credit unions.

66 In fact, using the ECCB ratio of 11.4 percent of total loans, this would exceed credit union reserves.

Supervision of the insurance sector has also been fairly benign. Financial reporting has been required. However, minimum capital has been low, capital adequacy ratios have not been strictly measured or enforced, and insurance companies have not been subjected to regular on-site inspections.

GAPS/VULNERABILITIES

There is recognition of the need to strengthen regulatory oversight and supervisory capacity for banks, credit unions and the insurance sector. Supervision of banks has improved in recent years, but still requires closer coordination to head off asset quality problems, let alone any potential for contagion or systemic risk. As CARICOM liberalizes, cross-border banking will become increasingly the norm, including among indigenous banks. Likewise, as banks and non-banks compete in the same markets and sometimes to merge, institutions will become more complex. This will trigger the need for consolidated supervision and accounting. Supervision of the credit unions and insurance companies remains particularly weak, and will need to be corrected for Dominica's financial sector to be safer and more competitive. This is particularly important given the high level of membership in credit unions.

IV. Financial Soundness

A. BANK SOUNDNESS

Banks are considered sound in Dominica. At least three of the four foreign banks (i.e., Scotiabank, Royal Bank of Canada, First Caribbean International) are parts of or associated with large parents with strong capital and tested management and systems. The challenge to banking system soundness may be fiscal in the end, as NCB of Dominica has high levels of exposure to the Government. However, this is expected to decline in the coming years, and the ECCB has apparently determined that the banking system as a whole is sound. Given NCB's large share of the market, this would suggest that its finances are sufficiently stable despite the weakness of the current economic environment.

Earnings data from 2001 show reasonable returns of three percent of average assets, and 13.5 percent against average equity. Banks have had reasonably high loan-to-asset ratios. As of end 2002, the ratio of bank claims on the private sector was 49.9 percent of total deposit money banks' assets. Total loans (including to NBFIs and state enterprises) were 63.5 percent of assets. However, with nominal net interest spreads of only 4.4 percent in 2002 combined with high levels of nonperforming loans (more than 21 percent of loans were at least three months overdue in 2001), six percent reserve requirements, and minimum passbook savings rates of four percent, it is uncertain if earnings are sufficient for the needs of a modern banking system. Again, the foreign banks may be generating adequate earnings. However, it is uncertain if the largest bank, NCB, is able to generate sufficient earnings given its other obligations as a state bank. The weaker economy has also undermined fee and other commission opportunities.

Capital adequacy ratios were only 9.8 percent in 2001, while provisions for nonperforming loans were only 32 percent of total. The latter may be adequate, depending on the mix of sub-standard, doubtful, and loss loans. However, under a weak economic scenario, these ratios appear to be lower than is required for a vulnerable economy.

B. CREDIT UNION SOUNDNESS

Credit unions are considered less sound than the banks. ECCB figures indicate that 14.5 percent of total loans outstanding were nonperforming. This is equivalent to 11.4 percent of total loans, which exceeds reserves. However, as elsewhere, the largest credit unions are reported to be in stronger condition. However, the system as a whole only showed US$8.2 million in total reserves in 2002, which is 8.9 percent of total assets. This would mean that if nonperforming loans were actually 11.4 percent of total loans (as noted by the ECCB in 2001) and they proved to be uncollectable, the aggregate credit unions' financial position would be technically insolvent. At 11.4 percent of total loans, this would be equivalent to US$8.5 million, which exceeds reserves of US$8.2 million.

While some credit unions, such as the Roseau Cooperative Credit Union, appear sound and well managed, many other credit unions are small, lacking in systems and management capacity, and unable to provide more than very basic services. It is here where many of the loan problems are apparently unresolved. Even Roseau's nonperforming loans are fairly high, at about 12 percent of total.

GAPS/VULNERABILITIES

The foreign banks appear to be sound, but NCB's position may be more vulnerable than the ECCB has been willing to admit. This is largely due to the difficult fiscal and balance of payments position, combined with the costs associated with traditional development banking.

Credit unions are vulnerable due to low levels of reserves relative to problem loans. As elsewhere, significant investment and training will be needed to better implement PEARLS to make the credit unions more active and competitive. This may require some consolidation of credit unions, or at least their back office operations. Tougher discipline will also be needed at some credit unions to bring delinquencies down. Much of Dominica's capacity to implement will depend on the broader role of the ECCB, as well as the CCCU. This will be essential, given the high membership rate and importance of credit unions in Dominica.

V. Intermediation

A. BANK FUNDING

Deposits placed with banks approximated EC$567 million, or US$210 million-equivalent at year-end 2002. This was equivalent to 65 percent of total liabilities and capital. Of the deposits, EC$92.5 million were demand deposits, and EC$475 million were term (i.e., time/savings) or foreign currency deposits. The proportion of term deposits is significant, accounting for 55 percent of total banking system funding. There is no deposit insurance in the OECS countries. High levels of deposits may reflect the absence of other income-earning opportunities, as well as a reasonable level of confidence in the safety of the banks.

Beyond deposits, deposit money banks have smaller proportions of foreign borrowings, Government deposits, and capital. There generally has been no ECCB credit in most years, and only negligible amounts when it has existed. Non-deposit liabilities were EC$198 million, or 22.8 percent of total liabilities and capital. Net capital (gross capital less other items net) was EC$103.5 million, or 11.9 percent of total assets.

Banks are liquid, with loans to deposits about 81 percent in 2002. This actually represents a decline from 96 percent in 1998 and 86 percent in 2001. Meanwhile, net capital is moderately high as a proportion of assets, while gross capital is slightly higher at about 13.2 percent.

B. BANK LENDING

Total lending by banks approximated EC$459 million at the end of 2002, or US$170 million-equivalent. This was about 53 percent of total assets, and includes loans to state enterprises (but excludes loans to/investments in government).

The largest areas of credit concentration for the banks in 2001 were to consumers (42 percent). This was followed by commercial trade (14 percent) and then Government (12 percent). Agriculture and tourism combined received only 6 percent of total loans and advances from commercial banks in 2001.

Exposure to Government has actually been higher. While loans were about 12 percent, the banks also posted EC$103.9 million in claims on central and local Government (in 2002). Combined with actual loans and advances, this would have brought the total to about EC$170 million, or about 20 percent of total banking system assets. Reserves would bring the figure up further to about EC$270 million, equivalent to about 31 percent of banking system assets. Adding loans to state enterprises would bring the total up further, to EC$292 million, or 34 percent of bank assets. Thus, about one-third of the banking system's assets are dedicated to direct financing of the state and state enterprises.

C. BANK BORROWING AND LENDING

Banks average annualized cost of funds was estimated to be about 4.1 percent in 2001. As of end 2002, T-bill rates were 6.4 percent, and deposit rates across maturities averaged about six percent. Lending rates were about 10.5 percent, although non-prime rates went as high as 16.5 percent. Net spreads on comparable maturities (on a weighted average basis) show that the gap is fairly thin, at 4.5 percent, given the high levels of nonperforming loans, minimum rate payments on passbook savings, and imposition of reserve requirements.

D. CREDIT UNIONS

As of end 2002, loans totaled US$74 million, equivalent to a comparatively high 43.5 percent of bank loans. Credit union balance sheets also show high proportions of credit to total assets, at about 80 percent. Thus, on the one hand, credit unions provide members with easier access to credit than they can sometimes find at banks and other financial institutions. The loan-to-member ratio is US$1,088. On the other hand, high levels of nonperforming loans add to costs, limit resources available for other members, and drive up rates and/or reduce the annual dividend payments made to members due to reduced surpluses.

On the savings side, credit unions had mobilized US$76 million in savings as of 2002, equivalent to a comparatively high 36 percent of deposits mobilized by banks. On average, credit union loan-to-deposit ratios are higher than at banks, at 98 percent. Savings per member averaged US$1,111.

GAPS/VULNERABILITIES

Banks are very liquid, as they are throughout much of the region. This reflects risk aversion, compliance with prudential norms, and the perception by banks of insufficient lending and investment opportunities. Such a situation is exacerbated by the weak condition of the economy. High levels of liquidity are also due to reserve requirements imposed by the ECCB.

High levels of nonperforming loans weaken the performance of banks and credit unions in an already difficult environment where earnings opportunities are constrained by difficult economic conditions. In particular, NCB and many of the smaller credit unions appear vulnerable to the broad challenges facing the economy. In the case of the former, this has to do with high levels of exposure to the Government during a period of transition that will include significant structural reforms. In the case of the credit unions, this has to do with their very capacity to survive in many cases under increasingly competitive financial conditions. Over time, many of the smallest credit unions are likely to face major challenges to consolidate.

Commercial Bank Assets

Dominica			Year End		
			2002	2001	2000
CLAIMS ON	CENTRAL BANK	Cash	16,507	13,200	13,016
		Statutory Reserves & Deposits	81,648	45,276	43,510
	Other Local Banks		22,635	16,604	31
	Other ECCB Area Banks		40,989	21,134	18,308
Loans and Advances			529,087	546,753	555,930
INVESTEMENTS		Treasury Bills	15,973	15,973	15,973
		Gov't Securities	27,259	29,481	27,420
Foreign Assets			150,509	95,686	84,422
Other Assets			20,360	18,898	10,625
Total Assets			904,967	802,985	769,235

Source: Eastern Caribbean Central Bank (ECCB)
Eastern Caribbean Dollar denominated

Commercial Bank Liabilities

Dominica			Year End		
			2002	2001	2000
	EC$ DEPOSITS	Demand	161,145	109,485	114,375
		Time	210,645	189,038	176,477
		Savings	342,486	334,637	326,317
Foreign Currency Deposits			24,464	17,878	14,125
Total Deposits			738,740	651,038	631,294
	BALANCES DUE TO	ECCB	0	0	5,299
		Other Local Banks	22,630	10,458	31
		Other ECCB Area Banks	30,264	29,600	44,789
Foreign Liabilities			1,590	1,305	2,104
Other Liabilities			111,743	110,584	85,718
Total Liabilities			904,967	802,985	769,235

Source: Eastern Caribbean Central Bank (ECCB)
Eastern Caribbean Dollar denominated

Grenada

I. *Economic Overview*

Grenada is one of the smallest countries in the Eastern Caribbean. In 2002, it had a population of approximately 102,000 and per capital income of $4,000. The economy is very much based on tourism, agriculture, and manufacturing (including agro-processing). After GDP growth that averaged 7 percent per year from 1998 - 2000, real GDP fell by 3 percent in 2001, owing to the global slowdown and the impact of the September 11th attacks. Preliminary estimates for 2002 suggest a further decline of 0.5 percent. The unemployment rate has hovered around 12 percent and inflation has remained close to 3 percent.[67]

The fiscal situation showed a marked deterioration in 2001. The central government deficit widened from an average 3.5 percent of GDP per year shown during the period 1998 - 2000 to 8.5 percent of GDP in 2001. In 2002, the fiscal situation continued to be weak with a preliminary estimate of 8 percent of GDP, arising from unexpected government expenditures on disaster relief following hurricane Lilli.[68]

The Government of Grenada issued a $100 million ten-year bond in June 2002 yielding 9.5 percent. The proceeds of that issue have been used to retire more expensive debt, to eliminate arrears on debt servicing, and to finance certain high-priority projects (infrastructure and tourism). As a result, the external debt at the end of 2002 is estimated to have risen over 20 percentage points of GDP to 62 percent, with total debt around 104 percent of GDP. [69]

The financial condition of the rest of the public sector appears sound with operating surpluses for public enterprises reported in 2000 and 2001. However, audited accounts for 2001 were available for only a few public enterprises. The National Insurance Scheme (NIS) generates surpluses of about $11 million annually and is projected to remain in surplus for the next 40 years. [70]

The growth in broad money and private sector credit slowed during 2001, but the prime lending rate remained unchanged despite a percentage point reduction in the central bank's discount rate in October 2001. Data pertaining to the first nine months of 2002 indicate that the private sector credit remained largely unchanged in nominal terms, while there was some growth in broad money due to expansion in deposits partially reflecting the clearance of arrears by the government.[71]

The external current account deficit declined from 20 percent of GDP in 2000 to around 17.5 percent of GDP in 2001, as lower receipts from tourism and merchandise exports were more than offset by a decline in imports associated with a slowdown in investments in tourism and other sectors. The deficit was projected to rise again in 2002 to 25 percent of GDP, reflecting an increase in import demand and lower service receipts. Foreign investment and external borrowing financed these imports.[72]

Grenada is a member of the Eastern Caribbean Currency Union (ECCU) of which the Eastern Caribbean Central Bank (ECCB) is the central bank. The currency of Grenada is the Eastern Caribbean dollar, which has been pegged to the U.S. dollar since July 1976 at the rate of EC2.70 per U.S. dollar.

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67 See IMF, Public Information Notice No. 03/10, February 2002, p.1; IMF, Grenada: Article IV Consultation, February 2003, p. 4.

68 See IMF, Public Information Notice No. 03/10, February 2003, p. 1.

69 See IMF, Grenada: Article IV Consultation, February 2003, pp. 5-6.

70 Ibid, p.6.

71 Ibid, p.6.

72 See IMF, Grenada: Article IV Consultation, February 2003, p. 6.

A preliminary estimate of the real effective exchange rate suggests that it depreciated by about two percent in 2002, reflecting a weakening of the dollar. [73]

GAPS/VULNERABILITIES

Grenada, like other countries in the Caribbean region, faces a difficult economic and financial situation, with a decline in growth, an increasing fiscal deficit, and a high level of public debt. Tropical storm Lilli, that hit the island in September 2002, retarded economic recovery by destroying agricultural output and infrastructure. Nevertheless, the government has taken steps to reduce current and capital spending and to increase revenues in 2002. For 2003, the government targeted a 2 percentage point decline in the deficit to 6 percent of GDP - a goal that will require implementing measures to cut exemptions and incentives, strengthening revenue collection, increasing the efficacy of spending, and prioritizing capital spending.[74]

In addition to the above measures, the government would do well to strengthen its current shift towards private sector participation in large infrastructure projects.

II. Banking/NBFI Sector Composition and Structure

Grenada has five commercial banks[75] (one domestic, Grenada Cooperative, and four foreign-owned, Bank of Nova Scotia, First Caribbean International Bank, Royal Bank of Trinidad and Tobago, National Commercial Bank), one development bank, 16 off-shore banks, 22 credit unions, and 25 insurance companies, one National Development Foundation, one finance company and one building and loan association.[76] At the end of June 2002, Grenada's share of the ECCU's total financial assets stood at 15 percent, similar to the shares of St. Kitts & Nevis and St. Lucia and similar to its own share of regional GDP.[77]

For the ECCU region as of June 2002, banks predominated with 83.8 percent of total assets; National Insurance Funds held 8.9 percent and nonbanks held 7.3 percent, consisting in finance companies - 2.6 percent, mortgage institutions - 2.3 percent, and credit unions - 2.4 percent.[78]

With respect to the total assets of the banks (EC$ 1,725,590,000), as of December 2002, the four foreign-owned held the majority share of 90 percent. The lone local bank held the remaining ten percent. No state-controlled bank is operating in Grenada at this time. [79]

Information was not available on the total assets of the 22 credit unions in Grenada. Some of the credit unions are said to provide financial reporting on a periodic basis to the Registrar of Cooperatives. Apparently, the weaker institutions do not have the human resources to provide periodic reporting.

GAPS/ VULNERABILITIES

The financial system in Grenada is dominated by the five commercial banks. Of the five, four are foreign owned. These foreign banks tend to bring with them well developed operating systems, good governance, advanced technology, and the implicit backing of an organization that is large, well-capitalized, and

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[73] Ibid, p.6.

[74] Ibid, pp. 3;10.

[75] There is additional bank currently operating within the system that is small, locally owned and involved in a legal dispute with the ECCB.

[76] Data supplied by the ECCB.

[77] See IMF, Eastern Caribbean Currency Union: Selected Issues, p.61.

[78] Ibid, Table 1, p. 62.

[79] See ECCB, Commercial Banking Statistics 2002, Table 1, p. 15.

profitable. Foreign-owned banks established locally provide employment and training opportunities for the population of Grenada. Moreover, in case of need, they can obtain liquidity support from their headquarters, although recent examples (e.g., Argentina) of parents walking away from subsidiaries suggest that parental support may not always be forthcoming. So long as most, if not all, retain profits in Grenada, the country benefits from the presence of these foreign-owned banks. As far as could be determined, there is no legislation against remitting profits abroad and there was also no information on the extent to which foreign-owned banks do repatriate their profits.

It is important that all credit unions report regularly on their financial status. Ideally, this situation will be remedied when the new consolidated supervisory units become fully operative in each country with the help of the ECCB and the Caribbean Regional Technical Assistance Center (CARTAC).

III. Banking/NBFI Policy and Regulatory Infrastructure

The Eastern Caribbean Central Bank (ECCB) supervises the banks, with on-site examinations carried out every 12 months. A risk-based approach to on- and off-site supervision is used that follows the Basel Accord. Any institution that is in violation of the ECCB's prudential norms is put on a "watch list" and must respect any deadline imposed for bringing the deficient area into compliance. [80]

The Registrar of Cooperatives is responsible for the supervision of the credit unions in each member country of the ECCU. However, unlike the banks, the credit unions are not required to meet any regulatory standards, such as reserve requirements, capital adequacy, loan classification, and provisioning, etc. The credit unions are reported to be inspected on a periodic basis but the timeframe does not appear to be a set one. The PEARLS system is utilized to rate the nonbanks although it is not mandatory; it is a system not unlike the CAMELS rating system for banks.[81]

Feasibility studies have been carried out designed to consider a program for regulating and supervising <u>all</u> financial institutions (credit unions, commercial banks, insurance companies, and money transfer agencies) via the establishment of consolidated supervisory units that will operate in each country. The ECCB would continue as the primary regulator and supervisor of the commercial banks. However, before such a plan can be implemented, legislation that empowers these consolidated supervisory units must be passed in each OECS country.

Banks are required to be audited annually according to international accounting standards (IAS). However, there are areas where transparency and disclosure could be enhanced. For example, the fiscal yearend varies from institution to institution depending on the date of incorporation except if the incorporation occurs in November/ December (the Christmas season), in which case the date is moved backward or forward with permission from the government.

A new regional institute of accounting is in the process of being developed by a group within the ECCB; it is expected to be operative in 2004. Ratification by five of the eight East Caribbean countries is required in order for this body to formally recognize. So far, four countries (Dominica, St. Lucia, St. Kitts and Nevis, and Monserrat) have passed legislation approving its establishment. In the meantime, by-laws have been drafted and sent to each country for feedback. A training institute is planned to operate within the new institute and to provide an accreditation program for accountants. Also, an IT infrastructure will be developed and put into place that allows for integrated (region-wide), electronic reporting of financial and accounting data from all financial institutions. The shareholders of this new

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[80] IMF, <u>ECCU: Selected Issues</u>, March 2003, p.69.

[81] IMF, <u>ECCU: Selected Issues</u>, March 2003, p. 70.

body will be 40 percent government (with 25 percent pertaining to the ECCB) and 60 percent private (including the IFC).[82]

There is no credit rating agencies or credit information bureaus. The banks' management in Grenada did not seem to find the lack of these information agencies a hindrance. However, they thought that such coverage might be needed in the future. They claimed that currently the market was so small that they were able to obtain the necessary credit information on their borrowers. In any case, a private group in Trinidad and Tobago is in the process of capitalizing a rating agency for the entire region.

GAPS/ VULNERABILITIES

When the consolidated supervisory units are fully operational throughout the region, the ECCB will need to expand the resources of its regulatory, supervisory and risk management functions, particularly in relation to the weakly monitored credit unions, insurance companies and development banks. This expansion of the ECCB's responsibilities represents a significant challenge that will take time to resolve under the best of circumstances. In addition to the regulation and supervision of 39 banks in the region, there will be 81 credit unions, 88 off-shore banks, six development banks, 146 insurance companies, seven National Development Foundations, 13 finance companies and four building and loan associations. Reportedly, the Caribbean Regional Technical Assistance Center (CARTAC) intends to provide assistance in this area.

Accounting standards and their implementation appear to be an area in need of further study. Despite claims to the contrary, it is not clear that international standards of accounting and disclosure are being met. The new regional institute of accounting, being developed by a group within the ECCB and slated to start operating in 2004, may provide the training, certification, and IT infrastructure so necessary to the region's integrated accounting and auditing standards.

IV. Financial Soundness

A. BANK SOUNDNESS

Aside from Anguilla, Grenada has the lowest delinquency rate of the ECCU. Also, data pertaining to December 2001 shows an average risk-based capital ratio of 14 percent for banks in Grenada, well above the 8 percent required by the ECCB. [83]

Data from the ECCB reported that the ECCU had a ratio of past due loans to total loans of 5.4 percent; the foreign banks had a ratio of 3.6 percent, while domestic banks had a ratio of seven percent. When Grenada was separated out, its ratio of past due loans/ total loans was 4.5. The credit policies described by the banks were quite stringent and they all claimed to have suffered only a small increase in nonperforming loans (e.g., from three percent of total loans outstanding to four percent) as a result of the recent economic situation in 2002/2003. However, Scotiabank claimed to have observed no increase in nonperforming loans, with retail NPLs remaining at three percent and commercial NPLs continuing at zero percent.

All the banks interviewed claimed to be experiencing a very high level of liquidity. With the exception of one bank, a national bank, the banks all admitted to unwillingness to provide small loans (e.g. EC$ 1,000 to EC$ 10,0000) to startup firms and micro-enterprises. The one national bank, the National Commercial Bank of Grenada, claims to have a number of such loans on its books and to have suffered no adverse effects. Nevertheless, the National Commercial Bank did indicate that its NPLs stood at around 6 percent

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[82] Description based on information obtained from James Simpson at a meeting held at the ECCB 8/12/03.

[83] See IMF, Eastern Caribbean Currency Union: Selected Issues, March 2003, Table 8, p. 74.

of total loans, above the average for the other banks. Since the market is small, all the banks indicated that they had no difficulty analyzing the creditworthiness of their potential borrowers.

The banks monitor their assets and liabilities according to maturity/ repricing intervals. Limits are set on the permissible size of the mismatches. Presumably, the mismatches are related to the capital cushion. Currently, interest rate movements are quite minimal, as interest rates appear to be quite minimal. Their rigidity and lack of responsiveness to liquidity conditions, the existence of large spreads, the mandatory floor on savings rates all suggest that the market mechanisms are not at liberty to work efficiently.

The foreign-owned banks fund their assets with like currency liabilities belonging to entities within the group. In this way, the element of cross-currency risk is controlled. The local banks do not have the advantage of being part of a large international group. At this point in time, the banks hold net asset positions in foreign currency and most foreign currency held is in U.S. dollars to which the EC$ is tied. Should other currencies come into play, a problem could arise. A net asset position in a currency would benefit a bank so long as the currency tended to appreciate against the dollar. Obviously, depreciation would bring with it losses. The net open position should be related to capital or some other benchmark. If related to capital, the net open position should not exceed 25 percent of equity capital.

B. CREDIT UNION SOUNDNESS

There are 22 credit unions in Grenada, of which 6 are well managed, according to Michelle Peters, Technical & Development Officer, Grenada Cooperative League Ltd. Financial information on these 22 credit unions is not readily available. However, it has been acknowledged that these nonbanking institutions tend to be weak and should be upgraded to meet the needs of their membership. The large credit unions are managed by professional staff, while many of the smaller associations have paid staff but no managers to guide them.

GAPS/VULNERABILITIES

In order to benefit the potential small borrower, particularly the micro-enterprise borrower, the needs of the credit unions in Grenada should be carefully studied. Given the lack of rigorous supervision and no prudential regulations, there is a paucity of relevant data on the credit unions in Grenada. Reportedly, there is considerable variation across the 22 credit unions in terms of size, management and financial performance. It is more than likely that some of the smaller, weak credit unions would benefit from being merged into some of the large, strong ones.

V. Intermediation

A. BANK FUNDING

At year-end 2002, the loan/deposit ratio for the five banks stood at 73 percent. When total deposits (EC$ 1,497,192,000) are divided into demand, savings and time deposits, the banks appear to have a healthy longer-term component so that it is highly probable that the assets and liabilities of these institutions are not badly matched. That is, savings deposits, considered long-term with an average maturity depending on the particular bank's runoff rate, make up 53 percent of total deposits. Time deposits are fixed term and vary in maturity from six months to five years. They represented 26 percent of total deposits. Short-term deposits, like demand deposits came to about 12 percent of total deposits and foreign currency deposits, with an unknown maturity, were six percent of deposits.[84]

Banks pay from three percent to 4.75 percent on their savings deposits, depending on account size. A three percent minimum is required on commercial bank savings deposits.

[84] See ECCB, Financial Statistics Yearbook 2002, Table 5.3, p. 69; Table 5.4, p. 70.

Returns on term deposits depend on maturity. In 2002, a 12-month fixed-term deposit paid five percent. These high rates paid on deposits and the lack of investment alternatives for the public put the banks in a very favorable position to remain liquid.[85]

B. BANK LENDING

At year-end 2002, loans and advances made up 63 percent of total commercial bank assets. Approximately 67 percent of these credits had maturity greater than five years. The largest share of credit (52 percent) went to households, particularly for housing and land purchase (30.4 percent). Lending to businesses came next with 30 percent of the credit extended. Credit to the central and local government, as well as to state-controlled enterprises, was about 12 percent. Non-resident loans represented six percent of the total and loans to nonbanks came to one percent of total loans.[86]

Of the loans to businesses, a relatively small proportion of credit went to businesses in two major productive areas of the economy, agriculture and tourism, two percent and five percent, respectively. Reports from various sources, including the ECCB, fail to separate out trade-related credit. Trade financing, in the form of letters of credit, bills of exchange, bankers acceptances or export credit refinancing, is undoubtedly subsumed in the business loan category.[87]

Lending rates varied between eight percent and 14 percent, with mortgage rates around nine percent (one banker observed that nine percent was too low and did not incorporate a sufficient risk premium), large business loans about 12.5 percent to 14 percent, smaller business loans about 13.5 percent to 14 percent. A usury ceiling caps the lending rate at 16 percent.[88]

The banks require collateral in accordance with their perception of the borrowers' ability to repay their loans. One of the problems banks reported facing in considering loans to small businesses is their lack of collateral. First Caribbean has a credit scoring system that is relied upon to determine the amount of security a borrower must put up. Bank management claimed that the collection process is rapid, particularly with respect to property.

Investments on the commercial bank balance sheets were five percent of total assets; they appear to be limited to Treasury bills and Government securities. Those banks that were interviewed indicated that there was little in the way of acceptable alternatives to invest in; they tended to follow a buy-and-hold strategy thereby limiting the possibility for a vibrant secondary market in these securities. As of June 2002, Grenada held 15 percent of government securities outstanding in the ECCU. Of that 15 percent, the banks held two percent. Rates on T-bills vary between six percent and eight percent, depending on maturity.[89]

C. BANK BORROWING AND LENDING

The size of the spreads that banks can enjoy is high, an average 5.9 percent. It is likely that the large size of the spreads reflect a fairly rigid rate structure, comparatively high reserve requirements, high operating costs and risk premiums designed to take account of large exposures to credit risk. Banks with high spreads and low levels of nonperforming loans claim to have enjoyed a return on assets averaging 2.2

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85 Ibid, Table 5.14, p. 80.

86 Ibid, Table 5.12, p.78; Table 5.13A, p. 79.

87 Ibid, Table 5.13A, p. 79.

88 Based on discussions with FICB, RBTT, NCB, and Scotia Bank - 8/14/03 and 8/15/03.

89 See ECCB, Financial Statistics Yearbook 2002, Table 5.3, p. 69; IMF, ECCU: Selected Issues, March 2003, Table 6, p. 68.

percent as of December 2001. With that amount of profitability, it is not surprising foreign-owned banks have maintained a presence in the Eastern Caribbean region.[90]

Arrangements for direct interbank borrowing and lending, independent of ECCB intermediation, were introduced in October 2001. A term structure of interest rates emerged with the interest rate for shorter maturities in July 2002 just less than six percent, while rates for longer maturities were around 6.5 percent. Since bank liquidity is high, the interbank market tends currently to be quite inactive.[91]

D. CREDIT UNIONS

The lending rate charged to credit union borrowers from its membership is around 12 percent. The rate paid on deposits is between two percent and four percent (the three percent minimum for banks does not apply to credit unions). Some of the credit unions are large and can provide credit to large borrowers. Also, some of these credit unions are said to experience a high degree of liquidity and, as a result, to invest in government bonds or place deposits in insurance companies, other credit unions or in the Grenada Cooperative League itself.[92]

GAPS/ VULNERABILITIES

Small business borrowers find it difficult to satisfy their credit needs. The commercial banks tend to be reluctant to provide micro-enterprise credit on the grounds that the credit risks are prohibitive and the administration costs are too high. The credit unions stand out as institutions that do cater to this group of borrowers. However, according to Grenada's Permanent Secretary (Ministry of Finance), many, if not all, credit unions need to improve their management skills, train employees in the basics of credit operations, install information technology, develop good accounting practices, etc. Many of the credit unions are so small and ill-equipped that they might serve the public better by being merged into some of the comparatively large, well-managed credit unions.

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90 See IMF, ECCU: Selected Issues, March 2003, Table 8, p. 74.

91 Ibid, p. 66.

92 Information derived from a discussion with Michelle Peters, Technical & Development Officer, Grenada Cooperative League, 8/15/03.

Commercial Bank Assets

Grenada			Year End		
		Yearend	2002	2001	2000
CLAIMS ON	CENTRAL BANK	Cash	31,141	34,632	32,041
		Statutory Reserves & Deposits	107,032	72,989	60,167
	Other Local Banks		786	1,051	577
	Other ECCB Area Banks		46427	50594	14947
Loans and Advances			1,085,454	1,064,328	978,292
INVESTMENTS		Treasury Bills	33,787	20,800	22,004
		Gov't Securities	44,249	39,698	46,440
Foreign Assets			212,329	167,253	98,823
Other Assets			164,385	115,197	133,810
Total Assets			1,725,590	1,566,542	1,387,101

Source: Eastern Caribbean Central Bank (ECCB)
Eastern Caribbean Dollar denominated

Commercial Bank Liabilities

Grenada			Year End		
		Yearend	2002	2001	2000
	EC$ DEPOSITS	Demand	212,425	166,482	162,859
		Time	298,745	412,642	355,771
		Savings	783,268	667,894	611,619
Foreign Currency Deposits			102,754	97,496	91,671
Total Deposits			1,497,192	1,344,514	1,221,920
	BALANCES DUE TO	ECCB	4	7	25
		Other Local Banks	862	293	696
		Other ECCB Area Banks	9,009	7,549	3,425
Foreign Liabilities			61,220	75,656	34,635
Other Liabilities			157,303	138,523	126,400
Total Liabilities			1,725,590	1,566,542	1,387,101

Source: Eastern Caribbean Central Bank (ECCB)
Eastern Caribbean Dollar denominated

St. Kitts and Nevis

I. Economic overview

St. Kitts & Nevis is an upper-middle income country, with GDP per capita of $6,434 in 2001 and a population of only about 42,000, with 32,000 in St. Kitts and 10,000 in Nevis. Subsequent to the damage suffered as a result of hurricanes in 1998-99, real GDP grew 5.5 percent in 2000 reflecting a spurt of domestic demand for expenditures on post-hurricane repairs and reconstruction. The economic performance continued to be healthy during the first three quarters of 2001, as a result of construction projects, a rebound in tourism, and increased sugar production. After the September 11th attack on the World Trade Center, however, tourism fell sharply, activity in tourist-related sectors, like road transportation and retail sales declined, and exports to the U.S. almost ceased. As a result, real GDP growth slowed to just below two percent for 2001. Preliminary estimates suggest a decline in real GDP of two to three percent in 2002. No current information is available on employment. However, hours worked in tourism and manufacturing declined in 2001 and the first quarter of 2002. The inflation rate fell from 3.1 percent in 2000 to 2.6 percent in 2001. [93]

Despite the surge in imports during 2000 related to the post-hurricane reconstruction, the external current account deficit narrowed to 17.6 percent of GDP. The narrowing of the current account deficit was the result of a sharp increase in private transfers derived from the settlement of insurance claims. The deficit then widened to 33 percent of GDP in 2001, reflecting a decline in demand for tourism and exports and private transfer amounts derived from insurance claims. These deficits have been financed by official commercial loans and direct investments.[94]

The central government finances have weakened in recent years owing to the rapid growth of expenditures -- mainly the wage bill, interest payments, and infrastructure refurbishment -- combined with weak revenue performance stemming, in part, from tax exemptions to the tourism and manufacturing sectors. These factors, along with expenditures on post-hurricane reconstruction, led to a widening of the central government deficit to 14.5 percent of GDP in 2000 (from 6 percent in 1998). Fiscal performance began to improve in 2001, falling to 12.5 percent of GDP, owing to increases in selected tax rates and cutbacks in spending, including the year-end bonus to civil servants. Unfortunately, the central government deficits and the losses of the state-controlled sugar company resulted in a sharp increase in the public debt, from 86 percent of GDP at year-end 1998 to 122 percent of GDP at year-end 2001, one of the highest ratios in the Eastern Caribbean Currency Union.[95]

Broad money growth slowed in 2001. Nevertheless, the commercial banks' liquidity continued to increase owing to the government's refinancing of a part of its bank debt and to a decline in credit to the private sector. Despite these factors, plus a reduction in the discount rate by the ECCB in October, domestic interest rates remained unchanged in 2001, with the average lending rate at 11.2 percent and the average deposit rate at 4.3 percent. A further decline in private sector credit occurred during the first quarter of 2002.[96]

St. Kitts and Nevis is a member of the Eastern Caribbean Currency Union (ECCU) of which the Eastern Caribbean Central Bank (ECCB) is the central bank. The currency of St. Kitts and Nevis is the Eastern Caribbean (EC) dollar which has been pegged to the U.S. dollar since July 1976 at the rate of EC$2.70

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93 See IMF, Public Information Notice, No. 02/60, June 2002, p.1.

94 Ibid, p. 1.

95 Ibid, p. 2.

96 Ibid, p. 2.

per U.S. dollar. A preliminary estimate of the real effective exchange rate suggests that it depreciated by about 2 percent in 2002, reflecting a weakening of the dollar.[97]

GAPS/VULNERABILITIES

The sizable budget deficit and the sharp increase in public debt that stem from not only the costs of post-hurricane reconstruction, but also from a rapid growth in other expenditures, from a steady erosion of the tax base owing to exemptions, and from losses in the sugar industry represent significant causes for concern. Prompt remedial action is warranted in order to avoid jeopardizing recovery, damaging the country's credit worthiness, and weakening the banking system.

Attaining a sustainable fiscal position will depend on action taken to address the large and persistent losses of the sugar industry, as well as the financial weakness and inadequate reporting of all the state-controlled enterprises. The sugar company's losses should be eliminated, if necessary, through a phasing out of production. Such a move would require a strategy that considers the use of the sugar lands, an adequate framework for retraining, and safety net arrangements for displaced workers. In addition, the state-controlled enterprises need to be subjected to external audits that meet international accounting standards.[98]

II. Banking/NBFI sector Composition and Structure

St. Kitts & Nevis has six commercial banks (one state-controlled, four foreign-owned, and one domestic/private bank), one off-shore bank, one development bank, four credit unions, 12 insurance companies, one National Development Foundation, and one finance company.[99]

At the end of June 2002, St. Kitts & Nevis' share of the ECCU's total financial assets stood at 17 percent, considerably higher than its 12 percent share of GDP.[100]

For the ECCU region as of June 2002, banks predominated with 83.8 percent of total assets; National Insurance Funds held 8.9 percent and nonbanks held 7.3 percent (consisting in finance companies - 2.6 percent, mortgage institutions - 2.3 percent, and credit unions - 2.4 percent).[101]

With respect to the total assets of the commercial banks (EC$ 1,957,165,000), as of December 2002, the four foreign-owned banks held 47 percent; the state-controlled bank held 48 percent and the domestic-private bank held five percent.[102]

St. Kitts & Nevis is home to the only regional secondary market institution, the Eastern Caribbean Home Mortgage Bank. This bank has issued EC$90 million in bonds, and has acquired a portfolio of EC$ 100 million of mortgages from lending institutions in Antigua and Barbuda, Grenada, St. Kitts & Nevis, and St. Lucia.[103]

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97 See IMF, Public Information Notice, No. 02/60, June 2002, p. 5.

98 Ibid, p. 3.

99 Data supplied by the ECCB.

100 IMF, ECCU: Selected Issues, March 2003, p.61.

101 Ibid, Table 1, p. 62.

102 ECCB, Central Banking Statistics 2002, Table 1, p. 21; IMF, ECCU: Selected Issues, March 2003, Table 3, p. 63.

103 Information derived from a discussion with St. Bernard Sabastian, General Manager, Eastern Caribbean Home Mortgage Bank on 8/11/03.

Information was not available on the four credit unions in St. Kitts and Nevis. Some of the credit unions are said to provide financial reporting on a periodic basis to the Registrar of Cooperatives. However, the weaker entities do not have the human resources to provide periodic reporting.

GAPS/ VULNERABILITIES

With 95 percent of total assets of the banks and other deposit-taking institutions, the state-controlled and foreign-owned banks have about equal shares, 47 percent and 48 percent respectively. A domestic/private bank holds the remaining five percent. The foreign banks tend to bring with them well developed operating systems, good governance, advanced technology and the implicit backing of an organization that is large, well-capitalized, and profitable. They also provide employment and training opportunities for the population of St. Kitts and Nevis. Moreover, in case of need, they can obtain liquidity support from their headquarters, although recent examples (e.g., Argentina) of parents walking away from subsidiaries suggest that parental support may not always be forthcoming. So long as most, if not all, retain profits in in St. Kitts and Nevis, the country benefits from the presence of these foreign-owned banks. As far as could be determined, there is no legislation against remitting profits abroad and there was also no information on the extent to which foreign-owned banks do repatriate their profits.

The state-controlled bank, National Bank, services the government's accounts. Government deposits are 40 percent of total deposits. The bank's loans to government are 30 percent of total loans. However, part of the bank's private sector loans (70 percent of total loans) goes to state-controlled enterprises, such as the sugar company or the port. It is important for this bank to phase out its role as the main source of finance to the public sector. [104]

All the credit unions do not report regularly on their financial status. Hopefully, this situation will be remedied when the new consolidated supervisory units become fully operative in each country, including St. Kitts and Nevis, with the help of the ECCB and the Caribbean Regional Technical Assistance Center (CARTAC).

The Eastern Caribbean Home Mortgage Bank is a fledgling institution actively involved in the mortgage market. Its funding comes from selling bonds issued in the capital market. The General Manager lamented, in an interview, the institution's limited ability to expand its operations owing to the high cost of funding (seven percent).

III. Banking/NBFI policy and Regulatory Infrastructure

The Eastern Caribbean Central Bank (ECCB) supervises the banks in St. Kitts and Nevis, with on-site examinations carried out every 12 months. A risk-based approach to on- and off-site supervision is used that follows the Basel Accord. Any institution that is in violation of the ECCB's prudential norms is put on a "watch list" and must respect any deadline imposed for bringing the deficient area into compliance.[105]

The Registrar of Cooperatives supervises the credit unions in each member country of the ECCU. However, unlike the banks, the credit unions are not required to meet any regulatory standards, such as reserve requirements, capital adequacy, loan classification and provisioning, etc. The credit unions are reported to be inspected on a periodic basis but the timeframe does not appear to be a set one. The

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[104] Information derived from a discussion with Edmund Lawrence, Managing Director, St. Kitts-Nevis-Anguilla National Bank on 8/12/03.

[105] IMF, ECCU: Selected Issues, March 2003, p.69.

PEARLS system is utilized to rate the nonbanks although it is not mandatory; it is a system not unlike the CAMELS rating system for banks. [106]

Feasibility studies have been carried out designed to consider a program for regulating and supervising all financial institutions (credit unions, commercial banks, insurance companies, and money transfer agencies) via the establishment of consolidated supervisory units that will operate in each country of the ECCU. The ECCB would continue to be the primary regulator and supervisor of the commercial banks. However, before such a plan can be implemented, legislation that empowers these consolidated supervisory units must be passed in each of the OECS countries.

Banks are required to be audited annually according to international accounting standards (IAS). Despite this requirement, good accounting information, the technology (systems) to process it, plus the human resources capable of realizing region-wide accounting standards need to be developed. A new regional institute of accounting is in the process of being developed by a group within the ECCB; it is expected to be operative in 2004. Ratification by five of the eight East Caribbean countries is required in order for this body to formally recognize. So far, four countries (Dominica, St. Lucia, St. Kitts and Nevis, and Monserrat) have passed legislation approving its establishment. In the meantime, by-laws have been drafted and sent to each country for feedback. A training institute is planned to operate within the new institute and to provide an accreditation program for accountants. Also, an IT infrastructure will be developed and put into place that allows for integrated (region-wide), electronic reporting of financial and accounting data from all financial institutions. The shareholders of this new body will be 40 percent government (with 25 percent pertaining to the ECCB) and 60 percent private (including the IFC).[107]

There is no regional deposit insurance. The Deputy Governor of the ECCB said that there is a group within the ECCB that is studying the issue. He noted that the ECCB does not wholeheartedly support this type of insurance, perhaps because it fears increased moral hazard and principal-agent problems.

There is no credit rating agency or credit information bureau in St. Kitts and Nevis. Bank managements observed that the local market is small and the necessary credit information on their borrowers is easy to obtain informally. When the market expands and becomes truly integrated regionally, they believed a credit information bureau would be needed. In any case, a private group in Trinidad and Tobago is in the process of capitalizing a rating agency for the entire region.

GAPS/ VULNERABILITIES

When the consolidated supervisory units are fully operational throughout the region, the ECCB will need to expand the resources of its regulatory, supervisory, and risk management functions, particularly in relation to the weakly monitored credit unions, insurance companies, and development banks. This expansion of the ECCB's responsibilities represents a significant challenge that will take time to resolve under the best of circumstances. In addition to the regulation and supervision of 39 banks in the region, there will be 81 credit unions, 88 off-shore banks, six development banks, 146 insurance companies, seven National Development Foundations, 13 finance companies, and four building and loan associations. Reportedly, the Caribbean Regional Technical Assistance Center (CARTAC) intends to provide assistance in this area.

Accounting standards and their implementation appear to be an area in need of further study. Despite claims to the contrary, it is unclear whether international standards of accounting and disclosure are being met. A new regional institute of accounting that is in the process of being developed by a group within

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106 Ibid, p. 70.

107 Description based on information obtained from James Simpson at a meeting held at the ECCB 8/12/03.

the ECCB and expected to be operative in 2004 may provide the training and IT infrastructure so necessary to the implementation of regional accounting and auditing standards.

IV. Financial Soundness

A. BANK SOUNDNESS

Data pertaining to December 2001 shows an average risk-based capital ratio of 29 percent for banks in St. Kitts and Nevis, almost four times the eight percent required by the ECCB. The ECCB reported that risk-based capital for all the banks consisted in mostly Tier I capital. Thus, it would appear that the capital cushion of the banks on average was more than adequate. No documentation was provided by the ECCB on a bank-by-bank basis.[108]

Aside from Monserrat and Dominica, St. Kitts and Nevis has the highest delinquency rate of the ECCU. Data from the ECCB for December 2001 showed that the ECCU had a ratio of past due loans to total loans of 5.4 percent; foreign banks had a ratio of 3.6 percent, while domestic banks had a ratio of seven percent. When St. Kitts and Nevis was separated out, its ratio of past due loans/ total loans was 11.3, more than double the ECCU's ratio. According to the ECCB, this figure rose to 12.7 percent in 2002, as a result of the economic downturn. It was observed by staff at the ECCB that bad loans are not written off but are fully provisioned; these loans tend to be collateralized by real estate that requires a collection process that may take up to ten years to complete.[109]

Bank liquidity has risen as banks claimed they had failed to identify bankable projects. St. Kitts-Nevis-Anguilla National Bank reported that its core deposits have risen continuously, despite the economic downturn. At year-end 2001, the loan/deposit ratio averaged 77 percent.[110] With the increasing liquidity, it is probable that the average loan/deposit ratio has declined. An interview with the managing director of the state-controlled (51 percent) St. Kitts-Nevis-Anguilla National Bank revealed that its loan/deposit ratio had fallen to 55 percent. In general, the excess liquidity among the commercial banks has been absorbed by investments in T-bills, government bonds, and bonds issued by development banks and state enterprises.

The banks monitor their assets and liabilities according to maturity/ repricing intervals. Limits are set on the permissible size of the mismatches. Presumably, the mismatches are related to the capital cushion. Currently, interest rate movements are quite minimal, as interest rates appear to be quite minimal. Their rigidity and lack of responsiveness to liquidity conditions, the existence of large spreads, and the mandatory floor on savings rates all suggest that the market mechanisms are not at liberty to work efficiently.

Foreign-owned banks fund their assets with like currency liabilities belonging to entities within the group. In this way, the element of cross-currency risk is controlled. The local banks do not have the advantage of being part of a large international group. At this point in time, the banks hold net asset positions in foreign currency and most foreign currency held is in U.S. dollars to which the EC$ is tied. Should other currencies come into play, a problem could arise. A net asset position in a currency would benefit a bank as long as the currency tended to appreciate against the dollar. Obviously, depreciation would bring with it losses. The net open position should be related to capital or some other benchmark. If related to capital, the net open position should not exceed 25 percent of equity capital.

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108 IMF, Eastern Caribbean Currency Union: Selected Issues, March 2003, Table 8, p.74.

109 IMF, ECCU: Selected Issues, March 2003, Table 7, p. 73; Table 8, p. 74.

110 Ibid, Table 8, p. 74.

B. CREDIT UNION SOUNDNESS

Information on the 4 credit unions is not readily available. However, it has been acknowledged that these nonbanking institutions tend to be weak and should be upgraded to meet the needs of their membership. Reportedly, professional staffs that are small and not very highly qualified manage the large credit unions, while many of the small volunteers desperately need training to upgrade their skills.

GAPS/ VULNERABILITIES

In order to benefit the potential small borrower, particularly the micro-enterprise borrower, the needs of the credit unions in St. Kitts & Nevis should be carefully studied. Given the lack of rigorous supervision and no prudential regulations, there is a paucity of relevant data on the credit unions in St. Kitts & Nevis. Reportedly, there is considerable variation across the 4 credit unions in terms of size, management, and financial performance. It is more than likely that some of the smaller, weak credit unions would benefit from being merged into some of the large, strong ones.

V. Intermediation

A. BANK FUNDING

At year-end 2002, the loan/deposit ratio for the six banks stood at 79 percent. When total deposits (EC$ 1,373,375,000) are divided into demand, savings, and time deposits, the banks appear to have a healthy longer-term component so that it is highly probable that the assets and liabilities of these institutions are not badly matched. That is, savings deposits, considered long-term with an average maturity depending on the particular bank's runoff rate, make up 28 percent of total deposits. Time deposits are fixed term and vary in maturity from 6 months to five years. They represented 42 percent of total deposits. Short-term deposits, like demand deposits came to about ten percent of total deposits and foreign currency deposits, with an unknown maturity, were 21 percent of deposits.[111]

Banks pay from three percent to 5.5 percent on their savings deposits, depending on account size. A three percent minimum is required on commercial bank savings deposits.

Returns on term deposits depend on maturity. In 2002, a 12-month fixed-term deposit paid six percent. Time deposits tend to be rolled over so the actual maturity of the is extended. The relatively high rates paid on deposits and the lack of investment alternatives for the public put the banks in a very favorable position to remain liquid.[112]

B. BANK LENDING

At year-end 2002, loans and advances made up 55 percent of total commercial bank assets. Approximately 38 percent of these credits had maturity greater than five years. The largest share of credit (39 percent) went to households, particularly for housing and land purchase (22 percent). Credit to the central & local government, as well as to state-controlled enterprises, came next with 32 percent. Lending to businesses was 26 percent of the credit extended. Non-resident loans represented eight percent of the total and loans to nonbanks came to .01 percent of total loans.[113]

In two major productive areas of the economy, a large proportion of credit went to agriculture, 20 percent, while a small proportion of credit went to tourism, five percent. Reports from various sources, including the ECCB, fail to separate out trade-related credit. Trade financing, in the form of letters of credit, bills

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111 ECCB, Financial Statistics Yearbook 2002, Table 7.3, p. 97; Table 7.4, p. 98.

112 Ibid, Table 7.14, p. 108.

113 Ibid, Table 7.12, p. 106; Table 7.13A, p. 107.

of exchange, bankers acceptances or export credit refinancing, is undoubtedly subsumed in the business loan category.[114]

Lending rates varied between 8.5 percent and 14 percent, with mortgage rates around 8.5 percent, large business loans about 12.5 percent to 14 percent, smaller business loans about 13.5 percent to 14 percent. A usury ceiling caps the lending rate at 16 percent.[115]

The banks require collateral in accordance with their perception of the borrowers' ability to repay their loans. One of the problems banks reported facing in considering loans to small businesses is their lack of collateral. First Caribbean has a credit scoring system that is relied upon to determine the amount of security a borrower must put up. Bank management claimed that the collection process is rapid, particularly with respect to property.

Investments on the commercial bank balance sheets were eight percent of total assets. The ECCB staff noted that Treasury bill and government security issues tend to be oversubscribed. Those banks that were interviewed indicated that there was little in the way of acceptable alternatives to invest in; they tended to follow a buy-and-hold strategy thereby limiting the possibility for a vibrant secondary market in these securities. As of June 2002, St. Kitts and Nevis held 25 percent of government securities outstanding in the ECCU. Of that 25 percent, the banks held 15 percent. Rates on T-bills vary between six percent and eight percent, depending on maturity.[116]

C. BANK BORROWING AND LENDING

The size of the spreads that banks can enjoy is very high, an average five percent. It is likely that the large size of the spreads reflect a fairly rigid rate structure, comparatively high reserve requirements, high operating costs and risk premiums designed to take account of large exposures to credit risk. Banks with high spreads and low levels of nonperforming loans claim to have enjoyed a return on assets averaging 3.4 percent as of December 2001. Return on average equity was 28.6 percent. With that amount of profitability, it is not surprising that-owned foreign banks have maintained a presence in the Eastern Caribbean region. [117]

Arrangements for direct interbank borrowing and lending, independent of ECCB intermediation, were introduced in October 2001. A term structure of interest rates emerged with the interest rate for shorter maturities in July 2002 just less than six percent, while rates for longer maturities were around 6.5 percent. Since bank liquidity is high, the interbank market tends currently to be quite inactive.[118]

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The lending rate charged to credit union borrowers from its membership is around 12 percent. The rate paid on deposits is between two percent and four percent (the three percent minimum for banks does not apply to credit unions). Some of the credit unions are large and can provide credit to large borrowers. Also, some of these credit unions are said to experience a high degree of liquidity and, as a result, to invest in government bonds or other debt issues.

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114 ECCB, Financial Statistics Yearbook 2002, Table 7.13A, p. 107.

115 Based on discussions with National Bank and FCIB, 8/12/03.

116 Ibid, Table 7.3, p. 97 and IMF, ECCU: Selected Issues, March 2003, Table 6, p. 68.

117 IMF, ECCU: Selected Issues, March 2003, Table 8, p. 74.

118 Ibid, p. 66.

GAPS/ VULNERABILITIES

Small-business borrowers have difficulties getting their credit needs met. The commercial banks tend to be reluctant to provide micro-enterprise credit on the grounds that the credit risk inherent and the administration costs are too high. The managing director of the St. Kitts-Nevis-Anguilla National Bank (51 percent government owned) stood out as an exception by expressing an interest in initiating a program to help small business borrowers. Recently, someone was hired by this bank to study small business owners and their needs, particularly in the areas of finishing imported products, value-added production, packaging, and assembly.

The credit unions stand out as institutions that do cater to the small business borrower. Given the lack of rigorous supervision and no prudential regulations, there is a paucity of relevant data on the credit unions. In order to benefit the potential small borrower, particularly the micro-enterprise borrower, the needs of the credit unions in St. Kitts & Nevis should be carefully studied and addressed. According to sources interviewed in various OECS countries and in Barbados, many, if not all, of the credit unions in St. Kitts & Nevis and elsewhere in the region need to improve their management skills, train employees in the basics of credit operations, install information technology, develop good accounting practices, etc.

Commercial Bank Assets

St. Kitts and Nevis			Year End		
		Yearend	2002	2001	2000
CLAIMS ON	CENTRAL BANK	Cash	14,847	18,315	16,476
		Statutory Reserves & Deposits	125,040	94,977	82,424
	Other Local Banks		1,565	6,095	4,353
	Other ECCB Area Banks		63348	47522	138871
Loans and Advances			1,085,595	1,045,698	1,067,016
INVESTEMENTS		Treasury Bills	155,845	172,306	86,721
		Gov't Securities	6,208	4,977	3,500
Foreign Assets			446,576	331,458	214,452
Other Assets			59,141	54,337	68,623
Total Assets			1,957,165	1,775,685	1,682,436

Source: Eastern Caribbean Central Bank (ECCB)
Eastern Caribbean Dollar denominated

Commercial Bank Liabilities

St. Kitts and Nevis					
		Yearend	2002	2001	2000
	EC$ DEPOSITS	Demand	114,077	115,495	94,490
		Time	581,604	549,899	502,408
		Savings	385,650	351,687	331,094
Foreign Currency Deposits			292,044	275,057	310,566
Total Deposits			1,373,375	1,292,138	1,238,558
	BALANCES DUE TO	ECCB	9,607	7,429	20,525
		Other Local Banks	1,530	11,450	9,013
		Other ECCB Area Banks	195113	165385	118801
Foreign Liabilities			136,555	93,272	129,640
Other Liabilities			240,985	206,011	165,899
Total Liabilities			1,957,165	1,775,685	1,682,436

Source: Eastern Caribbean Central Bank (ECCB)
Eastern Caribbean Dollar denominated

St. Lucia

I. Economic Overview

St. Lucia is currently classified as a low to middle income country according to World Bank figures, with 2002 per capita income of about US$4,201.[119] IMF data report GDP at market prices to have been EC$1,782 million in 2002, or about US$660 million-equivalent. Real GDP has declined in recent years, and shown negative growth since 2001. From 1998-2002 (preliminary projections), real GDP will have increased at only 1.4 percent year-on-year since 1998 (on an unweighted basis), and actually been negative 1.8 percent in real terms since 2000.

The unemployment rate was estimated to approximate 19 percent in 2001, reflecting an increase from the already high 16.5 percent in 2000, although not as high as the 22 percent figure in 1998. Much of the decline has come from people earlier employed in the banana sector. Unemployment has added to poverty, although the incidence of poverty was 18.7 percent in 2001, lower than most OECS countries.

Structurally, the economy is heavily geared to services, which account for about 75 percent of GDP. Key sectors include transport and communication (20 percent), Government (14 percent), hotels and restaurants (12 percent), and commercial trade (10.5 percent). Financial services accounted for about 8.4 percent of GDP in St. Lucia, showing declines from 2000-01. Trends indicate that agriculture and manufacturing are declining, while transport and communications are showing the highest growth. However, growing debt and the weak state of banana exports and tourism are signs of how vulnerable the economy is.

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[119] Per capita income figure is ECCB GDP at market prices divided by population.

There is a need for fiscal reform, particularly given the increasing share of public debt that could reach 80 percent of GDP without changes in tax policy and administration. Some efforts have already been made, including shifting banana production to higher value activities, increasing tariffs on petroleum products, introducing more efficient metering on water use, and raising the retirement age (as part of pension reform). Nonetheless, public debt is currently (2002 figures) 57 percent of GDP, and the Government has stated that adhering to a 60-percent ratio would be difficult. This threatens to add to the interest burden on government finances, as well as to consume earnings from exports of goods and services. As of 2002, the debt service ratio (interest expenses as a share of export earnings) was 12.1 percent, up more than three times from 3.3 percent in 1998.

Apart from the central Government, most public enterprises appear to be in balance or surplus. This includes the airports and seaport, the water and sewerage company, the National Development Corporation, and the Marketing Board. Collectively and traditionally, these and other non-financial public sector enterprises have shown surpluses. However, these surpluses have diminished year to year since 2000. Overall, the fiscal deficit was a high 8.7 percent of GDP in 2002 (before grants), and has been climbing steadily since the late 1990s.

In terms of monetary and related issues, CPI has been well contained throughout the years. The unweighted average CPI from 1998-2002 has been 2.8 percent, with the rate declining in recent years. Since 2001, average CPI has not exceeded two percent. As elsewhere in the OECS, there is very little risk of material increases to the inflation rate given the tight monetary policy applied by the ECCB to maintain the exchange rate peg.

As with the other ECCB countries, St. Lucia has moderate foreign exchange controls. Purchases above EC$100,000 must be done with the approval of the central bank. Any purchases below that level require no central bank authority. Apart from this, there are no restrictions on payments and transfers for current international transactions.

Balance of payment figures reflects the considerable erosion of St. Lucia’s traditional banana export market. While unit prices have declined 17 percent since 1998, St. Lucia’s production volume has declined 39.7 percent. More importantly, the overall value of banana exports has fallen by 50 percent since 1998. Bananas now account for 31 percent of merchandise export earnings, as compared with 49 percent in 1998. Only beer and fruit and vegetable exports have shown increases since 1998, with other major categories flat or in decline. Overall merchandise exports were 8.3 percent of GDP in 2002, compared with 11.3 percent in 1998.

Gross tourism receipts have also declined since 2000. After averaging US$285 million-equivalent in 1998-2000, tourism receipts has declined to about US$257 in the last two years, constituting a 10 percent decline. Along with the drop in merchandise exports and the increase in debt service, current account deficits have been fairly high at an average 7.1 percent of GDP since 2001. However, these levels are lower than current account deficits in earlier years. Under such a scenario, net official reserves amount to only 2.5 months’ import cover.

As noted above, St. Lucia’s debt profile shows rising borrowings and increasing long-term vulnerability. External public debt-to-GDP has increased from only 23 percent in 1998 to 57 percent in 2002. The increase has been steady year-on-year, and is projected to increase to about 60 percent from 2003-07. However, also noted above, the Government believes such a target will be hard to achieve.

Interest payments have increased over the years, and are adding to both the fiscal deficit and the current account deficit. External interest payments alone amounted to six percent of fiscal revenue in 2002, and are projected to be seven percent in 2003. Government borrowings in the domestic market add to the interest charge. While public debt has recently been restructured at lower interest rates, and donor support remains in place for St. Lucia, the situation will remain sensitive, particularly if the central Government is unable to keep its deficit down.

GAPS/VULNERABILITIES

There are many areas of vulnerability. As with other OECS economies, government finances remain weak and unpredictable, given the difficulties St. Lucia faces in terms of export markets and tourism receipts. In the case of St. Lucia, tourism receipts are about 10 percent less now than in 1998-2000, which is a steeper decline than any other OECS country except St. Kitts & Nevis. This will sustain a dual problem of fiscal and current account deficits, with interest payments increasing and adding to the strain. The unemployment rate remains high at about 20 percent, which further adds to expenditure levels and weakens revenue flows. Banks are contending with high and growing levels of nonperforming loans, which has affected banks' earnings and capital, and puts pressure on banks to reduce credit and/or add to the cost of borrowing for businesses and households. Notwithstanding declines in ECCB discount rates (to 6 percent) and the minimum passbook savings rate (to three percent), there has been little incremental lending activity in the banking sector.

II. Banking/NBFI Sector Composition and Structure

As in the other OECS countries, St. Lucia's financial system is relatively small in terms of numbers of institutions and financial measures. There are six banks (net of the one offshore bank), of which five are foreign-owned (i.e., Scotiabank, Royal Bank of Canada, First Caribbean International, RBTT, Caribbean Banking Corporation), and one is domestic—the Bank of St. Lucia. The last bank is the second largest bank in the OECS. It accounts for about 28 percent of assets, reflecting an open market in which foreign banks are dominant in many areas.

Total assets in the commercial banking system approximated EC$2,196 million, or about US$813 million-equivalent. This makes St. Lucia the second largest banking system in the OECS (after Antigua and Barbuda). Bank assets-to-GDP approximated 121 percent, reflecting a high level of penetration in the market that is consistent with the OECS norm.

There were 17 credit unions in St. Lucia in 2002 with 33,598 members.[120] The penetration ratio for credit unions (members to economically active population) was 33 percent, about average for the Caribbean but lower than most OECS countries. Credit union assets totaled US$55.5 million, only about seven percent of the banking system. This ratio is lower than most Caribbean countries' credit unions, which typically have about ten percent of the assets of the commercial banks. As elsewhere, there is likely significant concentration among a few credit unions, with several other smaller credit unions.

Apart from credit unions, there is little information on St. Lucia's NBFIs. Insurance company premium revenues were not available. Thus, it is not possible to identify per capita coverage, life vs. non-life forms, etc. Nor is there any information on finance companies or trusts.

GAPS/VULNERABILITIES

There are reported to be problems associated with secured transactions, namely the role of courts in slowing the foreclosure process. This increases banks' risk aversion to lending and drives up costs of borrowing. With high levels of liquidity, this weakens intermediation. Banks are also reported to have high levels of nonperforming loans, which reinforce the same tendencies toward risk aversion and loan pricing. There is also reported to be a high level of quasi-fiscal liabilities, which could point to concentration of risk in the system.

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[120] Figures are from WOCCU.

III. *Banking/NBFI Policy and Regulatory Infrastructure*

The legal framework for banking in St. Lucia is consistent with that of the entire OECS, and is based on the Uniform Banking Act. The ECCB is responsible for monetary policy and banking supervision. Legislation and supervisory practices are currently being strengthened to include stricter oversight of non-banks, including credit unions and insurance companies. Strengthened prudential norms for solvency and liquidity, and providing the ECCB with more of a mandate to intervene and implement corrective actions when banks face problems will also be a part of the revised legislation.

St. Lucia also serves as an offshore financial center, with ten insurance companies, nine trusts, and one bank. Laws and regulations are being tightened here, and the introduction of a new Financial Intelligence Unit will be responsible for anti-money laundering efforts and related activities to counter financial crimes.

The legal framework for the credit unions in the OECS is generally based on the Cooperative Society Act, which is viewed as inadequate. Credit unions have been supervised by the Department of Cooperatives (of the Ministry of Labor and Cooperatives). Changes to the supervisory structure include a greater role for the ECCB to be involved in regulatory oversight. However, the penetration ratio and general role of the credit unions is less in St. Lucia than in most other OECS countries.

Supervision of the insurance sector will also be tightened with amendments to the Uniform Banking Act. This should include higher minimum capital and solvency ratios, mechanisms for stricter compliance, and on-site inspections of insurance companies.

GAPS/VULNERABILITIES

There is recognition of the need to strengthen regulatory oversight and supervisory capacity for banks, credit unions, and the insurance sector. Banks have experienced higher levels of nonperforming loans, indicating that banks' identification and management of risk needs strengthening, particularly under the tough economic conditions facing St. Lucia. There is also a need to improve the functioning of the court system and/or develop alternative methods of dispute resolution, as creditor rights are reported to not be as respected as needed in foreclosure cases. This weakens lending flows at a time when banks are liquid. The costs of regulating the offshore financial center are also reported to approximate or exceed the benefits, raising questions about whether St. Lucia is benefiting.

IV. *Financial Soundness*

A. BANK SOUNDNESS

Banks are considered sound in St. Lucia, although many of the financial indicators are less favorable than a few years ago. For instance, St. Lucia's nonperforming loan ratios were generally lower than the OECS norm until 2001, and they now exceed the norm. Banking system capital adequacy was 13.9 percent in 2001, which is at the low end of OECS ratios. At least one bank is reported to be exposed to quasi-fiscal liabilities, which adds to that bank's overall risk profile given the current state of public sector finances. As elsewhere, the challenge to banking system soundness may be fiscal in the end. This generally applies to the Bank of St. Lucia, as the foreign banks (i.e., Scotiabank, Royal Bank of Canada, First Caribbean International, RBTT) are parts of or associated with larger parents. The Canadian banks have strong capital and tested management and systems. The indigenous regional banks also appear competitive in many areas.

Earnings data from 2001 show relatively weak returns of 1.6 percent of average assets, and 16.6 percent against average equity. Net interest margins (5.2 percent) appear consistent with OECS norms, although the average cost of funds is higher at 5.5 percent. Banks have high loan-to-asset ratios. As of end 2002, the ratio of bank claims on the private sector was 71 percent of total deposit money banks' assets. Total loans (including to NBFIs and state enterprises) were 75 percent of assets. However, with nominal net interest spreads of only 4.5 percent in 2002 combined with high levels of nonperforming loans (about 20 percent of loans were at least three months overdue in 2002), six percent reserve requirements, and minimum passbook savings rates of three percent, it is uncertain if earnings are sufficient. Again, the foreign banks may be generating adequate earnings. However, it is uncertain if the Bank of St. Lucia is able to generate sufficient earnings given its other obligations as a traditional development bank. Consequently, the Bank of St. Lucia is considering divesting some of the 30 percent shares owned by the Government, with the intention of bringing in a strategic partner for better access to the US capital markets.

Capital adequacy ratios were 13.9 percent in 2001, which is similar to Antigua and Barbuda and Grenada, but less than the other OECS banking systems. Provisions for nonperforming loans were only 24 percent of total in 2001. These ratios appear to be lower than is required for a vulnerable economy.

B. CREDIT UNION SOUNDNESS

Credit unions play a less prominent role in St. Lucia than they do in most other OECS and Caribbean markets. Figures on soundness were not available. However, if they are like their counterparts in other OECS countries, they likely are experiencing problems with their loan portfolios. That the ECCB is planning to strengthen regulation and supervision to include closer surveillance of credit unions likely indicates weakness to date in Department of Cooperatives oversight (largely due to manpower and financial constraints), as well as deficiencies in some credit unions' management systems. However, as elsewhere, this is not universal. The largest credit unions are reported to be in stronger condition than many of their smaller counterparts.

The system as a whole showed US$6.4 million in total reserves in 2002, which is 11.5 percent of total assets. This would mean that if nonperforming loans were 20 percent of total loans (as with the banks) and they proved to be uncollectible, the aggregate credit unions' financial position would be technically insolvent. In fact, reserves only cover 15.4 percent of loans. Thus, if more than 15.4 percent of loans are uncollectible, this would likely mean that several credit unions would have negative net worth.

GAPS/VULNERABILITIES

The foreign banks appear to be sound, but the Bank of St. Lucia's position may be more vulnerable due to exposure to quasi-fiscal liabilities at a time when the Government's fiscal and debt position is weak.

Many credit unions are also likely to be vulnerable due to low levels of reserves relative to problem loans.

V. Intermediation

A. BANK FUNDING

Deposits placed with banks approximated EC$1,303 million, or US$483 million-equivalent at year-end 2002. This was equivalent to 59 percent of total liabilities and capital. Of the deposits, EC$233 million were demand deposits, and EC$1,070 million were term (i.e., time/savings) or foreign currency deposits. The proportion of term deposits is significant, accounting for 49 percent of total banking system funding.

Beyond deposits, deposit money banks have smaller proportions of foreign borrowings, Government deposits, and capital. There has been a small amount of ECCB credit in the last two years, and central Government deposits steadily climbed until 2002. Government deposit liabilities were still significant at year-end 2002, at EC$414 million, or 19 percent of total liabilities and capital. Net capital (gross capital less other items net) was low at EC$60 million, or only 2.7 percent of total assets.

Banks are liquid. Notwithstanding problems with secured transactions, loans to deposits were 127 percent in 2002. However, when including Government deposits (instead of just household and enterprise deposits), the ratio declines to 96 percent. Meanwhile, net capital is low as a proportion of assets, while gross capital is higher at about 11.9 percent.

B. BANK LENDING

Total lending by banks approximated EC$1,651 million at the end of 2002, or US$612 million-equivalent. This was about 75 percent of total assets, and includes loans to state enterprises (but excludes loans to/investments in government).

The largest areas of credit concentration for the banks in 2001 were to households (46.4 percent), mainly mortgage financing and other personal needs. This was followed by commercial trade (11.6 percent), tourism and entertainment (10.1 percent), and Government (9.2 percent). Agriculture and fisheries only received 2.4 percent of total loans and advances from commercial banks in 2001.

Exposure to Government has actually been higher. While loans were about 9.2 percent, the banks also posted EC$143 million in claims on central and local Government (in 2002). Combined with actual loans and advances, this would have brought the total to about EC$300 million, or about 14 percent of total banking system assets. Reserves would bring the figure up further to about EC$474 million, equivalent to about 22 percent of banking system assets. Adding loans to state enterprises would bring the total up further, to EC$544 million, or 25 percent of bank assets. Thus, about one quarter of the banking system's assets are dedicated to direct financing of the state and state enterprises. This is lower than several other OECS countries, and consistent with many G7 countries.

C. BANK BORROWING AND LENDING

Banks average annualized cost of funds was estimated to be about 5.5 percent in 2001. As of end 2002, T-bill rates were 7.0 percent, and deposit rates across maturities averaged about six percent. Lending rates were about 10.5 percent, although non-prime rates went as high as 18 percent. Net spreads on comparable maturities (on a weighted average basis) show that the gap is fairly thin, at 4.5 percent, given the high levels of nonperforming loans, minimum rate payments on passbook savings, and imposition of reserve requirements.

D. CREDIT UNIONS

As of end 2002, loans totaled US$41 million, equivalent to a comparatively low 6.8 percent of bank loans. Credit union balance sheets show reasonably high proportions of credit to total assets, at about 74 percent. Thus, on the one hand, credit unions provide members with easier access to credit than they can sometimes find at banks and other financial institutions. (The loan-to-member ratio is US$1,230.) On the other hand, nearly half of banks' loans are to households and consumers, which is also a reason why credit union penetration has been less in St. Lucia than in other OECS and Caribbean countries.

On the savings side, credit unions had mobilized US$40 million in savings as of 2002, equivalent to a comparatively low 8.3 percent of deposits mobilized by banks (not including government deposits). On average, credit union loan-to-deposit ratios are lower than at banks, at 103 percent. Savings per member averaged US$1,195.

GAPS/VULNERABILITIES

Banks are very liquid, as they are throughout much of the region. However, they have also made significant loans, equivalent to 127 percent of deposits (net of government deposits). The key challenge for banks is to contain and reduce their high levels of nonperforming loans, which have reduced earnings and translated into comparatively low capital ratios.

Commercial Bank Assets

St. Lucia			Year End		
			2002	2001	2000
CLAIMS ON	CENTRAL BANK	Cash	21,098	26,761	37,286
		Statutory Reserves & Deposits	149,711	107,390	83,740
	Other Local Banks		11,201	12,154	14,317
	Other ECCB Area Banks		87431	60226	24429
Loans and Advances			1,716,579	1,702,288	1,649,516
INVESTEMENTS		Treasury Bills	24,970	22,970	14,810
		Gov't Securities	77,671	30,568	51,456
Foreign Assets			131,775	90,334	58,959
Other Assets			221,375	260,174	123,304
Total Assets			2,441,611	2,318,685	2,057,817

Source: Eastern Caribbean Central Bank (ECCB)
Eastern Caribbean Dollar denominated

Commercial Bank Liabilities

St. Lucia			Year End		
		Yearend	2002	2001	2000
	EC$ DEPOSITS (in 000)	Demand	285,099	264,351	260,594
		Time	798,918	878,599	824,473
		Savings	756,135	589,696	632,413
Foreign Currency Deposits			31,758	28,335	11,330
Total Deposits			1,871,910	1,840,941	1,728,810
	BALANCES DUE TO	ECCB	1,038	2,094	932
		Other Local Banks	11,835	16,276	16,015
		Other ECCB Area Banks	49397	20815	42238
Foreign Liabilities			174,333	141,741	65,202
Other Liabilities			292,935	306,189	203,620
Total Liabilities			2,401,448	2,328,095	2,057,817

Source: Eastern Caribbean Central Bank (ECCB)
Eastern Caribbean Dollar denominated

St. Vincent and the Grenadines

I. Economic overview

St. Vincent and the Grenadines is one of the smallest countries in the Eastern Caribbean. In 2001, its population was estimated to have been approximately 120,000 with a per capital income of $3,116, one of the lowest in the region. The economy weakened considerably in 2001. The slowdown in GDP growth to 0.25 percent resulted largely from a drought affecting agriculture, the decline in tourism associated with the September 11th terrorism attack, and the sluggish global economy. Unemployment is said to have increased (no data available), while the 12-month inflation fell by 0.5 percent.[121]

In 2002, preliminary data indicates that real GDP increased slightly to 0.75 percent. Agriculture began a recovery that was marked by a rebound in bananas; construction, mostly related to public sector projects, also contributed to the recovery. Unfortunately, banana output in the fourth quarter was reduced owing to tropical storm Lili, which hit in September 2002. The 12-month inflation rate at end-October 2002 was around one percent.[122]

The Government's efforts to pursue a countercyclical fiscal policy in order to stem the economic slowdown caused a substantial deterioration in the government's financial position. The central government's overall deficit widened from 0.25 percent of GDP in 2000, to 2.5 percent of GDP in 2001 and an estimated 3.5 percent of GDP for 2002. Increased spending reflected a larger capital program to finance new roads, schools, and health facilities, as well as a rising wage bill. Central government investment grew by one percent of GDP to five percent of GDP in 2001, and rose to an estimated 6.75 percent of GDP in 2002. The capital program was largely financed by grants and commercial borrowings.[123]

The overall balance of the nonfinancial public enterprises (including the National Insurance Scheme - NIS) deteriorated from a surplus of about one percent of GDP in 2001 to a deficit of about 2.5 percent in 2002. This change largely reflected higher capital spending on power expansion and the Dalaway water supply project. Meanwhile, public sector debt rose from 67 percent in 2001 to 72 percent of GDP in 2002 in line with the higher deficit. Most of the additional debt was contracted in domestic currency via loans from the banking system, while foreign currency debt fell slightly to 49 percent of GDP.[124]

Economic activity in 2002 was slow and accompanied by a sharp deceleration in broad money, as well as deposit and credit growth. The banks' average prime rate fell marginally to ten percent in 2001, following a reduction of one percentage point in the ECCB's discount rate to seven percent in October 2001. The ECCB lowered the floor interest rate on savings deposits by one percentage point to three percent in July 2002. This move led to a similar decline in bank lending and deposit rates in 2002.[125]

The estimated external current account deficit in 2002 remained unchanged at 11.75 percent of GDP. Despite an increase in volume, export receipts from bananas remained flat because of lower international prices. Estimated tourist receipts fell in 2001, reflecting a drop in arrivals. The capital account remained unchanged between 2001 and 2002.[126]

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121 IMF, St. Vincent and the Grenadines: 2002 Article IV Consultation , February 2003, p. 5.

122 Ibid, p. 5.

123 Ibid, p. 5.

124 Ibid, p. 7.

125 Ibid, p. 7.

126 IMF, St. Vincent and the Grenadines: Article IV Consultation, February 2003, p. 7.

Total external debt is estimated to have fallen slightly to 49 percent of GDP by the end of 2002. Debt service as a share of exports of goods and services was roughly 6.5 percent. Most external debt has been contracted on concessional terms and has a long-term maturity.[127]

St. Vincent and the Grenadines is a member of the Eastern Caribbean Currency Union (ECCU) that uses the Eastern Caribbean Central Bank (ECCB) as its central bank. The currency of the ECCU is the Eastern Caribbean dollar which has been pegged to the U.S. dollar since July 1976 at the rate of EC$2.70 per U.S. dollar. In 2002, the real effective exchange rate depreciated by about three percent, reflecting a weakening of the dollar. This depreciation was not sufficient to fully offset the earlier sustained real appreciation that had occurred when the U.S. dollar was much stronger.[128]

GAPS/ VULNERABILITIES

According to an IMF document, the government has made strides in improving public sector governance, restructuring the banana sector, strengthening the financial sector, and building consensus for difficult policy issues, including a wage freeze for the public sector. Also, public enterprises have come under increased scrutiny in an effort to improve their financial performance. These efforts to rein in government expenditures need to be continued, given that: (i) the overall public sector deficit rose in 2002 to an estimated six percent of GDP, largely because of capital spending; and (ii) capital expenditures and wages led to a one percent increase in the central government's deficit to 3.5 percent of GDP.[129]

II. Banking/NBFI Sector Composition and Structure

At year-end 2001, St. Vincent and the Grenadine's share of the ECCU's total financial assets stood at 11 percent, about equal to its share of regional GDP. The country has four commercial banks (one government-owned and three foreign-owned), 32 off-shore banks, one development bank, nine credit unions, 13 insurance companies, one National Development Foundation, two finance companies, and one building and loan association.[130]

For the ECCU region as of June 2002, banks predominated with 83.8 percent of total assets, National Insurance Funds held 8.9 percent and nonbanks 7.3 percent (consisting in finance companies - 2.6 percent, mortgage institutions - 2.3 percent and credit unions - 2.4 percent).[131]

With respect to the total assets of the banks (EC$1,295,132,000), as of December 2002, the three foreign-owned banks (Bank of Nova Scotia, Royal Bank of Trinidad & Tobago, and First Caribbean International Bank) held the majority share of 63 percent. The remaining 37 percent was held by the lone state-controlled commercial bank (National Commercial Bank), a troubled institution that has recently been restructured. No domestic, private commercial bank is operating in St. Vincent and the Grenadines at this time.[132]

Information was not available on the total assets of the credit unions in St. Vincent and the Grenadines. Some of the credit unions are said to provide financial reporting on a periodic basis to the Registrar of Cooperatives. Apparently, the weaker institutions do not have the human resources to provide periodic reporting.

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127 Ibid, p. 8.

128 Ibid, p. 8.

129 Ibid, p. 9.

130 Data supplied by the ECCB.

131 IMF, Eastern Caribbean Currency Union: Selected Issues, p. 62.

132 ECCB, Commercial Banking Statistics 2002, Table 1, p. 27.

GAPS /VULNERABILITIES

The financial system in St. Vincent and the Grenadines is dominated by the four commercial banks. Of the four, three are foreign owned. These foreign banks tend to bring with them well developed operating systems, good governance, advanced technology and the implicit backing of an organization that is large, well-capitalized, and profitable. Foreign-owned banks, established locally, provide employment and training opportunities for the population of St. Vincent. Moreover, in case of need, they can obtain liquidity support from their headquarters, although recent examples (e.g., Argentina) of parents walking away from a subsidiary suggest that parental support may not always be forthcoming. As long as most, if not all, of the profits remain in St. Vincent, the country benefits from the presence of these foreign-owned banks. As far as could be determined, there is no legislation against remitting profits abroad and there was also no information on the extent to which foreign-owned banks in each country do repatriate their profits.

Some, but not all, of the credit unions are said to report on a periodic basis to the Registrar of Cooperatives. The smaller, weaker institutions apparently do not have the human resources to comply with this basic request. Thus, it is important that this failure to report on the part of all credit unions be remedied so that the financial information on the size and composition of each institution is available and accurate. Hopefully, this situation will be remedied when the new consolidated supervisory units become fully operative with the help of the ECCB and the Caribbean Regional Technical Assistance Center (CARTAC).

III. Banking/NBFI Policy and Regulatory Infrastructure

As mentioned above, National Commercial Bank (NCB), a financial institution wholly owned by the government, required restructuring that was carried out during 2002. Due to concerns about the very high proportion of household loans (including mortgage loans) in NCB's loan portfolio, mortgage loans were sold to the Eastern Caribbean Mortgage Bank in St. Kitts. The restructuring also involved selling NCB's property to the National Property Company, Ltd. and selling NPLs, particularly nonperforming loans to large business borrowers, to the Recovery Company, Ltd. At its worst, the delinquency rate on the loan portfolio reached 30 percent and, reportedly, delinquency was higher among larger, rather than smaller, business borrowers. According to bank management, a program that focuses on small business borrowers has been quite successful, extending credit at a lending rate of ten percent. Every Friday and Saturday, a tent is set up outside the bank where small business borrowers can sell their wares.[133]

The banks are supervised by the Eastern Caribbean Central Bank (ECCB), with on-site examinations carried out every 12 to 18 months. A risk-based approach to on- and off-site supervision is used that follows the Basel Accord. Any institution that is in violation of the ECCB's prudential norms is put on a "watch list" and must respect any deadline imposed for bringing the deficient area into compliance.[134]

The Registrar of Cooperatives supervises the credit unions in each member country of the ECCU. However, unlike the banks, the credit unions are not required to meet any regulatory standards, such as reserve requirements, capital adequacy, loan classification and provisioning, etc. The credit unions are inspected on a periodic basis with the help of bank supervisors from the ECCB who provide on-the-job training. The PEARLS system is utilized to rate the nonbanks; it is a system not unlike the CAMELS rating system for banks.[135]

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133 Description based on information obtained from Keith Inness, CFO, National Commercial Bank (NCB) at a meeting held 8/19/03.

134 IMF, ECCU: Selected Issues, March 2003, p. 69.

135 Ibid, p. 70.

The ECCB has initiated a program for regulating and supervising all financial institutions (credit unions, commercial banks, insurance companies, and money transfer agencies) via the establishment of consolidated supervisory units that will operate in each country of the ECCU. The ECCB will continue to be the primary regulator and supervisor of the commercial banks. Legislation that empowers these consolidated supervisory units has been passed in Grenada; St. Vincent & the Grenadines is expected to be the next country to pass such legislation.

Banks are required to be audited annually according to international accounting standards (IAS). However, there are issues that limit transparency across banks. For example, the fiscal yearend varies from institution to institution depending on the date of incorporation except if the incorporation occurs in November/ December (the Christmas season), in which case the date is moved backward or forward with permission from the government.

A new regional institute of accounting is in the process of being developed by a group within the ECCB; it is expected to be operative in 2004. Ratification by five of the eight East Caribbean countries is required in order for this body to formally recognized. So far, four countries (Dominica, St. Lucia, St. Kitts and Nevis, and Monserrat) have passed legislation approving its establishment. In the meantime, by-laws have been drafted and sent to each country for feedback. A training institute is planned to operate within the new institute and to provide an accreditation program for accountants. Also, an IT infrastructure will be developed and put into place that allows for integrated (region-wide), electronic reporting of financial and accounting data from all financial institutions. The shareholders of this new body will be 40 percent government (with 25 percent pertaining to the ECCB) and 60 percent private (including the IFC).[136]

There are no credit rating agencies or credit information bureaus. The banks' management in St. Vincent and the Grenadines did not seem to find this a problem. They claimed that the market was so small that they were able to obtain the necessary credit information on their borrowers. In any case, a private group in Trinidad and Tobago is in the process of capitalizing a rating agency for the entire region.

GAPS/ VULNERABILITIES

When the consolidated supervisory units are fully operational throughout the region, the ECCB will need to expand the resources of its regulatory, supervisory, and risk management functions, particularly in relation to the weakly monitored credit unions, insurance companies, and development banks. This expansion of the ECCB's responsibilities represents a significant challenge that will take time to resolve under the best of circumstances. In addition to the regulation and supervision of 39 banks in the region, there will be 81 credit unions, 88 off-shore banks, six development banks, 146 insurance companies, seven National Development Foundations, 13 finance companies and four building and loan associations.[137] Reportedly, the Caribbean Regional Technical Assistance Center (CARTAC) intends to provide assistance in this area.

Accounting standards and their implementation appear to be an area in need of further study. Despite claims to the contrary, it is unclear whether international standards of accounting and disclosure are being met. The new regional institute of accounting, being developed by a group within the ECCB and slated to start operating in 2004, may provide the training, certification and IT infrastructure so necessary to the region's integrated accounting and auditing standards.

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136 Description based on information obtained from James Simpson at a meeting held at the ECCB 8/12/03.

137 Data supplied by the ECCB.

IV. Financial soundness

A. BANK SOUNDNESS

Aside from Anguilla and Grenada, St. Vincent and the Grenadines has the lowest delinquency rate. Also, data pertaining to December 2001 shows an average risk-based capital ratio of 17.7 percent for the banks, well above the 10 percent required by the ECCB.[138]

Data from the ECCB for December 2001 reported that the ECCU had a ratio of past due loans to total loans of 5.4 percent; the foreign banks had a ratio of 3.6 percent, while domestic banks had a ratio of 7 percent. When St. Vincent and the Grenadines was separated out, its ratio of past due loans/ total loans was 6.4 percent. The credit policies described by the foreign banks were quite stringent, having been adopted from the policies of their parent organization. Two foreign banks claimed to have suffered only a small increase in nonperforming loans as a result of the current economic situation. Royal Bank of Trinidad and Tobago (RBTT) claimed to have observed no increase in nonperforming loans, with the NPL ratio remaining at three percent.[139]

The delinquencies that were reported in discussions with the banks were the result of delinquencies among self-employed individuals and large business borrowers. Inadequate debt servicing among large business borrowers in St. Vincent and the Grenadines is a pattern uncharacteristic of the region, where large business borrowers have a reputation for responsible performance.

It should be pointed out that the IMF 2002 Article IV Consultation[140] notes that NPLs for the banking sector as a whole rose from 13 percent to 14.5 percent of total loans in 2002. This sudden increase may reflect the restructuring of NCB. The restructuring may have uncovered additional NPLs that had previously gone unnoticed.

All the banks interviewed claimed to be experiencing a high level of liquidity, a phenomenon characteristic of banks in the region. They claimed a willingness to provide loans to small businesses ranging from EC$ 15,000 to EC$ 100,000. Moreover, First Caribbean International said that it mentors small borrowers in the application process, financial management, marketing, etc. The banks also acknowledged the effectiveness of the training programs given to potential small business borrowers by the Small Enterprise Development Unit (SEDU).

The banks monitor their assets and liabilities according to maturity/ repricing intervals. Limits are set on the permissible size of the mismatches. Presumably, the periodic mismatches are related to a measure of periodic earnings. Currently, interest rate movements are quite minimal and largely controlled. Their rigidity and lack of responsiveness to liquidity conditions, the existence of large spreads, the mandatory floor on savings rates all suggest that the market mechanisms are not at liberty to work efficiently.

The foreign-owned banks fund their assets with like currency liabilities belonging to entities within the group. In this way, the element of cross-currency risk is controlled. The local banks do not have the advantage of being part of a large international group. At this point in time, the banks hold net asset positions in foreign currency and most foreign currency held is in U.S. dollars to which the EC$ is tied. Should other currencies come into play, a problem could arise. A net asset position in a currency would benefit a bank so long as the currency tended to appreciate against the dollar. Obviously, depreciation

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[138] IMF, Eastern Caribbean Currency Union: Selected Issues, March 2003, Table 8, p. 74.

[139] IMF, Eastern Caribbean Currency Union: selected Issues, March 2003, Table 7, p. 73 and Table 8, p. 74.

[140] IMF, St. Vincent and the Grenadines: 2002 Article IV Consultation, February 2002, p. 14.

would bring with it losses. The net open position should be related to capital or some other benchmark. If related to capital, the net open position should not exceed 25 percent of equity capital.

B. CREDIT UNION SOUNDNESS

There are nine credit unions in St. Vincent and the Grenadines. According to Ruben John, President of the St. Vincent Credit Union League, three of the nine credit unions are relatively large (i.e., between $7.6 million and $25 million in assets) and well managed - General Employees Cooperative Credit Union, Kingstown Cooperative Credit Union, and Teachers Cooperative Credit Union.

These credit unions demonstrated a range of loan performances. General Employees claimed to have NPLs of 11 percent in 2003 down from 15 percent in 2002. However, the audited NPL ratio reported in the Annual Report 2002 was 22 percent. Kingstown had NPLs of 18% down from 42% in the late 90's. There was no figure for NPLs given in this institution's annual report. Teachers claimed to have NPLs that currently run about five percent to six percent. No annual report was available from this credit union.

The annual report of Kingstown showed a return on assets of seven percent that suggests the credit union is earning a high return as a result of a risky loan portfolio. The other two credit unions reported a return on assets of 3.5 percent and 3.6 percent.

The credit unions claimed to be prepared to consider loans ranging in size from EC$ 1,000 to EC$ 150,000.

GAPS/VULNERABILITIES

It was unclear whether the information received from the three largest and most profitable credit unions was accurate. These institutions clearly need more rigorous supervision in order to determine their actual condition.

The demand for credit appeared to be such that banks and the credit unions were heavily concentrated in household loans, mortgage loans, in particular. Although housing construction is employment creating, heavy loan concentration in response to consumption demand, rather than investment demand, is unlikely to spur the growth of the productive sector or alleviate poverty.

It should be pointed out that both the banks and the credit unions expressed a willingness to lend to small business borrowers, particularly since the performance of some of the larger business borrowers had been questionable. The relatively small proportion of loans to businesses may be the result of sluggish demand for this type of credit on the part of the public, more than an institutional reticence to supply credit.

V. Intermediation

A. BANK FUNDING

At year-end 2002, the loan/deposit ratio for the four banks stood at 72 percent. When total deposits (EC$ 1,091,522,000) are divided into demand, savings and time deposits, the banks appear to have a healthy longer-term component so that it is highly probable that the assets and liabilities of these institutions are not badly matched. That is, savings deposits, considered long term with an average maturity depending on the particular bank's runoff rate, make up 41 percent of total deposits. The banks concurred that runoff tends to be high on savings accounts around Christmas. Time deposits are fixed term and vary in maturity from 6 months to 12 months, although occasionally they go out five years. They represented 33 percent of total deposits. Short-term deposits, like demand deposits came to about 22 percent of total deposits and foreign currency deposits, with an unknown maturity, were four percent of deposits.[141]

Banks pay from three percent to five percent on their savings deposits, depending on account size. A three percent minimum is required on commercial bank savings deposits. Returns on term deposits depend on maturity. In 2002, a 12-month fixed-term deposit paid up to seven percent. Time deposits tend to be rolled over so the actual maturity of the deposit is extended.[142]

B. BANKING LENDING

Loans and advances made up 61 percent of commercial bank assets at year-end 2002. Approximately 71 percent of these credits had a maturity greater than five years. The largest share of credit (55 percent) went to households, particularly housing construction and land purchase (35 Percent). Lending to businesses came next with 28 percent of the credit extended. Credit to the central & local government, as well as to state-controlled enterprises, was about 16 percent. Non-resident loans represented 2.5 percent of the total, while loans to nonbanks came to 0.6 percent of total loans.[143]

Of the loans to businesses, a relatively small proportion of credit went to businesses in two major productive areas of the economy, agriculture (banana farmers, in particular) and tourism, two percent and four percent, respectively. Reports from various sources, including the ECCB, fail to separate out trade-related credit. Trade financing, in the form of letters of credit, bills of exchange, bankers acceptances or export credit refinancing, is undoubtedly subsumed in the business loan category.[144]

Lending rates varied between nine percent and 18 percent, with mortgage rates ranging from eight percent to ten percent, large business loans about 12 percent to 14 percent, smaller business loans about 13.5 percent to 16 percent.[145]

The banks require collateral in accordance with their perception of the borrowers' ability to repay their loans. The process of registering, taking title to and realizing the collateral via the judicial system works quite rapidly (within three to four months) and efficiently in St. Vincent and the Grenadines. Bad loans are written off without difficulty.

Investments on the commercial bank balance sheets were eight percent of total assets. These investments appear to be predominately treasury bills, government bonds and bonds issued by development banks and state-controlled enterprises. As of June 2002, St. Vincent and the Grenadines holds seven percent of government securities outstanding in the ECCU. Of that seven percent, the banks hold 4.6 percent.[146]

Rates on T-bills vary between 5.58 percent and eight percent, depending on maturity. There has been no interest in investing abroad since rates on government securities in countries, such as the United States, are lower than those found in the Eastern Caribbean region. Banks tend to follow a buy-and-hold strategy that limits the possibility for the development of a vibrant secondary market in these securities. New government issues of government securities tend to be fully subscribed, selling out immediately. As of

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[141] ECCB, Financial Statistics Yearbook 2002, Table 9.3, p. 125; Table 9.4, p. 126.

[142] Ibid, Table 9.14, p. 136.

[143] Ibid, Table 9.12, p. 134; Table 9.13A, p. 135.

[144] Ibid, Table 9.13A, p.135.

[145] Information based on discussions with RBTT, FCIB and NCB - 8/19/03.

[146] ECCB, Financial Statistics Yearbook 2002, Table 9.3, p. 125; IMF, ECCU: Selected Issues, March 2003, Table 6, p. 68.

June 2002, St. Vincent and the Grenadines held seven percent of government securities outstanding in the ECCU. Of that seven percent, the banks held 3.4 percent.[147]

C. BANK BORROWING AND LENDING

The size of the spreads that banks can enjoy is very high, averaging 4.1 as of December 2001. It is likely that the large size of the spreads reflect a fairly rigid rate structure, comparatively high reserve requirements, high operating costs and risk premiums designed to take account of large exposures to credit risk. Banks with high spreads and low levels of nonperforming loans claim to have enjoyed a return on assets around 3.5 percent (excluding the troubled NCB). With that amount of profitability, it is not surprising that foreign-owned banks have maintained a presence in the Eastern Caribbean region.[148]

Arrangements for direct interbank borrowing and lending, independent of ECCB intermediation, were introduced in October 2001. A term structure of interest rates emerged with the interest rate for shorter maturities in July 2002 just less than six percent, while rates for longer maturities were around 6.5 percent. Since bank liquidity is high, the interbank market tends currently to be quite inactive.[149]

D. CREDIT UNIONS

The lending rate charged to credit union borrowers from its membership ranges from nine percent to 15 percent. The rates on mortgage loans were around nine percent. The rate paid on deposits is between two percent and four percent (the three percent minimum for banks does not apply to credit unions).[150]

Small business borrowers can receive assistance from the National Commercial Bank, the Small Enterprise Development Unit (training), as well as the National Development Foundation (training and funding), in the areas of writing business proposals, business plans, making cash flows projections, financial record keeping, etc.[151]

Aside from credit unions, financing for micro-business ventures comes from a number of sources: the banks; the National Development Foundation; the European Development Fund that receives match funding from commercial banks; the Building Capitalization Fund, the National Insurance Scheme (NIS).[152]

GAPS/VULNERABILITIES

In order to benefit the potential small borrower, particularly the micro-enterprise borrower, the needs of the credit unions in St. Vincent and the Grenadines should be carefully studied and addressed. Given the lack of rigorous supervision and no prudential regulations, there is a paucity of relevant data on the credit unions. According to the St. Vincent Credit Union League, there is considerable variation across the nine credit unions in terms of size, management and financial performance. It is more than likely that some of the smaller, weak credit unions would benefit from being merged into one of the larger, stronger ones.

Although the commercial banks in St. Vincent appear to be willing to lend to small business borrowers, despite high administrative costs, the credit unions stand out as institutions that cater to this group of

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147 ECCB, Financial Statistics Yearbook 2002, Table 9.3, p. 125; IMF, ECCU: Selected Issues, March 2003, Table 6, p. 68.

148 IMF, ECCU: Selected Issues, March 2003, Table 8, p. 74.

149 Ibid, p. 66.

150 Information derived from discussions with the managers, Lennox Bowman of General Employees Credit Union, Linda Bullock of Kingstown Cooperative Credit Union, and Julian Jack of Teachers Cooperative Credit Union.

151 Information derived from discussion with Maurice Edwards, Director General, Ministry of Finance on 8/19/03.

152 Same as previous footnote.

borrowers. However, according to interviews with managers of three credit unions in St. Vincent (considered to be among the best by the President of the St. Vincent Credit Union League), there is a need for improvements in the areas of management skills, training of employees in the basics of credit operations, installing information technology, developing good accounting practices, etc.

Commercial Bank Assets

St. Vincent and Grenadines			Year End		
			2002	2001	2000
CLAIMS ON	CENTRAL BANK	Cash	25,110	24,025	18,201
		Statutory Reserves & Deposits	82,485	116,435	92,829
	Other Local Banks		-	-	5,000
	Other ECCB Area Banks		69,697	87,278	156,640
Loans and Advances			787,290	711,710	682,811
INVESTEMENTS		Treasury Bills	64,922	41,029	32,468
		Gov't Securities	41,180	48,256	47,728
Foreign Assets			127,416	126,440	68,842
Other Assets			97,032	83,481	83,296
Total Assets			1,295,132	1,238,654	1,187,815

Source: Eastern Caribbean Central Bank (ECCB)
Eastern Caribbean Dollar denominated

Commercial Bank Liabilities

St. Vincent and Grenadines			Year End		
		Yearend	2002	2001	2000
	EC$ DEPOSITS (in 000)	Demand	238,469	228,000	192,075
		Time	370,896	354,102	336,196
		Savings	445,443	413,244	385,027
Foreign Currency Deposits			36,714	46,898	57,172
Total Deposits			1,091,522	1,042,244	970,470
	BALANCES DUE TO	ECCB	3,465	3,149	7,680
		Other Local Banks	12,322	-	-
		Other ECCB Area Banks	26109	18997	10408
Foreign Liabilities			28,665	44,083	29,766
Other Liabilities			133,049	130,181	169,491
Total Liabilities			1,295,132	1,238,654	1,187,815

Source: Eastern Caribbean Central Bank (ECCB)
Eastern Caribbean Dollar denominated

Trinidad & Tobago

I. Economic Overview

Trinidad & Tobago (TT) is currently classified as a middle-income country according to World Bank figures, with 2001 per capita income of about US$5,900.[153] Based on its 2020 goals, it will need to achieve seven to twelve percent GDP growth from 2000-20 to achieve "developed" nation status. To get there, TT faces many challenges, not the least of which are keeping the inflation rate in check (not to exceed seven percent, which is high), and bringing the unemployment rate to below ten percent.[154] Prospects are based on significant anticipated development of oil and gas resources until 2020, after which production and exploitation is expected to diminish.

GDP was about 85.5 billion TT dollars, equivalent to about US$13.7 billion-equivalent at current market prices for 2002. Real GDP has increased at reasonable levels year-on-year since 1998, averaging 4.7 percent growth each year (on an unweighted basis). Notwithstanding real GDP growth and TT's middle-income status, income distribution is a challenge, as more than 21 percent of the population lives in poverty. The unemployment rate was 11 percent in 2003, and has ranged from 10.4 percent (2002) to 14.2 percent (1998) in the last few years.

Structurally, the economy is concentrated in the petroleum sector (26-27 percent of GDP in 2002-03), and in a variety of services (60 percent of GDP). Agriculture is negligible, at one percent of GDP, while manufacturing and construction each account for about seven percent of GDP. The most prominent services are distribution (18 percent of GDP), financial services (17 percent of GDP), and Government (eight percent of GDP).

There are more than 43 state-controlled enterprises (many with subsidiaries and affiliates), of which several are loss-makers. This is due to poor or impractical business plans, inadequate revenues due to insufficient tariffs/charges for services, an underemployed labor force, comparatively high wages relative to productivity, bureaucratic procedures, frequent government intervention, and shortages of working capital that slow production and processing. In particular, the state sugar company (CARONI) and the water utility (WASA) are the main contributors to these deficits. In financial services, there are no less than ten state companies, most of which are wholly or majority owned by the public sector. All together, state enterprises accounted for deficits/losses of 2.25 percent of GDP from 1997-2002, with projected losses at five percent of GDP from 2003-04.

In terms of monetary and related issues, CPI has been well contained. The unweighted average CPI since 1998 has been 4.3 percent, although there is a risk that significant increases in petroleum production will add inflationary pressures.

There are no foreign exchange controls. Thus, TT has had a floating exchange rate regime since 1993, which differs from the OECS countries and Barbados, all of which have pegged exchange rates. While not the only reason, this has helped TT to generate current account surpluses and a strong balance of payments position. The exchange rate of the TT dollar has nonetheless been fairly stable relative to the US dollar since 1999, with some appreciation in 2003. Thus, the performance of the currency has been more like a managed float.

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[153] Per capita income figure is from the IMF (2003). Other figures are higher.

[154] See "Report of the Cabinet Appointed Committee to Review the Financial Sector of Trinidad and Tobago", December 20, 2002.

Fiscal deficits have been reasonable, generally not deeper than 1.8 percent in any year since 1998 and sometimes (2000-01) in surplus. The overall unweighted average deficit since 1998 has been only 0.6 percent.

Balance of payment figures show that TT has enjoyed current account surpluses in most years since 1999. This is largely attributable to petroleum exports. That TT's merchandise trade account is in surplus differentiates its performance from many other Caribbean countries whose limited resources and dependence on gross tourism receipts have demonstrated far higher levels of vulnerability than that experienced in TT. TT's capital account is also in surplus, symptomatic of a strong balance of payments position.

Gross official reserves have risen dramatically in recent years, reaching US$2.4 billion in 2003, or nearly three times 1998 levels. This translates into 5.6 months' import cover.

While TT's balance of payments position and reserves are strong, it has a fairly high 67 percent public sector debt-to-GDP ratio. There is no immediate vulnerability at this level with the strong reserve position, and the debt service ratio (as a percent of exports) has been cut by more than half since 1998, to only 4.2 percent in 2003. However, as with the inflation rate, there may be a tendency to leverage projected oil and gas earnings and accumulate imprudent levels of debt. This is a risk that will need to be monitored.

GAPS/VULNERABILITIES

Government finances remain unpredictable, given the substantial boom anticipated by the exploitation of oil and gas reserves. How TT manages this challenge will shape its overall economic competitiveness, affect its potential for value added, and clearly determine the country's ability to provide for long-term social stability. Expectations are high, and the government's Green Paper stresses the objective of becoming a knowledge-based economy and simultaneously alleviating poverty. These two objectives can be achieved simultaneously, particularly given the time frame. However, much of what is accomplished will be based on where the emphasis is. There will predictably be substantial political pressure to focus immediately on the alleviation of poverty, some of the measures of which will detract from the economy's long-term capacity to become increasingly knowledge-based.

Specific key challenges include:

- Keeping the inflation rate to less than seven percent per year for the next 20 years. There is a risk that significant increases in petroleum production will add to inflationary pressures.
- Keeping the unemployment rate below ten percent, but doing so in a way that is sustainable.
- Raising education and health standards and capacity, which will require costly and sustained expenditure as well as sound management. (Health alone is projected to require eight to ten percent of GDP in annual expenditure.)
- Commercializing and privatizing state enterprises to reduce the substantial and growing losses of this sector. Privatization of the sugar company may lead to job losses or higher performance targets to justify wages. Privatization or commercialization of WASA could lead to higher tariffs paid by consumers. Both could cause political tensions.

II. Banking/NBFI Sector Composition and Structure

TT is considered the financial capital of the southern Caribbean region, and in some ways for much of the Caribbean as a whole. This is reflected in the TT-based banks that are taking the lead among indigenous banks in expanding networks across countries throughout the Caribbean. This has already been accomplished by a handful of foreign banks, mainly Canadian, yet has not been initiated until recently by any indigenous banks.

TT's financial system is relatively small in terms of numbers of institutions and financial measures. There are six banks, of which four are domestic and two are foreign-owned (i.e., Scotiabank and Citigroup). Among the four domestic banks, three are private (i.e., RBTT, Republic, Intercommercial Bank), and one is state-controlled (i.e., Citizen's). The banks account for about half of total financial system assets. The indigenous banks dominate balance sheet measures, whereas the foreign banks are known to concentrate on the middle-market (Scotiabank) or investment banking business (Citigroup).

Total assets in the commercial banking system approximated TT$31.2 billion, or about US$4.95 billion-equivalent. This translates into reasonably strong banks in terms of size, indicating that while the banks are not large by global standards, they are also larger on average than many banks in developing countries. However, bank assets-to-GDP approximated 36.5 percent, reflecting relatively low penetration in the market.

There were 79 credit unions in TT in 2002 with 314,000 members.[155] This is substantial for a country with about 1.3 million people, and the penetration ratio for credit unions (members to economically active population) was 38.5 percent. Their assets totaled US$457 million, about 9 percent of the banking system. Among the credit unions, the six largest ones account for about half of all credit union assets.

Among TT's NBFIs, the central bank lists 16 of them, although several are linked to the commercial banks noted above. These consisted of trust and mortgage companies, finance houses, and merchant banks. In addition to these, there are many small pension funds, a few mutual funds, and 40 insurance companies. Based on available figures, trust and mortgage companies had about US$1.3 billion in assets, while finance houses and merchant banks had about US$468 million. Insurance companies showed US$469 million in total premium revenues in 2001 (about 3.6 percent of GDP and $325 per capita), of which US$336 million was in life insurance. Per capita figures are respectable, placing TT 34th in the world.[156]

GAPS/VULNERABILITIES

The financial sector will need to adopt more advanced IT to be internationally competitive. Banks are reported to need better organization and processes, and to subject themselves more diligently to international performance benchmarks. Bankers and insurance companies will also need to acclimate themselves to more open and transparent standards of information disclosure, possibly including notes about specific holdings, transactions, and senior management and board members. If there is movement towards risk-based supervision, this will also put the onus on management to detect risks and report these to the regulatory authorities early on for agreed corrective actions and preventive measures that could spread through the financial system.

III. Banking/NBFI Policy and Regulatory Infrastructure

The legal framework for banking is the Financial Institutions Act of 1993, which is under review due to supervisory shortcomings. The Central Bank is responsible for supervision. While the legislation is viewed as deficient, it is being amended to correct for weaknesses. Meanwhile, CBTT is generally compliant with the 25 Core Principles for banking supervision. Efforts are under way to prepare for the new Basel Capital Accord, establish new legal and operational requirements for correspondent banking, crack down on money laundering and other illegal activities, and operate within the CARICOM without restrictions on capital flows.

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155 Figures are from WOCCU, and are assumed to be active credit unions. The Cabinet Appointed Committee that reviewed the financial sector cited 143 credit unions, of which 126 that could be active, but roughly the same penetration ratio (39 percent).

156 See "World insurance in 2001", Swiss Re, 2002.

The legal framework for the credit unions is based on the Cooperative Society Act of 1971, which is currently under review. Credit unions have been supervised by the Department of Cooperative Development (of the Ministry of Labor and Cooperatives), although the Ministry of Finance is now playing a role via its newly established Credit Union Supervisory Unit. The supervisory structures for credit union oversight are generally viewed as weak and incomplete, partly due to the limitations on manpower and financial resources. Most of the credit unions themselves are viewed as limited in capacity, with obvious impediments to self-regulation serving as a substitute.

The legal framework for the insurance sector is the Insurance Act of 1980. This Act is also under review due to the need to modernize legislation and supervisory practices to better account for solvency, liquidity, consumer (policy holder) protection, and investment policy. However, the authorities recognize the legislation and prudential framework is outdated. Apart from life insurance, there is little insurance activity despite the presence of 40 insurance companies. Low levels of capital, low minimum capital requirements for entry (TT$3 million), and poor claims fulfillment are some of the reasons why the non-life sector has failed to penetrate the market in the same way that life insurance has. Life insurance companies are unnecessarily burdened by a 15 percent tax on investment earnings, even in years when they show losses.

GAPS/VULNERABILITIES

There is clear recognition of the need to strengthen regulatory oversight and supervisory capacity for credit unions and the insurance sector, as well as for banks. Supervision of banks has improved in recent years, but remains weak for NBFIs. All financial services regulation and supervision are receiving closer attention. Institutional capacity is needed to implement consolidated supervision, cross-border cooperation, and more effective information sharing. There is also needed tightening in the insurance sector, and the introduction of effective regulatory and supervisory structures for the nascent capital markets. More specifically, gaps and vulnerabilities that have been identified include:

- The legislative framework is inadequate with regard to information disclosure, prudential norms, address mergers and acquisitions, electronic finance, and corporate governance issues.
- Insurance companies are considered particularly weak in terms of regulatory reporting. Credit unions are also considered weak in this regard. In addition, there are inconsistencies in the application of accounting standards.
- There is a need for greater information to be made available for public and market purposes.
- Regulatory and supervisory systems need to become more “risk-based” (as opposed to “rules-based”), and made consistent with a more integrated approach to financial services, in anticipation of more complex institutions and instruments. This will require a stronger mandate for enforcement, and the introduction of on-site inspections in the insurance sector.
- Supervisory capacity is short on manpower and financial resources, which weakens banking supervision as well as supervision of the credit unions and NBFIs. Additional resources will be needed to increase on-site inspections, enhance off-site surveillance capacity, coordinate strategies and policy, and integrate supervisory policy to pre-empt dangerous risks from materializing and spreading to the system as a whole.
- Clearing and settlement need more effective oversight.
- Tax reform is needed to provide incentives for market development, but with a timeline for termination of incentives when markets have developed.
- Telecommunications infrastructure is inadequate for modern financial services.
- Competition policy needs strengthening to address monopoly, consumer issues, and compliance with international agreements.

IV. Financial Soundness

A. Bank Soundness

Banks are generally sound based on available information. While earnings data are not available from the Central Bank after 2000, pre-tax and after-tax ratios indicate banks were generating healthy profits. Banks have had low loan-to-asset ratios in the past, previously about 40 percent. However, at the end of 2002, the ratio of bank claims on the private sector was 56.6 percent of total deposit money banks' assets. While net interest margins have the largest source of earnings, banks have also generated fairly high levels of income from investments and fees.

Capital adequacy ratios were 20.2 percent in 2000, 19.8 percent in 2001, and 21.3 percent in 2002. Nonperforming loans have declined in recent years, from 6.2 percent of average loans in 1998 to about 3.5 percent in 2001-02. However, net interest spreads on comparable maturities remain high (9.1 percent in 2002), due to a combination of high reserve requirements and the possibility of large risk exposures.

B. Credit Union Soundness

Credit unions are considered less sound than the banks. Estimates are that as many as 20 percent of loans among some credit unions are delinquent. However, this is not true of all credit unions, and the largest credit unions are reported to be in stronger condition. However, the system as a whole only showed US$30 million in total reserves, a mere 6.6 percent of total assets. This would mean that if more than 9.1 percent of total loans were uncollectible, the aggregate credit unions' financial position would be technically insolvent.

GAPS/VULNERABILITIES

Banks appear to be sound, but will face competitive challenges to earnings as well as regulatory challenges in the form of the new Basel Capital Accord. There is also the ongoing issue of economies of scale and critical mass, all challenges for the indigenous banks even as they spread out into other markets. Consequently, operating costs have historically been fairly high as a share of income when compared with other major OECD countries, although these costs are comparable with those of Japan.

Credit unions are vulnerable due to low levels of reserves and problem loans. There are many inactive or small credit unions that provide limited services at best, although others are more active and responsive to member needs. Significant investment and training will be needed to better implement PEARLS, and to make the credit unions more active and competitive. As elsewhere in the region, this may require some consolidation of credit unions, or at least their back office operations. Tougher discipline will also be needed at some credit unions to reduce delinquencies.

V. Intermediation

A. Bank Funding

Deposits placed with banks approximated TT$24.4 billion, or US$3.9 billion-equivalent at year-end 2002. This was equivalent to 78 percent of total liabilities and capital. Of the deposits, TT$5.6 billion were demand deposits, and TT$18.8 billion were term (i.e., time/savings) or foreign currency deposits. The proportion of term deposits indicates that depositors are interest-rate sensitive (time deposit rates are generally eight to ten percent), that they have enough confidence in the banks to place their funds for specified periods of time, and that the deposit insurance system adds to that confidence.

Beyond deposits, deposit money banks have smaller proportions of foreign borrowings, Government deposits, CBTT credit, inter-bank borrowings, and capital. Non-deposit liabilities were TT$5 billion, or only 16 percent of total liabilities and capital. Net capital (gross capital less other items net) was only TT$1.8 billion, or 5.5 percent of total assets.

Banks are very liquid, with loans to average deposits only 75 percent in 2002. While this represents an increase in loans to deposits (from 65 percent in 1998), loans were still only about 30 percent of total liquid assets in 2002. There is a possibility that a lowering of reserve requirements would increase these ratios. However, as long as the CBTT is focused on keeping inflation rates contained and ensuring that systems are in place for sound credit risk management, it is unclear if there will be any major change in these ratios in the next few years. Meanwhile, net capital is relatively low as a proportion of assets, even though gross capital is about 20 percent.

B. BANK LENDING

Total lending by banks approximated TT$20.3 billion at the end of 2003, or US$3.2 billion-equivalent. This was about 65 percent of total assets, and includes loans to state enterprises (but excludes loans to/investments in government).

The largest areas of credit concentration for the banks were to consumers (TT$5.7 billion). It has been reported that consumers miss out on access to credit from the banks. However, they are able to obtain mortgage loans from thrift institutions and mortgage finance companies. More importantly, "consumers" accounted for about 37 percent of commercial bank loans and advances in 2002. Thus, it is unclear if this is a constraint. Net of consumers, bank credit is mainly to services (TT$4.3 billion), manufacturing (TT$1.6 billion), and petroleum (TT$1.1 billion).

Separate from these categories is claims on Government. This includes loans, investment in Government securities, and reserve requirements. All together, loans, reserves, and investments in Government securities appeared to approximate TT$10.9 billion, or about 35 percent of total deposit money bank assets. This includes loans to non-financial public enterprises.

Because of the size of bank assets, most banks lend to mid-sized corporate entities and smaller enterprises. On the positive side, this means that many SMEs have access to credit. On the down side, it means that indigenous banks lose out on some of the larger deals that can only be financed by larger foreign banks and/or through the capital markets. In the latter case, these markets are underdeveloped, as they are throughout the Caribbean region. In some cases, insurance companies may be parties to private placements.

C. BANK BORROWING AND LENDING

Data on maturities, rates paid, and related information were not available. However, net spreads on comparable maturities (on a weighted average basis) show that the gap is still fairly substantial, at 9.1 percent in 2002. This compares with a range of 8.8-9.4 percent from 1998-2001. Foreign liabilities were only 12 percent of assets, thus there is no over-reliance on foreign or syndicated borrowings to finance the system (which might drive up borrowing costs). In general, it appears that tight reserve requirements add significantly to borrowing costs, which are necessarily passed on to the real sector. In addition to 18 percent reserve requirements, the CBTT rate is 13 percent, which is a reason why borrowings from the central bank are low.

D. CREDIT UNIONS

There is limited information on the credit unions. As of end 2002, loans totaled US$333 million, equivalent to about 10.4 percent of bank loans. On the other hand, credit union balance sheets showed credit to be about 73 percent of total assets, thus providing members with easier access than they often can find at banks and other financial institutions. The loan-to-member ratio is US$1,060.

On the savings side, credit unions had mobilized US$380 million in savings, equivalent to a little less than ten percent of deposits mobilized by banks. On average, credit union loan-to-deposit ratios are higher than at banks, at about 88 percent. Savings per member averaged US$1,209.

GAPS/VULNERABILITIES

Banks are very liquid, as they are throughout much of the region. This reflects risk aversion, compliance with prudential norms, and the perception by banks of insufficient lending and investment opportunities. However, this is also due to high reserve requirements. Future development of sound banking intermediation will require banks to better manage credit while also assuming more risk.

There is interest in lending to SMEs and even microenterprises. However, how this is managed will determine whether banks are able to increase their earning assets and bolster their overall earnings in a manner that leads to increasingly strong and capable banks and credit unions. Banks have generally shown themselves to have the capacity to manage these risks over the last decade. However, credit unions are not as universally strong.

Reserve requirements are currently discriminatory against banks, as they do not apply to non-bank deposit-takers in the system. Banks are required to keep 18 percent reserves, while some NBFIs are only required to have nine percent (e.g., other lenders apart from credit unions). Given that insurance companies and other NBFIs accept deposits, the authorities will need to smooth out the difference in treatment to stimulate desired competition.

The new Basel Capital Accord may create competitive challenges for indigenous banks, as larger global banks (e.g., Citigroup, Scotiabank to a lesser extent) may not be required to maintain capital adequacy at the same recommended ratios as smaller banks. At a minimum, with expansion and competitive challenges at hand, the indigenous banks will need to strengthen earnings, and retain those earnings for growth. Increasing earnings will not only be a revenue issue. TT banks will need to reduce their comparatively high operating costs, which will be difficult due to the small markets in which the indigenous banks operate.

ANNEX B: CAPITAL MARKETS ASSESSMENT

Background

The capital markets of Barbados, Jamaica, the Eastern Caribbean and Trinidad & Tobago (the Markets) are, individually, small and illiquid. The operational viability and financial sustainability of the individual markets is constrained by a: (i) a lack of listed issues, (ii) a lack of a variety of issues, (iii) a small number of market intermediaries and, (iv) a regionally pervasive "buy and hold" investor strategy. These problems are compounded by individual markets' varying levels of non-compliance with generally accepted international standards that result in operational anomalies between individual markets.

Small Market Group

In order to benchmark the Caribbean markets' performance a comparison small market group (SMG) of capital markets was created. The SMG consisted of capital markets whose geographic size, population and economies were similar to those in the Caribbean assessment group. Countries in the comparison group included Cyprus, Malta, and Slovenia. The primary similarity utilized in the construction of the SMG was population. The combined population of countries in the Caribbean Group is 4.6 million and 3.1 million in the comparison countries.

In order to survive and grow, markets in the SMG have adopted a proactive approach to increasing the number and types of security issues listed and the number of market intermediaries. The overall economic effect of the SMG's approach is illustrated by the fact that although the combined population of the SMG countries is 49% less than the Caribbean market group, the SMG's combined GDP is 36% larger and its combined Market Capitalization is 111% larger. The SMG has 267 more listed issues than the Caribbean market group and 42 more market intermediaries.

Country	GDP (Billions of US$)	Population	Issues Listed	Brokers	Market Cap (US$)
Small Market Group					
Malta	5,600,000,000	400,420	129	20	6,546,072,958
Slovenia	22,900,000,000	1,935,677	105	27	13,054,059,254
Cyprus	10,500,000,000	771,657	144	24	5,064,100,500
Totals	39,000,000,000	3,107,754	378	71	24,664,232,712
Caribbean Group					
Barbados	4,000,000,000	277,264	27	6	3,254,551,112
Eastern Caribbean	3,567,000,000	540,080	7	7	115,154,679
Jamaica	10,000,000,000	2,695,867	48	10	3,187,135,970
Trinidad & Tobago	11,100,000,000	1,104,209	29	6	5,125,406,836
Totals	28,667,000,000	4,617,420	111	29	11,682,248,597

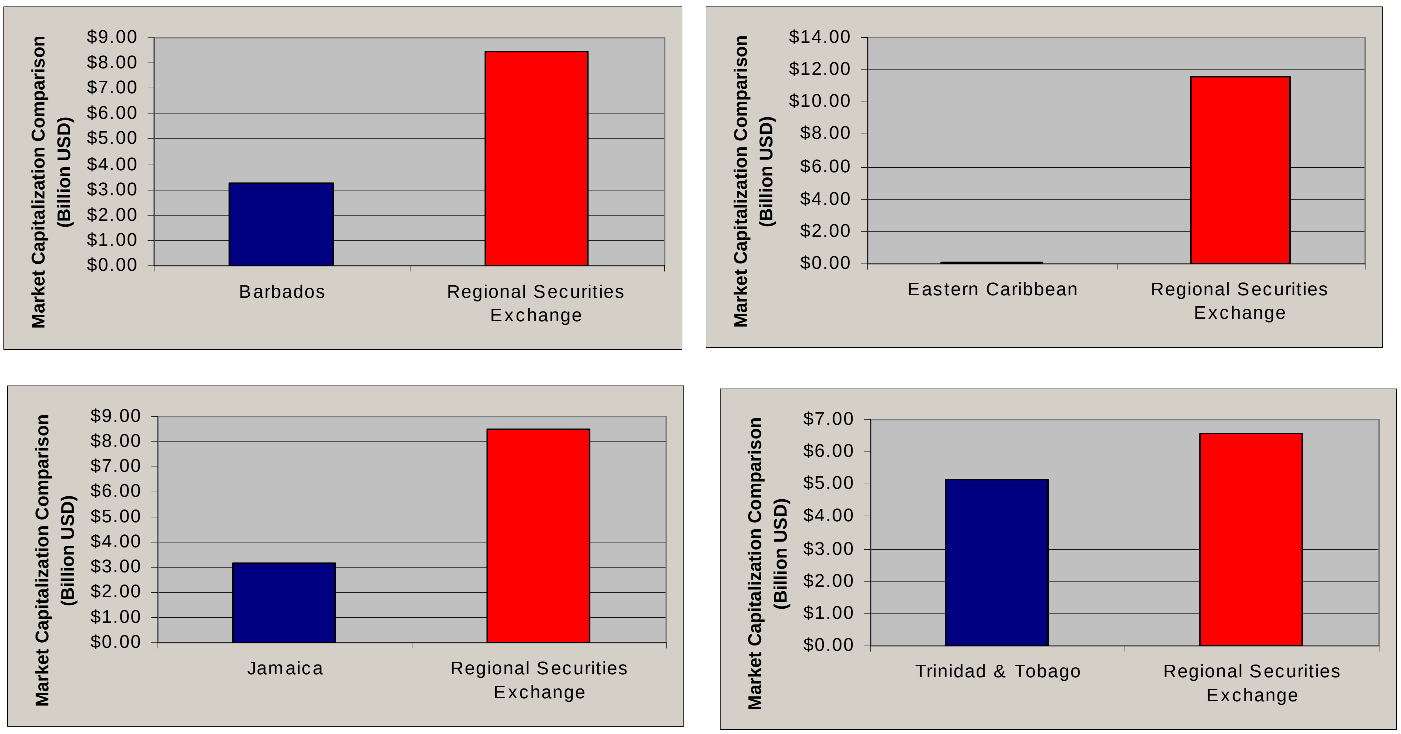
** Market Cap includes each exchange's domestic, home-listings only. The Market Cap does not include an exchange's cross-listed issues. The inclusion of an exchange's cross-listed Market Cap artificially inflates each exchange's actual Market Cap by including one cross-listed issue multiple times. Cross-listed issues' Market Cap is included one time only as part of the issue's home market.

Regional Impediments & Recommendations

The primary impediment to the Markets sustainability and growth is the small size and illiquid nature of the region's individual markets. Simply stated, individual markets are too small with too few listed issues and too few market intermediaries to have a reasonable chance of economic sustainability and any realistic opportunity to grow.

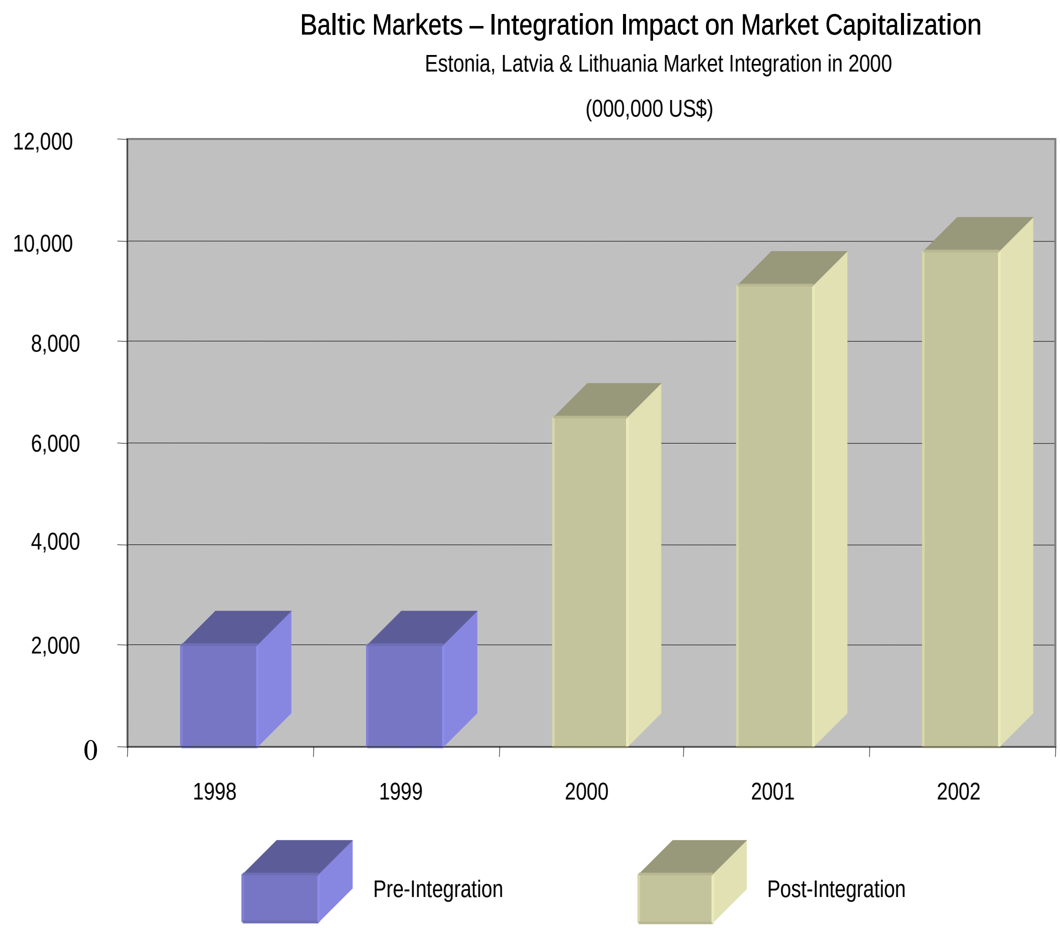
The remedy to the impediments of individual size and illiquidity is the creation of collective strength through the implementation of a regional securities exchange. As illustrated by the graphics, below, non-participation by individual markets in a regional securities market would marginalize the markets and lead to eventual disappearance of the markets.

Market Capitalization Comparisons



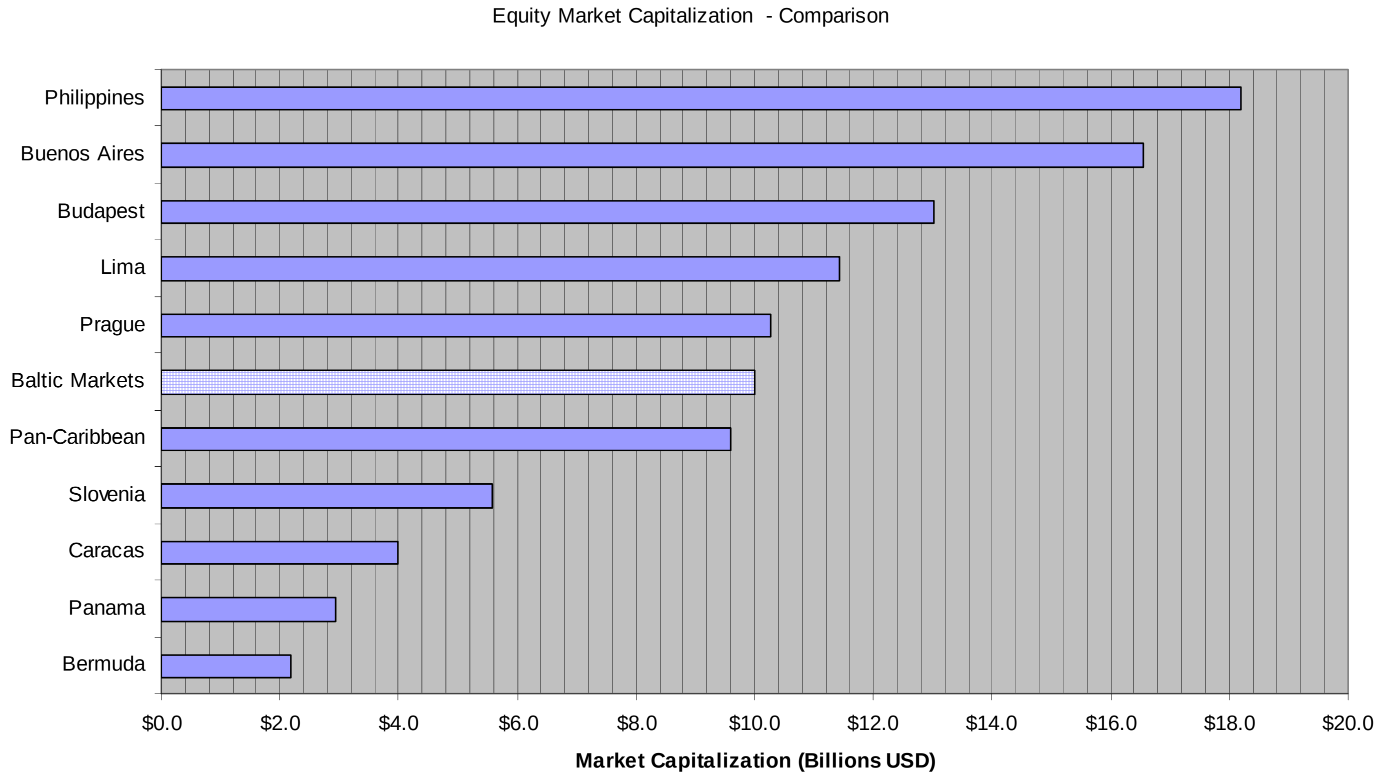
In recent years many individual markets throughout the world have consolidated to increase their ability to compete in the increasingly globalized marketplace. The creation of Euronext by consolidating individual markets in Amsterdam, Brussels, Lisbon, and Paris is the largest and most successful regional integration.

On a smaller scale the securities markets in Estonia, Latvia, and Lithuania have created an integrated, cross-border securities exchange designated The Baltic Exchanges. Exchanges in the Nordic countries have combined to create NOREX, an alliance between the Copenhagen Stock Exchange, the Iceland Stock Exchange, Stookholmsborsen, and the Oslo Bors.



The Alexandria Stock Exchange, the Amman Stock Exchange, the Borsa Italia, the Cyprus Stock Exchange, the Malta Stock Exchange, and the Tunis Stock Exchange have held discussions related to the creation of an alliance of Mediterranean stock exchanges to be known as Borzamed.

A Pan-Caribbean Securities Exchange would be comprised of listings from Barbados, the Eastern Caribbean, Jamaica, and Trinidad & Tobago with each listing having an individual market capitalization of at least ten million US$. The Exchange would have a combined market capitalization of US$9.7 billion, 59 equity issues, and 12 distinct industry segments with over 40 billion shares tradable by 29 market intermediaries. The graphic, below, positions the Pan-Caribbean Securities Exchange in relation to other small and mid-sized exchanges. Note that this comparison does not include any growth in the Pan Caribbean market that could occur as a result of integration. A listing of recommended listings for a Pan-Caribbean Securities Exchange is attached to this report as Appendix A – Regional Securities Exchange Listings.



A Pan-Caribbean Securities Exchange should rely on its collective strength in order to be competitive. It will be required that all regional securities exchanges participate in such a regional securities exchange in order to establish the requisite collective competitive strength.

Once the regional securities exchange is established it would be imprudent for any single securities market to remain outside of the regional exchange. The graphic, below, illustrates each country's relative position in the event that an individual country chooses not to participate and compete independently against the regional securities exchange.

Market Capitalization as a Percent of GDP

A common benchmark for a securities market's effectiveness as a capital engine is the securities market's capitalization as a percent of a country's GDP. Based on the comparatives, below, the securities markets in the Caribbean group assessed are ineffective as capital engines.

Market Capitalization as a Percent of GDP

Market	Domestic Market Capitalization (US$)[157]	GDP** (US$)	Domestic Market Capitalization Percent of GDP
Caribbean Markets – Market Cap as Percent of GDP			
Barbados	3,254,551,112	4,000,000,000	81.36%
Eastern Caribbean[158]	115,154,679	3,567,000,000	3.23%
Jamaica	3,187,135,970	10,000,000,000	31.87%
Trinidad & Tobago	5,125,406,836	11,100,000,000	46.17%
Totals	11,682,248,597	28,667,000,000	40.75%
Small Market Group – Market Cap as Percent of GDP			
Malta	6,546,072,958	5,600,000,000	116.89%
Slovenia	13,054,059,254	22,900,000,000	57.00%
Cyprus	5,064,100,500	10,500,000,000	48.23%
Totals	24,664,232,712	39,000,000,000	63.24%
NOREX Markets – Market Cap as Percent of GDP			
Copenhagen	76,748,900,000	155,500,000,000	49.36%
Iceland	6,301,900,000	7,000,000,000	90.03%
Oslo	68,203,100,000	143,000,000,000	47.62%
Stockholm	179,117,400,000	227,400,000,000	78.77%
Total	330,271,300,000	532,900,000,000	61.98%

Country	GDP (US$)[159]	Markets	Market Cap (US$)*	Country Market Cap Percent of GDP
Japanese Markets – Market Cap as Percent of GDP				
Japan	3,500,000,000,000	Equity Markets	2,095,515,800,000	
		Mothers JPY	$494,506,000,000	
		Subtotal	$2,590,021,800,000	74.00%

In recent years Caribbean securities markets have made considerable progress in attaining reasonable compliance with generally accepted international standards. However, there are anomalies between individual markets as to the level of compliance and the methodologies used to attain compliance. In order to provide sustainable and transparent evidence that a consistent level of reasonable compliance exists between individual markets, a standardized Statement of Compliance is required.

International investors will require clear and unambiguous evidence that each component of the regional securities exchange meets generally accepted international standards as recommended by:

- The International Organization of Securities Commissions (IOSCO)
- The Committee on Payment and Settlement Systems (CPSS) of the Group of Ten (G-10) Central Banks

[157] World federation of Stock Exchanges, Annual Statistics Report, 2002

[158] Removing the Eastern Caribbean from the group statistics raises the percentage from 40.75% to 46.08%

[159] CIA Factbook, 2002

- The World Federation of Exchanges (WFE)

Issuance of the regional securities market's Statement of Compliance will require that each individual market's governance, trading operations, business by-laws, settlement conventions as well as regulatory oversight and compliance are benchmarked against international compliance standards. Areas not attaining a reasonable level of compliance must be corrected and a clear and concise Compliance Statement created.

It is also extremely important to note that individual markets participating in the regional securities exchange must be compatible in their governance, operational and regulatory regimes prior to commencing regionalization. The integration of dissimilar markets will, categorically, not work.

Listed Issues

The issuance of securities instruments in the Caribbean is almost entirely confined to equities. Currently, of the 119 issues available for trading in the region only 16 are fixed income. The concentration of equity issues with the consequential lack of fixed income issues has resulted in a lack of market breadth which is not attractive to domestic and international investors. In order to attract significant amounts of investor capital, securities market must offer a wide variety of investment instruments to meet the divergent investment needs of the largest number of investors.

A simple but effective analogy in assessing capital markets is to view a securities exchange as a retail store. In order to be successful a retail store must attract customers and a key element in attracting customers is to offer the largest selection of products at the most attractive prices. A securities exchange that offers a limited selection of merchandise, i.e. equity securities, at unattractive prices will not be in business for very long. A focus on equity issues limits a securities exchange's ability to offer an attractive variety of products since equity issuance is limited, for the most part, to one issuance of common shares or ordinary shares per issuer with a limited additional issuance option of one or two preferred instruments. A limited product selection, in turn, cannot attract and retain a sufficient number of interested customers, i.e. market intermediaries and individual investors. In the capital markets, a lack of investors and market intermediaries to service investors leads to a lack of liquidity, which is usually defined as the number of willing buyers and sellers in the marketplace.

In a region such as the Caribbean, where the number of actual and potential issuers is small, a concentration on equity issuance severely limits the number of issues or investment products available to potential investors.

The issuance of Fixed Income securities expands issuance possibilities by not limiting issuers to a single issue. Fixed Income issuance provides issuing companies with a wide variety of options because a single issuer may issue multiple instruments. Fixed Income issuance includes, but is not limited to:

- Asset-Backed Securities
- Collateral Trust Bonds
- Collateralized Mortgage Obligations
- Commercial Mortgage-Backed Bonds
- Commercial Paper
- Convertible Debentures
- Corporate Bonds
- Equipment Trust Certificates
- Guaranteed Bonds
- Inflation Indexed Bonds
- Medium-Term Notes
- Mortgage-Backed Bonds
- Repurchase Agreements
- Securitized Instruments
- Subordinated Debentures

In addition to the instruments cited above Fixed Income issuance also includes debt issued by area Governments, Governmental Agencies and Municipalities as well as structured debt instruments commonly referred to as Private Placements.

Market Intermediaries

The small number of issues and the limited variety of issues currently available in the Caribbean have historically led potential international investors to ignore the region in favor of the more diverse and more liquid markets of Mexico and Latin America.

Due to the limitations of geographic size, population, and actual/potential equity issuers the recommended path to diversity and liquidity is the issuance of Fixed Income instruments. In order to increase the issuance of Fixed Income instruments a regional Credit Agency is required and it is recommended that such an entity be developed and implemented.

Market intermediaries play a vital role in mobilizing capital in financial markets. A key role of market intermediaries is the provision of liquidity by trading for their own account and for the accounts of their clients. A capital market without a sufficient number of market intermediaries lacks capital momentum and will tend towards stagnation. Additionally, a capital market lacking market intermediaries to supply and support liquidity will not be capable of attracting and retaining reasonable levels of investor capital

The Caribbean markets do not have a sufficient number of market intermediaries to effectively mobilize available capital. The lack of market intermediaries is illustrated by the comparison, below.

Comparison – Market Intermediaries: Caribbean versus SMG

Caribbean Markets	Market Intermediaries
Barbados	6
Eastern Caribbean	7
Jamaica	10
Trinidad & Tobago	6
Total	29

SMG Markets	Market Intermediaries
Cyprus	20
Malta	27
Slovenia	24
Total	71

In order to increase the number of market intermediaries in the Caribbean it will be necessary for securities exchanges and market regulators in the region to provide incentives for current and potential market intermediaries. Incentives may be provided in the form of more attractive commission structures, tax incentives and market maker opportunities.

Based on practical principles of fair competition, securities exchanges, and market regulators in the region should consider granting limited trading privileges to domestically registered but foreign-owned trading companies.

Buy & Hold Strategy

Historically, investors in the Caribbean region have consistently adhered to a buy and hold investment strategy. In conjunction with the small number of issues available in the markets the buy and hold strategy has constrained liquidity by keeping tradable shares off the open market. A veritable "logjam" of investor-held securities has developed which has reduced the supply of investment product. Adherence to this strategy has also acted as a barrier to the development of a retail investor market due to lack of securities available in the marketplace.

In order to address the liquidity problems that are thus created, strategy generally accepted international standards recommend that securities markets implement a well regulated Securities Borrowing and Lending Plan (Securities Borrowing). Implementation of such plans breaks the "logjam" by permitting market intermediaries to borrow securities from held positions to trade in the marketplace.

Market Regulators establish basic requirements for the borrowing and lending of securities with borrowing and lending transactions being monitored by a market's CSD. Lenders of securities may choose to adopt basic standards, as established by Market Regulators or may wish to set standards that are over and above the basic requirements. Additionally, securities lenders may wish to establish credit criteria that are specific to individual borrowers.

Regulatory Strengthening

Market Regulators in the Caribbean, as independent entities, are relatively new. Although individual regulatory agencies have been successful in establishing regulatory structures, the agencies do not have the knowledge or experience to regulate securities markets that are compliant with international standards.

There are many areas in which the region's regulators require training. A number of these areas are contained in **Appendix B Caribbean Securities Markets – Compliance Statement**. In many cases individual securities markets do have adequate resources for regional integration and codification of existent regulations.

System Deficiencies

Markets in Barbados, Jamaica, and Trinidad & Tobago have acquired trading software and depository software developed by EFA Software Services Ltd of Canada and currently licensed by Computershare Markets Technology of Australia.

The Horizon trading software does not pose a major problem. However, the Equator depository software lacks the capacity to calculate Accrued Interest for Fixed Income transactions. The inability to calculate Accrued Interest represents an impediment to the efficient and cost-effective settlement of Fixed Income transactions.

Technical assistance will be required to assess the Equator system's suitability for Fixed Income settlement in the Caribbean region, the financial practicality of implementing enhancements to the system or the procurement of a suitable replacement settlement system.

Depository Risk Management

Markets in the region do not support Settlement Guarantee Funds. Such funds are a key element in the effective Risk Management of the settlement process. A Settlement Guarantee Fund provides assurance to market participants that final settlement will take place even in the event of securities fail or cash fail. In order to inspire confidence in the market it is critical that a single sale fail or cash fail not disrupt the continuity of the settlement process. In markets without the benefit of such funds it is possible for a single failed transaction to spill over into the general market and disrupt the entire settlement process.

Country Profiles

Barbados

MARKET PROFILES – BARBADOS STOCK EXCHANGE (BSE)

The Barbados Stock Exchange (BSE) is an association of Member-Brokers, operating a Central Marketplace for trading securities. The original trading facility, the Securities Exchange of Barbados (SEB), was established in 1987, under the Securities Exchange Act, Cap 318A, of 1982. The BSE was re-incorporated on August 2, 2001 simultaneously with the enactment of the Securities Act 2001 -13, which repealed and replaced the original Act of 1982. However, the BSE remains a private, member-owned, non-profit organization.

The BSE is governed by a Board of Directors and administered by a General Manager. On July 4, 2001 the BSE switched from the manual, open auction outcry method of trading, to electronic trading using the Order Routing method.

The BSE currently has a total of 27 listed equity issues, 6 active brokers and a Market Capitalization of UD$6.5 billion. The BSE does not list any fixed income issues.

The BSE's Horizon trading system was developed by EFA Software Services Ltd of Canada and is currently licensed by Computershare Markets Technology of Australia. The Horizon system is compliant with generally accepted international standards and is also used by the securities exchanges in Jamaica and Trinidad & Tobago. A weak point in the trading system is its inability to comprehensively handle Fixed Income securities. Technical assistance will be required to assess the trading system's suitability for Fixed Income trading in the Caribbean region and to determine the financial practicality of enhancements required.

The BSE does not have a Compensation Fund to indemnify losses to members' clients in certain situations. It is recommended that technical assistance be provided the BSE to establish a Compensation Fund that is compliant with international standards but is practical for the economic, operational, and legal environment existent in Barbados.

Barbados Stock Exchange – Domestic Issues

Company Name	Shares Outstanding	Share Price (BB$)	Market Capitalization (BB$)
Almond Resorts Inc.	55,734,566	0.95	52,947,838
A.S Bryden & Sons(Barbados) Ltd.	8,626,551	3.90	33,643,549
Banks Holdings Ltd.	35,577,957	2.85	101,397,177
Barbados Dairy Industries Ltd	4,729,529	8.10	38,309,185
Barbados Farms Ltd.	20,607,294	0.70	14,425,106
Barbados National Bank Inc.	96,000,000	1.80	172,800,000
Barbados Shipping & Trading Co. Ltd.	73,106,628	3.40	248,562,535
Bico Ltd.	2,315,708	1.85	4,284,060
Cable & Wireless Barbados Ltd.	141,864,946	1.80	255,356,903
Cave Shepherd & Co. Ltd.	10,521,169	2.65	27,881,098
First Caribbean International	1,537,544,821	3.00	4,612,634,463
Courts(Barbados) Ltd.	5,541,586	5.20	28,816,247
Goddard Enterprises Ltd.	27,397,846	2.45	67,124,723
Insurance Corporation of Barbados Ltd	39,840,000	1.40	55,776,000

Company Name	Shares Outstanding	Share Price (BB$)	Market Capitalization (BB$)
Light & Power Holdings Ltd	14,395,175	8.90	128,117,058
Life of Barbados Ltd.	43,138,443	De-listed	De-listed
McEnearney Alstons Barbados Ltd.	12,234,056	5.00	61,170,280
Sagicor Financial Corporation	260,030,030	2.20	572,066,066
The West India Biscuit Company Ltd.	3,075,714	7.50	23,067,855
West Indies Rum Distillery Ltd	2,859,222	3.75	10,722,083
TOTAL			6,509,102,224
		X-Rate	0.50
		US$	3,254,551,112

Barbados Stock Exchange – Cross Border Listings

Company Name	Shares Outstanding	Share Price (BB$)	Market Capitalization (BB$)
BWIA West Indies Limited	47,133,856	2.50	117,834,640
Grace, Kennedy & Co. Ltd.	267,532,275	1.60	428,051,640
Neal & Massy Holdings Ltd.	88,812,091	5.40	479,585,291
RBTT Financial Holdings Ltd.	340,243,280	7.00	2,381,702,960
Trinidad Cement Limited	249,765,136	1.80	449,577,245
Total			3,856,751,776
		X-Rate	0.50
		US$	1,928,375,888

Of the 27 listed equity issues five are cross-listed issues from the Jamaican and the Trinidad exchanges. The Market Capitalization of the BSE's cross-border listings distorts the overall size of the BSE. The Market Capitalization of all issues listed on the BSE, including cross-listings, is US$5.2 billion. However, the Market Capitalization of cross-border issues listed on the BSE is US$1.9 billion or 36.5% of the BSE's total Market Capitalization.

Adjusting the BSE's Market Capitalization and issue listing data to reflect the actual size of the Barbadian domestic market reduces the actual number of issues listed from 27 to 22 and Market Capitalization from UD$5.2 billion to US$3.2 billion. Cross-border listings account for 36.5% of the BSE's total Market Capitalization. The adjustment evidences the actual size of the Barbados capital market and supports the proposition that the Bahamian market's ability to sustain itself on a stand-alone basis in an increasingly globalized marketplace is problematic.

MARKET PROFILES – BARBADOS CENTRAL SECURITIES DEPOSITORY, INC. (BCSDI)

The Barbados Central Securities Depository Inc. (BCSDI) is a wholly owned subsidiary of the Barbados Stock Exchange Inc. BCSDI is a Self Regulatory Organization (SRO) which is regulated by the Securities Commission in its administration of Clearance and Settlement Services as well as other Corporate Services for the Barbados Capital Market.

As an SRO the BCSDI is governed by a Board of Directors with its own Officers, By-laws and Rules, and Participants with participant banking and custodial arrangements arranged through the Central Bank of Barbados. The By-Laws governing the BCSDI impose requirements upon participants to abide by and be subject to the Rules and Procedures of the BCSDI and empower the BCSDI to enforce disciplinary action, legal action and legal relief from infractions of its rules.

BCSDI participants are banks, brokers, trust companies, and other financial institutions, as well as mutual funds and insurance companies who pay an annual fee to the BCSDI to maintain securities positions and perform financial services and/or corporate services.

The BCSDI is not compliant with generally accepted international standards. Immobilization of physical securities certificates is underway but is has not been completed. As a result the settlement of securities transactions still requires the movement and exchange of physical security certificates. The persistence of physical security certificates in the marketplace requires that the Barbados capital market adhere to a Trade Date plus 5 days (T+5) Settlement Cycle. The Barbados T+5 Settlement Cycle is not compliant with the international capital markets standard of T+3 and is also not compliant with the T+3 Settlement Cycle operational in Jamaica, the Eastern Caribbean, and Trinidad & Tobago.

An additional area of non-compliance in the Barbados capital market is the absence of a Securities Borrowing and Lending Program. Such a program increases market liquidity by allowing market participants to borrow securities on a collateralized basis for a fee and to sell the borrowed securities in the marketplace.

The original Group of Ten (G-30) recommendations for capital markets made in 1989, specifically advocated the implementation of a Securities Borrowing and Lending Program.

It is recommended that technical assistance be provided the BCSDI to implement a Securities Borrowing and Lending Program that is compliant with international standards.

In addition to the lack of share immobilization and the resultant persistence of physical security certificates, each transfer of securities ownership in Barbados must be accompanied by either a Share Transfer Form, a Bond Transfer Form or a Cross-Border Transfer Form. Share Transfer Forms and Bond Transfer Forms must contain: (i) the Seller’s Signature, (ii) a Signature Guarantee of the Sellers Signature by an exchange member firm, and (iii) the Buyer’s Signature.

The slow pace of share immobilization and the mandatory use of Transfer Forms are serious impediments to the growth of capital markets in Barbados and the integration of the Barbados market into regional and global markets. Technical assistance will be required to complete the immobilization process and to eliminate the obligatory use of Transfer Forms.

The BCSDI has acquired, but has not yet implemented, the Equator settlement system. The depository’s Equator settlement system was developed by EFA Software Services Ltd of Canada and is currently licensed by Computershare Markets Technology of Australia. The Equator settlement system is compliant with generally accepted international standards and is also used by depositories in Jamaica and Trinidad & Tobago. A weak point in the settlement system is its inability to calculate Accrued Interest which is a major impediment to the efficient and cost-effective settlement of Fixed Income transactions. Technical assistance will be required to assess the Equator system’s suitability for Fixed Income settlement in the Caribbean region, the financial practicality of implementing enhancements to the system or the procurement of a suitable replacement settlement system.

The BCSDI does not have a Settlement Guarantee Fund to protect against settlement fails and guarantee the continuity of the market’s settlement process. It is recommended that technical assistance be provided the BCSDI to establish a Settlement Guarantee Fund that is compliant with international standards but is practical for the economic, operational, and legal environment existent in Barbados.

MARKET PROFILES – SECURITIES & EXCHANGE COMMISSION OF BARBADOS (SECB)

The Securities and Exchange Commission of Barbados (SECB), acting under the oversight of the Ministry of Finance, has regulatory responsibility for the SEB and the BCSDI under the Securities Exchange Act of 2001. Prior to the creation of the BSEC the securities market regulation was the responsibility of the SEB. The SEB is currently constituted as a Self-Regulatory Organization (SRO) operating under the oversight of the SECB.

Barbadian securities laws are based on English Common Law and are generally compliant with international standards. Barbados has entered double taxation treaties with the United States, Canada, CARICOM, China, Cuba, Finland, Norway, Sweden, Switzerland, U.K., and Venezuela.

There is a constitutional right for nationals and non-nationals to own private enterprises and private property in Barbados. These rights also pertain to the acquisition and disposition of interests in private enterprises. No industries are closed to private enterprise, other than the traditional government activities such as utilities, broadcasting, banking, international business, and insurance, which are subject to prior government approval in the form of licenses. There are no percentage or other restrictions on foreign ownership or participation in a joint venture.

Regulatory policies seek to facilitate the free flow of financial resources determined by the level of available foreign exchange reserves in the Central Bank and local commercial banking system. The Government has intervened in recent years in the local credit market to raise or lower interest rates, to limit the volumes of funds available for borrowing, or by borrowing on the local market. There are a variety of credit instruments in the commercial and public sectors that local and foreign investors may access.

The legal and accounting professions in Barbados are of a high quality and their procedures are generally consistent with international norms. In recent years the system for regulating, encouraging, and facilitating portfolio investments has been improved. The Bank Supervision Department of the Central Bank undertook a self-assessment in 2000, and found their on- and offshore sectors in general compliance with the Core Principles of Effective Banking Supervision utilizing the Basle Committee's Core Principles Methodology.

The Department recommended several changes to the proposed International Banking Act, which will replace the Offshore Banking Act, in order to achieve Barbados' compliance with the Core Principles.

Securities market regulation in Barbados requires listed companies to provide evidence of gross revenue or assets in excess of US$ 500,000, adequate working capital, competent company management and a positive dividend profile over three consecutive years. Reporting and disclosure requirements include interim financial statements, and an annual report and questionnaire. Non-nationals are required to obtain exchange control approval from the Central Bank of Barbados to trade securities on the Securities Exchange of Barbados.

In order to increase liquidity on the BSE it is recommended that technical assistance be provided the SECB to formulate prudent changes to the current Exchange Control policies and submit the recommended changes to the Barbados Central Bank for review and approval.

The SECB, established in 2001, is a relatively new to the task of domestic market regulation. The Commission will require considerable assistance to raise its competency to a level that capable of regulating a marketplace that is compliant with regional and international standards. Currently, a limited level of regulatory assistance is being provided by the Inter-American Development Bank.

However, considering the competency levels required to effectively regulate the Barbados capital markets in a manner that is compliant with regional and international standards, it is recommended that the scope of technical assistance be broadened and increased. It is also recommended that technical assistance efforts be coordinated among provisioning donors so as to avoid duplication and maximize assistance resources.

Eastern Caribbean States

MARKET PROFILES – EASTERN CARIBBEAN SECURITIES EXCHANGE (ECSE)

The Eastern Caribbean Securities Exchange (ECSE) is a regional securities market established by the Eastern Caribbean Central Bank and licensed under the Securities Act of 2001, a uniform regional body of legislation governing securities market activities. The ECSE supports primary and secondary market trading of corporate stocks and bonds and government securities for the eight member territories of Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

The ECSE is governed by a Board of Directors and administered by a General Manager. The Board of Directors is regional in its composition with 2 members from the Eastern Caribbean Central Bank and 1 member each from Antigua, Grenada, Montserrat, and St. Kitts and Nevis. Operations of the ECSE are administered by a General Manager.

Currently the ECSE has a total of four listed equity issues, three Fixed Income issues, seven brokers and a Market Capitalization of US$115.1 million.

Eastern Caribbean – Domestic Listings

Company Name	Domicile	Shares Outstanding	Share Price (EC$)	Market Capitalization (EC$)
The Bank of Nevis, Limited	Nevis	7,478,150	3.90	29,164,785
Eastern Caribbean Financial Holding Co.	St. Lucia	11,065,246	6.50	71,924,099
St. Lucia Electricity Services Ltd.	St. Lucia	11,200,000	12.00	134,400,000
St Kitts Nevis Anguilla Trading and Development Co. Ltd.	St. Kitts	5,000,000	9.50	47,500,000
Dominica Electricity Services Ltd.	Dominica	10,417,328	0.70	7,292,130
Government of the Federation of Saint Christopher (St. Kitts) & Nevis	St Kitts	75,000,000	Matured	Matured
Government of St. Vincent and the Grenadines	St. Vincent	25,000,000	0.95	23,645,000
Government of Grenada	Grenada	2,315,708	1.85	4,284,060
Total				318,210,074
			X-Rate	0.3704
			US$	117,865,011

The ECSE does not have any cross-border listings from the exchanges in Barbados, Jamaica or Trinidad & Tobago.

The ECSE is the smallest securities exchange in the region and its ability to sustain itself in an increasingly globalized marketplace is highly problematic. However, it must be noted that although the ECSE is the smallest securities market in the region its operational, trading and regulatory structures are best suited to the business needs of a regional capital market. Although the number of listed issues is extremely small and the Market Capitalization is minute, the operational structure of the ESCE is built to accommodate the listing, trading and regulation of issues from 8 independent jurisdictions.

The ECSE has implemented the Open Global Electronic Transactional Systems (OpenGETS) as its trading platform. OpenGETS as originally developed as a joint venture between the Electronic Stock Exchange of Chile, SUN Microsystems and Nasdaq International Market Initiatives (NIMI), a subsidiary of the Nasdaq Stock Market. The system is compliant with international standards and has been licensed to securities exchanges in Colombia, Costa Rica, Uruguay, and Venezuela.

Technical assistance will be required to interface the OpenGETS system with other trading systems in the region.

The ECSE does not have a Compensation Fund to indemnify losses to members' clients in certain situations. It is recommended that technical assistance be provided the ECSE to establish a Compensation Fund that is compliant with international standards but is practical for the economic, operational, and legal environment existent in OECS.

MARKET PROFILES - EASTERN CARIBBEAN CENTRAL SECURITIES DEPOSITORY

The Eastern Caribbean Central Securities Depository (ECCSD) is a wholly owned subsidiary of the ECSE. The ECCSD provides clearance and settlement for trades executed on the ECSE. The main participants in the Depository are broker/dealers, limited service brokers, and custodians

Custodial services are also provided for entities wishing to hold securities at the ECCSD on behalf of their customers. Entity customers may include custodian banks acting for foreign investors.

The ECCSD currently uses Global CSD software as its Clearing and Settlement system. Global CSD is a smaller, boutique system developed by Global Capital Market Corporation that is not fully compatible with generally accepted international standards. The level of non-compliance with international standards as established by the Technical Committee of IOSCO and the Committee on Payment and Settlement Systems (CPSS) of the Central Banks of the Group of Ten (G-10), will impede the ECCSD’s ability to interface with CSDs in the region and the global marketplace.

Technical assistance will be required by the ECCSD determine the utility and suitability of the depository’s current clearing and settlement system for use in an integrated regional marketplace. In order to raise its clearing and settlement operations to an acceptable level of compliance with regional and global standards it will be necessary for the ECCSD to:

- Enhance the Global CSD software to meet global standards, or
- Procure and implement a new clearing and settlement system that is compliant with regional and global standards, and
- Establish working relationships with other regional depositories to attain operational integration

The ECCSD does not have a Settlement Guarantee Fund to protect against settlement fails and guarantee the continuity of the market’s settlement process. It is recommended that technical assistance be provided the ECCSD to establish a Settlement Guarantee Fund that is compliant with international standards but is practical for the economic, operational and legal environment existent in the OECS.

An additional area of non-compliance in the Eastern Caribbean capital market is the absence of a Securities Borrowing and Lending Program. Such a program increases market liquidity by allowing market participants to borrow securities on a collateralized basis for a fee and to sell the borrowed securities in the marketplace.

The original Group of Ten (G-10) recommendations made in 1989 for capital markets, specifically advocated the implementation of a Securities Borrowing and Lending Program. It is recommended that technical assistance be provided the ECCSD to implement a Securities Borrowing and Lending Program that is compliant with international standards.

Non-compliance with regional and international standards is a serious impediment to a capital market's ability to attract and retain investor capital. Cross-border investors are averse to placing their cash and security assets in a CSD safekeeping and settlement system that does not comply with global standards. In buying and selling securities investors must have the highest possible assurance and confidence that they will receive their cash proceeds and/or securities. Markets that can not inspire investor confidence by implementing and adhering to generally accepted international standards will not be successful in attracting and retaining investment capital.

MARKET PROFILES – EASTERN CARIBBEAN SECURITIES REGULATORY COMMISSION

Securities markets in the Eastern Caribbean are regulated by the Eastern Caribbean Securities Regulatory Commission (ECSRC) which was established by the Organization of Eastern Caribbean States' Securities Act of 2001. Collective empowerment for the ECSRC is incorporated in the Securities Act of 2001 as a collective agreement between the Governments of Anguilla, Antigua and Barbuda, The Commonwealth of Dominica, Grenada, Montserrat, Saint Christopher and Nevis, Saint Lucia and Saint Vincent and the Grenadines. Securities laws governing the OECS are based on English Common Law and are generally compliant with international standards.

The purposes of the Commission are:

- To license any person engaged in securities business and to monitor and supervise the conduct of such business by a licensee;
- To promote investor protection through promotion of the highest standards of professional and other activities within the securities market;
- To maintain effective compliance and enforcement programs supported by adequate statutory powers;
- To promote the growth and development of the capital markets.

The duties of the ECRSC are to:

1. Take all reasonable steps to ensure that any Act to govern securities and any rules or regulations made under such an Act are complied with;
2. License, supervise and regulate the activities of securities exchanges, clearing agencies, securities depositories, and securities registries
3. License, supervise, and regulate collective investment schemes;
4. License and regulate Self-Regulatory Organizations;
5. Set standards of competence for licensees whether by way of examination or otherwise;
6. Approve the rules of securities exchanges, clearing agencies, securities depositories, securities registries and self-regulatory organizations;

To carry out its duties the Commission is authorized to:

1. Acquire and dispose of property of any description,
2. Make contracts or enter into other agreements,
3. Receive and expend money,

4. Grant licenses in accordance with the Act,
5. Require the payment of fees,
6. Do all such other things as are required or incidental to the attainment of its purposes.
7. Monitor and enforce rules for the conduct of business of licensees including suspension and revocation of licenses in accordance with the Act;
8. Promote and encourage high standards of investor protection and integrity among licensees, and to encourage the promulgation by licensees of balanced and informed advice to their customers and to the public generally;
9. Support the operation of an orderly, fair, and properly informed securities market;
10. Regulate the manner of trading and the range of securities traded on securities exchanges;
11. Take all reasonable steps to safeguard and protect the interests of investors in securities and to suppress illegal, dishonorable and improper practices in dealings in securities and in providing advice or other services relating to securities;
12. Co-operate with and assist other regulatory authorities that are concerned with securities or with operations of companies;
13. Exercise and perform such other duties as may be conferred or imposed upon it.

Activities of the ECRSC are governed by five Commissioners who are appointed by the Monetary Council by majority vote.

The composition of the Commission is regional and consists of two Commissioners nominated by Member Territories, two Commissioners nominated collectively by the Chamber of Industry and Commerce, the Institute of Chartered Accountants, and the Bar associations of the OECS, and one Commissioner appointed by the Central Bank.

The ECRSC, established in 2001, is a relatively new to market regulation. The Commission will require considerable assistance to raise its competency to a level capable of regulating a marketplace that is compliant with regional and international standards. Technical assistance to the Commission will also be required to insure regional consistency in market regulations.

Jamaica

MARKET PROFILES – THE JAMAICA STOCK EXCHANGE (JSE)

The JSE was incorporated as a private limited company in August 1968 and commenced operations in February of 1969. Trading on the exchange is restricted to member firms that trade both as agents and as principals. The execution of agency trades is subject to specific exchange rules governing transactions between a member and a member's clients.

The Exchange is governed by a Board of Directors which consists of the Governor of the Central Bank (Bank of Jamaica) or his nominee, a representative of the Ministry of Finance, three persons other than exchange members and up to ten individuals representing member firms. The JSE is legally permitted to trade Equity Shares, Preferred Shares and Corporate Bonds. However, the majority of trading activity is limited to Equity Shares. Government Bonds are not listed on the JSE and are traded by the Bank of Jamaica in an Over the Counter (OTC) market.

JSE minimum listing requirements are:

1. Total issued share and loan capital of $200,000 (approx. US$3,500) or more; the share capital portion being not less than $100,000 (approx. US$1,700).
2. In the case of ordinary shares, a minimum of 100 shareholders holding in their own right not less 20% of the issued ordinary capital excluding the holding of one or more controlling share(s).

In January 2000 the JSE implemented an automated trading platform Sunrise. The Sunrise trading platform is basically the former EFA Technology Ltd. software with JSE modifications. Clearance and settlement operations were automated with the establishment of the Jamaica Central Securities Depository (JCSD) in June of 1998.

Companies listed on the JSE are required to conform to provisions of the Companies Act of Jamaica and to provide the exchange, within specified time periods, with annual audited financial statements containing certain minimum information. In addition listed companies are required to submit quarterly un-audited financial returns.

Jamaica Stock Exchange – Domestic Listings

Company Name	Shares Outstanding	Share Price (JM$)	Market Capitalization (JM$)
Bank of Nova Scotia (Jamaica) Limited	1,463,616,000	12.75	18,661,104,000
Berger Paints	214,322,392	3.30	707,263,894
Cable & Wireless (Jamaica) Ltd.	15,883,138,238	0.80	12,706,510,590
Capital and Credit Merchant Bank	584,500,000	5.00	2,922,500,000
Caribbean Cement Company	851,136,591	1.81	1,540,557,230
Carreras Group	485,440,000	30.00	14,563,200,000
Ciboney Group	546,000,000	0.08	43,680,000
Caribbean Metal Products	20,337,960	1.25	25,422,450
Courts Jamaica	2,397,120,000	2.50	5,992,800,000
Dehring Bunting & Golding	122,129,474	8.00	977,035,792
Desnoes & Geddes	2,809,171,265	5.40	15,169,524,831
Dyoll Group	60,921,614	6.00	365,529,684
First Caribbean International Bank (Jamaica) Ltd	193,333,332	8.60	1,662,666,655
First Life Insurance	300,258,333	9.70	2,912,505,830
Gleaner Company	1,211,243,827	1.20	1,453,492,592
Goodyear (Jamaica)	59,400,000	4.50	267,300,000
Grace Kennedy	267,532,275	42.00	11,236,355,550
Guardian Holdings Limited	158,127,799	195.00	30,834,920,805
Hardware & Lumber	40,000,004	8.60	344,000,034
Island Life Insurance	123,301,255	12.35	1,522,770,499
Jamaica Broilers Group	1,199,276,400	1.18	1,415,146,152
Jamaica Money Market Brokers Limited	1,463,386,752	8.40	12,292,448,717
Jamaica Producers Group	187,024,006	24.00	4,488,576,144
Kingston Wharves	1,072,649,578	1.70	1,823,504,283
Lascelles de Mercardo	96,000,000	52.00	4,992,000,000

Company Name	Shares Outstanding	Share Price (JM$)	Market Capitalization (JM$)
Life of Jamaica	2,200,279,345	2.50	5,500,698,363
Montego Bay Freeport	563,065,690	0.85	478,605,837
Montego Bay Ice	6,161,510	9.00	55,453,590
National Commercial Bank (Jamaica) Ltd.	2,466,762,828	10.35	25,530,995,270
Palace Amusement	1,437,028	50.00	71,851,400
Pan Caribbean Financial Services Ltd	255,660,684	4.50	1,150,473,078
Pan Jamaica Investment Trust	172,119,124	14.80	2,547,363,035
Pegasus Hotels	120,166,390	3.00	360,499,170
Radio Jamaica	258,732,747	3.20	827,944,790
Salada Foods	10,388,329	12.00	124,659,948
Seprod Group	516,398,377	5.50	2,840,191,074
Total			188,409,551,286
		X-Rate	0.02
		US$	3,187,135,970

Jamaica Stock Exchange – Cross Border Listings

Company Name	Shares Outstanding	Share Price (JM$)	Market Capitalization (JM$)
First Caribbean International Bank Ltd.	1,580,611,117	74.50	117,755,528,217
RBTT Financial Holdings Limited	340,498,068	195.05	66,414,148,163
Trinidad Cement Limited	249,765,136	50.00	12,488,256,800
Total			196,657,933,180
		X-Rate	0.01692
		US$	3,326,665,598

Currently the JSE has a total of 41 listed equity issues, ten Fixed Income issues, ten brokers and a total Market Capitalization, including cross-border listings from Barbados and Trinidad & Tobago, of US$6.4 billion. Market Capitalization of domestic issues only is US$3.2 billion and Market Capitalization of cross-border issues is US$3.2 billion. Cross-listed issues account for 50% of the JSE's total Market Capitalization.

Although the JSE lists ten Fixed Income issues the issues do not actively trade.

The JSE has established a Compensation Fund to indemnify losses to members' clients in certain situations. Contributions are made by member firms based on equity and preferred transactions fees.

Trading activity and liquidity on the JSE are impeded by a "crowding-out" effect caused by the Government of Jamaica's (GoJ) debt issues. Equity and Fixed Income instruments in Jamaica cannot effectively compete with the rates of return obtainable from GoJ debt. An illustration of recent GoJ offerings is provided below.

Issue	Series	Amount (JM$)	Issue Date	Term (Months)	Coupon Rate
Government of Jamaica - Bonds					
Local Registered Stock	FRLRS 2005 AP	1,000,000,000	4-Jul-03	20	27.98%
Local Registered Stock	FRLRS 2006 AG	500,000,000	4-Jul-03	36	26.13%
Government of Jamaica – Treasury Bills					
Treasury Bill	T-Bills	500,000,000	31-Jul-03	183	26.31%
Treasury Bill	T-Bills	300,000,000	26-Jun-03	181	28.46%

The "crowding-out" effect caused by GoJ debt issuance is a serious impediment to the sustainability and growth of the Jamaican capital market. Investors are attracted by the high interest rates paid by the GoJ and the fact that they are investing in debt instruments backed by the central government with little chance of not receiving interest and principal payments. Equity and Corporate Debt issues cannot provide the rates of return offered by GoJ debt and as such cannot compete effectively for investor capital.

However, in the case of Jamaica the high level of repayment assurance normally associated with sovereign debt is not as strong as it might appear. In July of 2003 Standard & Poor's downgraded its rating of GoJ debt from B+ to B. Bonds which are rated B generally lack characteristics of a desirable investment. Assurance of interest and principal payments and maintenance of other terms of the contract over any long period of time may be small. A bond issue that is rated B is generally considered highly speculative.

Currently, 65 percent of Jamaica's budget is dedicated to debt service. Jamaica presently has about $11 billion in debt, 62 percent of which is held domestically. This debt load places Jamaica's debt to Gross Domestic Product (GDP) ratio at 150 percent. By comparison, Brazil's debt load, which has been a subject of international concern, has a debt to GDP ratio of 79 percent.

The sustainability and growth of the Jamaican capital market are impacted by circumstances that are unique to Jamaica. There are considerable macroeconomic issues existent in Jamaica that will not be resolved in the near future. As a result it is reasonable to assume that the GoJ will continue to issue debt bearing ever increasing, investor-attractive interest rates. The continuance of GoJ debt issuance will only intensify the current "crowding-out" effect.

In order to afford the Jamaican capital markets a reasonable chance of survival and growth it is recommended that technical assistance be provided to the JSE to accelerate the Exchange's participation in a regional securities market.

It is also recommended that technical assistance be provided to the JSE and the Jamaican Financial Services Commission to establish the JSE as a regional niche or specialty Exchange. It is possible that the JSE could serve as the regional:

- Fixed Income Market
- Derivatives and Options Market
- FX Contracts Market
- Closed-End Mutual Fund Market

In order to expand its listing base it is also recommended that technical assistance provided include JSE's creation of cross-border relationships with established exchanges in Costa Rica, Honduras, and Panama.

MARKET PROFILES – JAMAICA CENTRAL SECURITIES DEPOSITORY (JCSD)

The JCSD, a wholly owned subsidiary of the Jamaica Stock Exchange, is a facility for holding securities which enables share transactions to be processed by book entry. A book entry system is an accounting system which facilitates the change of ownership of securities electronically between parties, without the need for the movement of physical documents. The JCSD provides clearance and settlement for trades executed on the JSE. The main participants in the Depository are broker/dealers and custodians.

The Jamaican capital markets, through the JCSD, have implemented a T+3 Settlement Cycle an as such are fully compliant with international standards.

Currently, the JCSD uses the Equator settlement system. The depository's Equator settlement system was developed by EFA Software Services Ltd of Canada and is currently licensed by Computershare Markets Technology of Australia. The Equator settlement system is compliant with generally accepted international standards and is also used by the securities exchanges in Barbados and Trinidad & Tobago.

A weak point in the settlement system is its inability to calculate Accrued Interest which is a major impediment to the efficient and cost-effective settlement of Fixed Income transactions. Technical assistance will be required to assess the Equator system's suitability for Fixed Income settlement in the Caribbean region, the financial practicality of implementing enhancements to the system or the procurement of a suitable replacement settlement system.

As a result of previous technical assistance provided by USAID, the JCSD has concluded that the Equator settlement system is not suitable to meet its current and future needs. With the technical assistance provided the JCSD created a Request for Proposal (RFP) to procure a new settlement system, assess proposal responses and select a system provider. The JCSD is currently working with a system provider to install a replacement settlement system. At the time the project assessment was performed material available, via-a-vis the replacement settlement system, was insufficient to provide a full evaluation.

In order to provide a reasonable level of sustainability and growth for the JCSD it is recommended that technical assistance be provided to create a practical Business Development Plan with the goal of significantly increasing the JCSD's revenue. It is also recommended that the JCSD business plan include the JCSD's acting as Registrar for GoJ debt issues and providing Bondholder Register services for GoJ debt issues. The JCSD's provision of such services has been planned for several years but a practical services plan has not been created.

It is also recommended that JCSD's Business Development Plan include provisions to establish a Mark-to-Market Services for GoJ debt issues. The majority of securities trading in Jamaica consist of Government Debt Repurchase Agreements.

The JCSD does not have a Settlement Guarantee Fund to protect against settlement fails and guarantee the continuity of the market's settlement process. It is recommended that technical assistance be provided the JCSD to establish a Settlement Guarantee Fund that is compliant with international standards and practical for the economic, operational, and legal environment existent in the Jamaican marketplace.

An additional area of non-compliance in the Jamaican capital market is the absence of a Securities Borrowing and Lending Program. Such a program increases market liquidity by allowing market participants to borrow securities on a collateralized basis for a fee and to sell the borrowed securities in the marketplace. The original Group of Ten (G-10) recommendations made in 1989 for capital markets, specifically advocated the implementation of a Securities Borrowing and Lending Program.

MARKET PROFILES – JAMAICA FINANCIAL SERVICES COMMISSION (FSC)

Securities markets and insurance industry in Jamaica are regulated by the Financial Services Commission (FSC). The FSC was created by the Financial Services Commission Act of 2001. The FSC is responsible for the administration and enforcement of the Securities Act and Regulations.

With the creation of the FSC in August of 2001, all the assets, rights and liabilities of the Securities Commission in existence on that date were transferred to and vested in the FSC. On that date also, the Unit Trusts (Amendment) Act, 2001 became effective giving the FSC supervisory responsibility for Unit Trusts.

The FSC discharges its responsibilities by:

- Supervising and regulating prescribed financial institutions
- Promoting the adoption of procedures designed to control management risk
- Advancing stability and public confidence in prescribed financial institutions
- Advocating public understanding of the operation of prescribed financial institutions
- Sponsoring the modernization of financial services with a view towards the adoption and maintenance of international standards

In addition to its responsibilities in regulating the securities industry, the FSC is also responsible for the administration and enforcement of the Insurance Act and Regulations.

The FSC is governed by a Board of Commissioners consisting of a Chairman, the Executive Director (ex officio) and up to eight other members. Each Commissioner, with the exception of the Executive Director, is appointed by the Minister of Finance for up to five years and may be reappointed to serve additional terms. The Board of Commissioners appoints the Executive Director.

The government of Jamaica encourages foreign investment. There are no policies or regulations that reserve areas exclusively to Jamaicans.

There are no restrictions on holding funds or hard currency or on transferring funds associated with an investment. However, the buying and selling of foreign currency must be conducted through an authorized dealer. While foreign exchange is freely available, there is generally a waiting period of one to two weeks, depending upon the amount, due to excess demand. There is no limitation on the inflow or outflow of funds for any transaction, including remittances of profits, debt service, capital repatriation, capital gains, returns on intellectual property, or imported inputs.

The constitution guarantees property rights. National laws protect and facilitate the acquisition and disposition of all types of property. The Fair Competition Act provides consumer protection against misleading advertisements, price-fixing, collusion, unfair trading practices, and interlocking directorships.

Jamaica has investment treaties with nine countries: Argentina, Belgium, Canada, China, Costa Rica, Cuba, Egypt, France, Germany, Indonesia, Italy, Netherlands, Russia, South Korea, Switzerland, the United Kingdom, the United States, and Zimbabwe.

Although the FSC was established in 2001, its level of expertise is high. The FSC has exhibited a strong will and a demonstrable level of professionalism in regulating the Jamaican capital market in a manner that is compliant with international standards.

A long-standing problem in the Jamaican capital market is the existence of two sets of legislative acts governing Mutual Funds and Investment Trusts. The regulatory ambiguity regarding Mutual Funds has discouraged the formation of domestic Mutual Funds that would significantly increase the number of investment products available and mitigate the "crowding-out" impact of GoJ debt securities by offering investors a competitive level of asset safety. Additionally, the regulatory ambiguity has discouraged international investment firms from registering Mutual Funds and Collective Investment Schemes in Jamaica. The lack of clarity regarding Mutual Funds has led a large number of international investment firms to register their funds in the British Virgin Islands, the Cayman Islands, and The Bahamas. On resolution of the Mutual Fund legislative/regulatory issues, it is recommended that the JSE conduct an aggressive campaign to induce Mutual Funds to list and trade in Jamaica.

It is recommended that technical assistance be provided to the FSC to:

- Increase its level of regulatory expertise, especially in international standards
- Oversee the JCSD's implementation of a Settlement Guarantee Fund
- Oversee the JSE's implementation of a Compensation Fund
- Oversee the JCSD's implementation of a Securities Borrowing and Lending Program
- Assist the JSE in establishing regional specialty markets

Trinidad & Tobago

MARKET PROFILES – THE TRINIDAD & TOBAGO STOCK EXCHANGE (TTSE)

The TTSE was formally established under provisions of the Security Industry Act of 1981. The TTSE commenced operations in October of 1981 under the regulatory control of the Ministry of Finance. In 1995 the Government, through the Ministry of Finance, repealed the 1981 Act and replaced it with the Securities Industry Act of 1995 which created the Trinidad and Tobago Securities and Exchange Commission.

In order for a security to be admitted for trading, it must be approved for listing by the Trinidad and Tobago Stock Exchange Limited (the Exchange) and be registered under the Securities Industry Act of 1995. Listing is a procedure separate and distinct from registration, affected by having an application to list approved by the Exchange.

Registration, requires: (i) the filing of a 1.0 percent on the excess registration statement with the Trinidad and Tobago Securities and Exchange Commission and (ii) a certification by the Exchange to the Commission that it approves the particular securities for listing.

The TTSE has acquired, but has not yet implemented, the Horizon trading system. The Equator trading system was developed by EFA Software Services Ltd of Canada and is currently licensed by Computershare Markets Technology of Australia. The Horizon trading system is compliant with generally accepted international standards and is also used by exchanges in Barbados and Jamaica. During 2003 the TTSE has been implementing the Horizon trading system and will conduct final testing in November with full implementation scheduled for the first quarter of 2004. Currently, trading on the TTSE is manual. Trading takes place on Tuesdays, Wednesdays, and Friday. Securities are traded in alphabetical order, at the conclusion of which a call-over procedure is employed before trading ceases. The market consists of an Official List and a Second Tier Market. In 1993 a formal Bond Market was established.

Exchange members can act both as an agent for clients and as a principal for their own account. Client orders take precedence over brokers' own transactions. The general sequence of priorities in the order execution are price, time, and small size in the case of client orders of 500 shares or less.

The TTSE lists 29 Equity issues of which 5 are Preferred Issues and 1 is a Mutual Fund. There are also five cross-border issues from Barbados and Jamaica listed on the TTSE. The total Market Capitalization of all TTSE listed issues, including cross-border issues, is US$7.6 billion. The Market Capitalization of TTSE cross-border issues is US$2.5 billion or 33 percent of the Exchange's total Market Capitalization.

Trinidad & Tobago Stock Exchange – Domestic Listings

Company Name	Shares Outstanding	Share Price (TT$)	Market Capitalization (TT$)
Agostini's Ltd.	26,825,855	7.35	197,170,034
Angostura Hldgs. Ltd	206,277,630	5.00	1,031,388,150
Ansa Finance Ltd.	31,000,000	8.45	261,950,000
Ansa Mc Al Ltd.	173,609,312	17.70	3,072,884,822
BWIA (WI) Airways Ltd	47,133,856	1.60	75,414,170
C'bean Comm. Network	46,181,129	4.20	193,960,742
Flavorite Foods Ltd	7,777,778	3.45	26,833,334
Furness T'dad. Ltd.	12,075,000	4.11	49,628,250
Guardian Hldgs. Ltd.	125,625,000	20.30	2,550,187,500
Lever Bros. (WI) Ltd.	26,243,832	29.70	779,441,810
National Enterprises Ltd.	50,000,000	5.10	255,000,000
National Flour Mills Ltd.	120,200,000	3.20	384,640,000
Neal & Massy Hldgs. Ltd	107,551,413	22.01	2,367,206,600
Point Lisas Development	26,417,123	9.70	256,246,093
Prestige Holdings Ltd.	60,000,000	4.00	240,000,000
RBTT Financial Hldgs Ltd.	340,219,580	22.55	7,671,951,529
Readymix (WI) Ltd.	12,000,000	6.70	80,400,000
Republic Bank Ltd.	159,013,605	42.00	6,678,571,410
Scotiabank T&T Ltd.	117,562,500	23.88	2,807,392,500
Trinidad Cement Ltd.	249,765,136	5.40	1,348,731,734
T'dad Publishing Co. Ltd.	40,000,000	4.36	174,400,000
Valpark Shopping Plaza Ltd	3,696,833	5.00	18,484,165
West Indian Tobacco Co Ltd	84,240,000	19.80	1,667,952,000
L.J. Williams Ltd. +A'	46,166,600	0.50	23,083,300
L.J. Williams Ltd. +B'	19,742,074	1.65	32,574,422
Alstons Ltd. 7% Preference	172,232	7.35	1,265,905
T'dad Pub. Co. Ltd. 6% Pref.	29,297	37.80	1,107,427
L.J. Williams Ltd. 8% Pref.	45,590	3.55	161,845
Mora Ven Holdings Ltd.	8,065,000	3.30	26,614,500
Total			32,274,642,243
		X-Rate	0.15881
		US$	5,125,406,836

The TTSE does not have a Compensation Fund to indemnify losses to members' clients in certain situations. It is recommended that technical assistance be provided the TTSE to establish a Compensation Fund that is compliant with international standards but is practical for the economic, operational, and legal environment existent in Trinidad and Tobago.

Trinidad & Tobago Stock Exchange – Cross Border Listing

Company Name	Shares Outstanding	Share Price	Market Capitalization
B'dos Shipping & Trading	73,341,033	11.31	829,487,083
Berger Paints Ltd	5,161,444	3.03	15,639,175
	1,537,544,821	7.85	12,069,726,845
Grace, Kennedy & Co. Ltd.	267,532,275	4.89	1,308,232,825
Jamaica Money Market Bkrs.	1,463,386,752	1.00	1,463,386,752
Total			15,686,472,680
		X-Rate	0.15881
		US$	2,491,105,980

MARKET PROFILES – TRINIDAD AND TOBAGO CENTRAL DEPOSITORY (TTCD)

The TTSE has implemented an electronically based Central Securities Depository. The company, Trinidad and Tobago Central Depository (TTCD) was established by the TTSE and its member firms in 1998 as a clearing facility for securities transactions. Incorporated as a private company, the TTCD has improved the efficiency of clearing and settling securities transactions by implementing a computerized book entry system.

The TTCD has established a Contingency Fund with respect to the services required to satisfy financial losses sustained as the result of a participant's insolvency, bankruptcy or default. However, the TTCD has not established a Settlement Guarantee Fund in order to mitigate the impact of sale fails, insure the continuity of market settlement and provide for the orderly transfer of assets. It is recommended that technical assistance be provided the TTCD to determine the practicality of implementing a Settlement Guarantee Fund that is compliant with international standards and suitable to the capital markets in Trinidad and Tobago.

Securities Borrowing and Lending is permissible in Trinidad and Tobago and the TTCD has implemented a Securities Borrowing and Lending Program that is compliant with international standards.

The TTSE and the TTCD currently operate on a T+5 Settlement Cycle which is not compliant with international standards. However, on implementation of the TTSE's automated trading system it is planned to transition to T+3.

The TTCD has implemented the Equator settlement system. The depository's Equator settlement system was developed by EFA Software Services Ltd of Canada and is currently licensed by Computershare Markets Technology of Australia. The Equator settlement system is compliant with generally accepted international standards and is also used by the depository in Jamaica. Equator has also been acquired, but not implemented, by the depository in Barbados. A weak point in the settlement system is its inability to calculate Accrued Interest which is a major impediment to the efficient and cost-effective settlement of Fixed Income transactions. Technical assistance will be required to assess the Equator system's suitability for Fixed Income settlement in the Caribbean region, the financial practicality of implementing enhancements to the system or the procurement of a suitable replacement settlement system.

MARKET PROFILES – TRINIDAD & TOBAGO SECURITIES AND EXCHANGE COMMISSION

In 1995 the Government of Trinidad and Tobago, through the Ministry of Finance, passed legislation repealing the Securities Industry Act of 1981 and replaced it with the Securities Industry Act of 1995 (the Act) which created the Trinidad and Tobago Securities and Exchange Commission (the Commission).

The Commission is an independent regulatory body that possesses quasi-legislative and quasi-judicial powers. The Act provides for the appointment of no less than three and no more than five Commissioners to the Board of the Commission. The present Board consists of five Commissioners. The principal functions of the Commission are to:

- Advise the Minister of Finance on all matters relating to the securities industry;
- Maintain surveillance over the securities market and ensure open, fair, and equitable dealings in securities;
- Register, authorize or regulate reporting issuers, self-regulatory organizations and market participants (including brokers, dealers, traders, investment advisers etc.) to ensure that proper standards of conduct and professionalism are maintained in securities business;
- Protect the integrity of the securities market against any abuses arising from the practice of insider trading; and
- Create and promote such conditions in the securities market as may seem necessary, advisable or appropriate to ensure the orderly growth and development of the capital market.

The Commission is charged with the responsibility of ensuring that market participants comply with the provisions of the Act and the accompanying regulations, the Securities Industry By-Laws of 1997.

The Commission may issue policy guidelines from time to time. In this regard the Although the policy guidelines do not have the force of law and are not intended to have such effect, the SEC expects compliance with the guidelines unless compliance is waived.

Guidelines may be issued with respect to:

- Commission Procedure and related matters
- Self Regulatory Organizations
- Securities Registration
- Prospectus Requirements
- Distributions Under Prospectus Exemptions
- Continuous Disclosure
- Proxies and Proxy Solicitation
- Takeover Bids and Issuer Bids
- Insider Trading
- Mutual Funds

The Commission's level of domestic regulatory expertise is high. In anticipation of the creation of a regional securities market it is recommended that technical assistance be provided the Commission to prepare the capital markets in Trinidad and Tobago for regionalization.

Appendix A: Regional Securities Exchange Listings

Issue	Home Market	Shares Outstanding	Market Capitalization (US$)	Market Segment Market Cap (US$)
Agriculture				
Jamaica Producers Group	Jamaica	187,024,006	75,577,979	
Seprod Group	Jamaica	516,398,377	47,822,715	
Barbados Dairy Industries Ltd	Barbados	4,729,529	19,154,592	
Angostura Holdings, Ltd.	Trinidad & Tobago	206,277,630	163,712,405	
Agostini's, Ltd.	Trinidad & Tobago	26,825,855	31,296,831	337,564,522
Banking				
Nat'l Commercial Bank (Jamaica) Ltd.	Jamaica	2,466,762,828	429,887,107	
Bank of Nova Scotia (Jamaica) Limited	Jamaica	1,463,616,000	314,212,898	
Capital and Credit Merchant Bank	Jamaica	584,500,000	49,208,621	
FirstCaribbean International	Barbados	1,537,544,821	2,306,317,232	
Barbados National Bank Inc.	Barbados	96,000,000	86,400,000	
Banks Holdings Ltd.	Barbados	35,577,957	50,698,589	
RBTT Financial Holdings, Ltd	Trinidad & Tobago	340,219,580	340,219,580	
Republic Bank, Ltd.	Trinidad & Tobago	159,013,605	159,013,605	
Scotia Bank T&T, Ltd.	Trinidad & Tobago	117,562,500	445,617,857	
The Bank of Nevis, Limited	Eastern Caribbean	7,478,150	10,801,772	4,192,377,260
Communications				
Cable & Wireless (Jamaica) Ltd.	Jamaica	15,883,138,238	213,950,338	
Gleaner Company	Jamaica	1,211,243,827	24,473,692	
Cable & Wireless Barbados Ltd.	Barbados	141,864,946	127,678,451	
Caribbean Commercial Network	Trinidad & Tobago	46,181,129	30,787,419	
Trinidad Publishing Company, Ltd.	Trinidad & Tobago	40,000,000	27,682,540	424,572,441
Engineering				
Jamaica Broilers Group	Jamaica	1,199,276,400	23,828,021	
Point Lisas Development	Trinidad & Tobago	26,417,123	40,673,983	64,502,004
Financial Services				
Desnoes & Geddes	Jamaica	2,809,171,265	255,422,206	
Jamaica Money Market Brokers Limited	Jamaica	1,463,386,752	206,978,426	
Pan Jamaica Investment Trust	Jamaica	172,119,124	42,892,120	
Pan Caribbean Financial Services Ltd	Jamaica	255,660,684	19,371,495	
Dehring Bunting & Golding	Jamaica	122,129,474	16,451,184	
Ansa Finance, Ltd.	Trinidad & Tobago	31,000,000	41,579,365	
E. Caribbean Financial Holding Co Ltd	Eastern Caribbean	11,065,246	26,638,555	609,333,351
Holding Companies				
Grace Kennedy	Jamaica	323,166,370	228,539,948	
Lascelles de Mercardo	Jamaica	96,000,000	84,054,555	
Lascelles de Mercardo	Barbados	27,397,846	33,562,361	
McEnearney Alstons Barbados Ltd.	Barbados	12,234,056	30,585,140	
Ansa McAl, Ltd.	Trinidad & Tobago	173,609,312	487,759,496	
Neal & Massey Holdings, Ltd	Trinidad & Tobago	107,551,413	375,747,079	
National Enterprises, Ltd.	Trinidad & Tobago	50,000,000	40,476,190	
Prestige Holdings, Ltd.	Trinidad & Tobago	60,000,000	38,095,238	

Issue	Home Market	Shares Outstanding	Market Capitalization (US$)	Market Segment Market Cap (US$)
St Kitts Nevis Anguilla Trading and Development Co. Ltd.	Eastern Caribbean	5,000,000	17,592,593	1,336,412,601
Insurance				
Guardian Holdings Limited	Jamaica	158,127,799	519,193,817	
Life of Jamaica	Jamaica	2,200,279,345	92,619,942	
First Life Insurance	Jamaica	300,258,333	49,040,341	
Island Life Insurance	Jamaica	123,301,255	25,640,184	
Sagicor Financial Corporation	Barbados	260,030,030	286,033,033	
Insurance Corporation of Barbados Ltd	Barbados	39,840,000	27,888,000	
Guardian Holdings, Ltd.	Trinidad & Tobago	125,625,000	404,791,667	1,405,206,983
Manufacturing				
Carreras Group	Jamaica	485,440,000	245,212,999	
Berger Paints	Jamaica	214,322,392	11,908,804	
West Indian Tobacco Company, Ltd.	Trinidad & Tobago	84,240,000	264,754,286	
Trinidad Cement, Ltd.	Trinidad & Tobago	249,765,136	214,084,402	
Lever Brothers (W.I.) Ltd.	Trinidad & Tobago	26,243,832	123,720,922	
National Flour Mills, Ltd.	Trinidad & Tobago	120,200,000	61,053,968	
Ready Mix (W.I.). Ltd.	Trinidad & Tobago	12,000,000	12,761,905	933,497,287
Services				
Courts Jamaica	Jamaica	2,397,120,000	100,905,876	100,905,876
Tourism				
Almond Resorts Inc.	Barbados	55,734,566	26,473,919	26,473,919
Transportation				
Kingston Wharves	Jamaica	1,072,649,578	30,703,894	
Barbados Shipping & Trading Co. Ltd.	Barbados	73,106,628	124,281,268	
BWIA (W.I.) Airways, Ltd.	Trinidad & Tobago	47,133,856	11,970,503	166,955,665
Utilities				
Light & Power Holdings Ltd	Barbados	14,395,175	64,058,529	
St. Lucia Electricity Services Ltd.	Eastern Caribbean	11,200,000	49,777,778	113,836,307

Appendix B: Caribbean Securities Markets – Compliance Statement

The tables contained in this appendix measure the compliance of each securities market in the areas of Market Regulation, Securities Exchanges, and Central Securities Deposits. The tables are split into two parts: those areas in which regional consistency is required and those areas in which the markets are non-compliant and in which the markets require assistance. A brief summary of the key issues is followed by the detailed compliance tables.

Market Regulation. Regional consistency required in:

- The use of Self-Regulatory Organizations (SROs)
- The oversight of SRO regulation
- An effective compliance program
- Information sharing mechanisms
- Foreign regulators assistance
- The disclosure of financial results
- Collective investment scheme regulations
- Segregation and protection of client assets and structure of collective investment schemes
- Disclosure of collective investment schemes
- Procedures for dealing with the failure of a market intermediary
- Detecting and deterring manipulation and other unfair trading practices
- Regulatory oversight of Systems for clearing and settlement of securities transactions

Securities Exchanges. Regional consistency required in:

- Governance Statutes
- Requirements for market participants (objective qualifications, experience, structure, capital adequacy rules, disciplinary issues, and rights and obligations)
- Supervision infrastructure and oversight (the frequency of monitoring, the scope of its authority, actions to be taken in case of non-compliance and financial and trade reporting obligations of market participants; capital adequacy, position limits, collateral quantity and quality, internal compliance rules and market conduct and behavior)
- Formalized human resource activities
- Business Plan and IAS Audited Annual Reports
- Rules & Regulations of intermediaries, capital requirements and solvency levels, instruments that safeguard intermediaries credit worthiness, and non-compliance enforcement & disciplinary procedures resolution mechanisms for conflict of interest
- Pre-Trade and Post-Trade information processes
- Cross-border trading

- Retention of transaction records and financial reporting information
- Segregation between clients' assets and brokers' and banks' assets
- Segregation between clients' assets and custodian banks' assets
- Code of Conduct for its members that is reasonably compliant with Section 12 of the IOSCO International Conduct of Business Principles
- Full disclosure of trademark up or mark down on agency and principal trades
- Qualifications for its member firms and its member firms' employees
- Obtaining necessary information to recommend suitable investments to a customer
- Demonstration of member firms' partners or officers and directors activeness in the affairs of the firm to their compliance with statutory and self-regulatory obligations
- Formulation and enforcement rules for the business conduct
- Providing pre-trade and post-trade information

Central Securities Deposits (CSDs). Regional consistency required in

- Accounting practices and safekeeping procedures

Securities Exchanges. Areas in which assistance is required to achieve compliance:

- Standardized procedures are required to support cross-border clearing and settlement. (All Countries)
- An objective risk assessment is required to identify vulnerabilities, which may exist in system design, development, or implementation, prior to implementation and on a periodic basis thereafter. (All Countries)
- A risk assessment report must be published that is related to the market system, including those risks arising from interaction with related financial systems, domestic or international. The Risk Assessment Report must include, but not be limited to, the foreign exchange markets, the derivative markets, the banking market, and the payment and settlement systems. (All countries)
- Risk Management controls are required at exchanges which include, but are not limited to, position limits, margin requirements, minimum capital requirements mark-to-market valuation system. (All countries)
- Mechanisms that provide information necessary to conduct adequate surveillance of the market for supervisory and enforcement purposes is required. It is also required that supervisory and enforcement information be available on a timely basis. (All countries)
- Compensation Funds, insurance policies, or their equivalent are required as part of the Investors Protector rules. (Barbados, Easter Caribbean, and Trinidad and Tobago)
- Disclosure codes are required such that recommendations by market participants or their employees to customers as to the purchase or sale of securities are based on adequate and reliable information about the issuer and the nature of the financial instrument. (All countries)
- A schedule is required such that market participants monitor and calculate their financial position with sufficient frequency to remain in compliance with market rules on capital adequacy and solvency. (All countries)
- Disclosure rules are required which specify the circumstances under which its member firms exercise discretionary trading powers and, where applicable, it should be made explicit that such trading gives rise to other special fiduciary obligations. (All countries)

- Employee rules & regulations must require its member firms to develop systems for the supervision of employee accounts and employee account compliance with applicable regulations. (All countries)

Central Securities Deposits (CSDS)

- Delivery versus Payment (DVP) Settlement is required so that CSDs can eliminate principal risk by linking securities transfers to funds transfers. (All countries)
- Risk Controls are required so that CSDs that extend intraday credit participants, including CSDs that operate net settlement systems, at a minimum, ensure timely settlement in the event that the participant with the largest payment obligation is unable to settle. The most reliable set of controls is a combination of collateral requirements and limits. (All countries)
- Sources of Operational Risk arising in the clearing and settlement process should be identified and minimized through the development of appropriate systems, controls and procedures. (All countries)
- A system assessment is required to make securities settlement systems reliable and secure, and to ensure that they have adequate, scalable capacity. (Eastern Caribbean)
- Cross-border cash settlements are required. CSDs that establish links to settle cross-border trades should design and operate such links to reduce effectively the risks associated with cross-border settlements. (All countries)

Requirement	Barbados	Eastern Caribbean	Jamaica	Trinidad & Tobago
Compliance Statement - Market Regulation				
The responsibilities of the regulator should be clear and objectively stated.	Compliant	Compliant	Compliant	Compliant
The regulator should be operationally independent and accountable in the exercise of its functions and powers.	Compliant	Compliant	Compliant	Compliant
The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.	Training Required	Training Required	Training Required	Training Required
The regulator should adopt clear and consistent regulatory processes.	Compliant	Compliant	Compliant	Compliant
The staff of the regulator should observe the highest professional standards including appropriate standards of confidentiality.	Codification Required	Codification Required	Codification Required	Codification Required
The regulatory regime should make appropriate use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, to the extent appropriate to the size and complexity of the markets.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required

Requirement	Barbados	Eastern Caribbean	Jamaica	Trinidad & Tobago
The regulator should have comprehensive inspection, investigation, and surveillance powers.	Compliant	Compliant	Compliant	Compliant
The regulator should have comprehensive enforcement powers.	Compliant	Compliant	Compliant	Compliant
The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers, and implementation of an effective compliance program.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
The regulator should have authority to share both public and non-public information with domestic and foreign counterparts.	Compliant	Compliant	Compliant	Compliant
Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
There should be full, timely, and accurate disclosure of financial results and other information that is material to investors' decisions.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
Holders of securities in a company should be treated in a fair and equitable manner.	Compliant	Compliant	Compliant	Compliant
Accounting and auditing standards should be of a high and internationally acceptable quality.	Codification Required	Codification Required	Codification Required	Codification Required
The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a CIS.	Codification Required	Codification Required	Codification Required	Codification Required
Minimum entry standards for market intermediaries required.	Compliant	Compliant	Compliant	Compliant

Requirement	Barbados	Eastern Caribbean	Jamaica	Trinidad & Tobago
There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks the intermediaries undertake.	Risk Management Standards Required	Risk Management Standards Required	Risk Management Standards Required	Risk Management Standards Required
Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients.	Compliant	Compliant	Compliant	Compliant
There should be procedures for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.	Compliant	Compliant	Compliant	Compliant
There should be ongoing regulatory supervision of exchanges and trading systems which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.	Compliant	Compliant	Compliant	Compliant
Transparency in trading should be required	Compliant	Compliant	Compliant	Compliant
Regulation should be designed to detect and deter manipulation and other unfair trading practices.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
Regulation should aim to ensure the proper management of large exposures, default risk, and market disruption.	Codification Required	Codification Required	Codification Required	Codification Required
Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective, and efficient and they reduce systemic risk.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
Compliance Statement - Securities Exchanges				
Exchanges should maintain adequate organizational infrastructure and operations resources to enable them to offer the proper tools for trading in securities.	Compliant	Compliant	Compliant	Compliant
The exchange should have the legal status of a recognized securities market in the country in which it is domiciled. A national securities law should be enacted covering the exchange, its powers and obligations.	Compliant	Compliant	Compliant	Compliant
The exchange should have properly drafted Statutes, at a minimum covering its governance, the composition of the governing body, indications for constituents from which committee members are appointed/elected, its mission, and its rules and regulations.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required

Requirement	Barbados	Eastern Caribbean	Jamaica	Trinidad & Tobago
The requirements for market participants should cover: objective qualifications, experience, structure, capital adequacy rules, disciplinary issues, and rights and obligations. Foreign market participants should normally be allowed, adopting mutual recognition of the World Federation of Exchange member market participants. Traders should be authorized to act only at the end of a structured training process and after having passed a qualifying exam.	Regional Consistency & Codification Required	Regional Consistency & Codification Required	Regional Consistency & Codification Required	Regional Consistency & Codification Required
On an on-going basis, an exchange should have infrastructure in place for the supervision for which it has responsibility. Exchange supervision should include, but not be limited to, the frequency of monitoring, the scope of its authority, actions to be taken in case of non-compliance and. Financial and trade reporting obligations of market participants. The exchange's oversight should encompass capital adequacy, position limits, collateral quantity and quality, internal compliance rules, and market conduct and behavior.	Regional Consistency & Codification Required	Regional Consistency & Codification Required	Regional Consistency & Codification Required	Regional Consistency & Codification Required
The organizational structure of an exchange should be formal and support the prudent management of financial market operations. The staff of the exchange needs to be fit and properly qualified. A formalized human resources activity should be established to attract and retain professional staff.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
At a minimum, Exchange rules should include, but not be limited to, requirements for: trading, data transparency, trade reporting, issue listing, market participation, discipline and sanctions, clearing and settlement, and recourse procedures.	Compliant	Compliant	Compliant	Compliant
The exchange is required to have systems in place that are of sufficient capacity to ensure the operation of an orderly market and to support its business activities. Disaster scenarios and contingency plans must be operational with back-up procedures tested on a regular basis.	Compliant	Compliant	Compliant	Compliant
The financial soundness of an exchange must be based on a sound Business Plan. The Business Plan should show a positive performance for at least 3 years. The Annual Report of the exchange must be certified by an independent chartered accountant, in compliance with International Accounting Standards (IAS), in addition to compliance with local standards.	Regional Consistency & Codification Required	Regional Consistency & Codification Required	Regional Consistency & Codification Required	Regional Consistency & Codification Required
The market must operate in a manner that is equitable to all who access it. Any differences in treatment among users, regardless of the means of access, electronic or other, is not permitted. Access to the market must not be arbitrarily granted, and no discrimination should be shown.	Compliant	Compliant	Compliant	Compliant
Exchange Access Rules & Regulations must stipulate: -- professionalism of intermediaries and their employees -- capital requirements and solvency levels -- instruments that safeguard intermediaries credit worthiness -- non-compliance enforcement & disciplinary procedures resolution mechanisms for conflict of interest	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
The accountability of the Exchange to market users should be described, especially in any agreements that seek to modify the distribution of responsibilities among participants.	Compliant	Compliant	Compliant	Compliant

Requirement	Barbados	Eastern Caribbean	Jamaica	Trinidad & Tobago
Transaction Audit Trails must be available to investors and regulators. Only information available to regulators may include non-public information.	Compliant	Compliant	Compliant	Compliant
Pre-Trade and Post-Trade information must be provided on a timely basis.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
The Exchange must demonstrate to market regulator that the processing, queuing, and display of prices and quotations within the market are equitable to all classes of participants.	Compliant	Compliant	Compliant	Compliant
The transparency of the market must be assured at all times. Although markets may offer different degrees of transparency, transactions must be reported immediately to the exchange, with details as to price and volume.	Compliant	Compliant	Compliant	Compliant
Exchanges should: -- promote market transparency by disclosing transaction data -- establish & maintain Trading Rules to protect investors -- implement Best Execution requirements	Compliant	Compliant	Compliant	Compliant
The market should support cross-border trading. Duplicative regulation of the accessed market by the authorities in the jurisdiction in which it is located and those in the jurisdiction in which the accessing party is located should be avoided.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
Foreign participants in the market should have identical rights and obligations as local participants, provided their business structure and financial soundness are comparable to those required in the market of the access provider.	Regional Code Required	Regional Code Required	Regional Code Required	Regional Code Required
National regulatory agencies must respect each other's efforts to assure that a securities market complies with generally accepted investor protection standards of disclosure, transparency, and efficiency.	Regional MOU Required	Regional	Regional	Regional
An Exchange is required to make adequate arrangements for safe and timely clearing, and accurate final settlement for transactions concluded on the market.	Non Compliant T+3 Required	Compliant	Compliant	Compliant
An Exchange is required to support cross-border clearing and settlement.	Non Compliant Standardized Procedures Required	Non Compliant Standardized Procedures Required	Non Compliant Standardized Procedures Required	Non Compliant Standardized Procedures Required
An Exchange is required to assist in the development of a Central Securities Depository (CSD) that provides for the immobilization & dematerialization of security certificates.	Non Compliant Demat Required	Compliant	Compliant	Compliant

Requirement	Barbados	Eastern Caribbean	Jamaica	Trinidad & Tobago
An Exchange is required to support CSD borrowing & lending of securities.	Non Compliant B&L Plan Required	Non Compliant B&L Plan Required	Non Compliant B&L Plan Required	Compliant
An Exchange is required to support the standardization of securities industry processes.	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market
An Exchange is required to assure that ownership of securities should be explicitly embedded in national law.	Compliant	Compliant	Compliant	Compliant
An Exchange is required to support a well-defined system of laws relating to property, contracts, securities, trusts, bankruptcy, and taxation.	Compliant	Compliant	Compliant	Compliant
Exchange IT systems must maintain sufficient processing capacity to meet the needs of market users.	Compliant	Compliant	Compliant	Compliant
Exchange Back-Up systems and Business Continuity Procedures to be utilized in the event of an operational failure are to be maintained on a current, ready basis.	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market
Prior to implementation and on a periodic basis thereafter, Exchange market systems and system interfaces should be subject to an objective risk assessment to identify vulnerabilities, which may exist in system design, development, or implementation.	Non Compliant - Compliant Assessment Required	Non Compliant - Compliant Assessment Required	Non Compliant - Compliant Assessment Required	Non Compliant - Compliant Assessment Required
An Exchange must publish a Risk Assessment Report related to the market system, including those risks arising from interaction with related financial systems, domestic or international. The Risk Assessment Report must include, but not be limited to, the foreign exchange markets, derivative markets, the banking market, and the payment and settlement systems.	Non Compliant Risk Assessment Required	Non Compliant Risk Assessment Required	Non Compliant Risk Assessment Required	Non Compliant Risk Assessment Required
Exchange must have in place Risk Management controls including, but limited to, position limits, margin requirements, minimum capital requirements mark-to-market valuation system	Non Compliant Risk Controls Required	Non Compliant Risk Controls Required	Non Compliant Risk Controls Required	Non Compliant Risk Controls Required
An Exchange is required to have facilities for the effective treatment of investor disputes and complaints regarding the behavior and business conduct of market intermediaries. The facilities must be as simple and expeditious as possible, within the limitations of national law.	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market
An Exchange is required to have in place mechanisms that provide information necessary to conduct adequate surveillance of the market for supervisory and enforcement purposes. It is also required that supervisory and enforcement information be available on a timely basis.	Non Compliant Surveillance System Required	Non Compliant Surveillance System Required	Non Compliant Surveillance System Required	Non Compliant Surveillance System Required
An Exchange is required to report to market regulators when it becomes aware that reasonable grounds exist to suspect that a market user may have violated the jurisdiction's laws, or the market's internal rules and regulations.	Compliant	Compliant	Compliant	Compliant

Requirement	Barbados	Eastern Caribbean	Jamaica	Trinidad & Tobago
An Exchange's transaction records and financial reporting information must be retained for a reasonable period of time in a secure location.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
An Exchange's Investor Protector rules and regulations must include guarantees such as compensation funds, insurance policies or their equivalent.	Non Compliant Comp Fund Required	Non Compliant Comp Fund Required	Compliant	Non Compliant Comp Fund Required
A specific regime must be in place for the staff of the Exchange and the clearinghouse/depository, to protect investors against conflicts of interest and insider trading.	Compliant	Compliant	Compliant	Compliant
Insider trading and other forms of unfair markets should be prohibited, either by law or code of conduct, with adequate enforcement tools available.	Compliant	Compliant	Compliant	Compliant
Market participants, including brokers and banks, must assure absolute segregation between clients' assets and their own assets, and respect the priority in which client orders are executed.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
Custodian banks must assure absolute segregation between clients' assets and their own assets.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
An Exchange is required to have in place a Code of Conduct for its members that is reasonably compliant with Section 12 of the IOSCO International Conduct of Business Principles.	Regional Consistency & Codification Required	Regional Consistency & Codification Required	Regional Consistency & Codification Required	Regional Consistency & Codification Required
An Exchange is required to have enforceable regulations requiring its members to honor the integrity of the price formation mechanism.	Compliant	Compliant	Compliant	Compliant
An Exchange is required to have in place enforceable regulations prohibiting specific manipulative practices, such as trades that involve no change of beneficial ownership or trades that give a false appearance of activity.	Compliant	Compliant	Compliant	Compliant
An Exchange must require its members to effect securities transactions at the best execution for customer orders.	Compliant	Compliant	Compliant	Compliant
An Exchange must require its members to effect securities transactions promptly.	Compliant	Compliant	Compliant	Compliant
Exchange rules & regulations must require full disclosure of fees and commissions schedules by its members.	Compliant	Compliant	Compliant	Compliant
An Exchange must require full disclosure of trade mark up or mark down on agency and principal trades.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required

Requirement	Barbados	Eastern Caribbean	Jamaica	Trinidad & Tobago
Exchanges must require that recommendations by market participants or their employees to customers as to the purchase or sale of securities be based on adequate and reliable information about the issuer and the nature of the financial instrument.	Non Compliant Disclosure Code Required	Non Compliant Disclosure Code Required	Non Compliant Disclosure Code Required	Non Compliant Disclosure Code Required
In its rules & regulations an Exchange is required to mandate qualifications for its member firms and its member firms' employees.	Regional Consistency & Codification Required	Regional Consistency & Codification Required	Regional Consistency & Codification Required	Regional Consistency & Codification Required
Exchanges are required to have financial responsibility rules for market participants. Market participants must adhere to such rules in a manner that does not jeopardize customer funds or securities held as custodian or the ability of a market participant to complete transactions with other market participants.	Compliant	Compliant	Compliant	Compliant
Exchanges must require market participants to monitor and calculate their financial position with sufficient frequency to remain in compliance with market rules on capital adequacy and solvency.	Non Compliant Compliance Schedule Required	Non Compliant Compliance Schedule Required	Non Compliant Compliance Schedule Required	Non Compliant Compliance Schedule Required
An Exchange must require its member firms to obtain such information as may be necessary to recommend suitable investments to a customer. Exchanges must also, where applicable, specify the type of documentation required.	Regional Consistence Required	Regional Consistence Required	Regional Consistence Required	Regional Consistence Required
An Exchange must specify the circumstances under which its member firms exercise discretionary trading powers and, where applicable, it should be made explicit that such trading gives rise to other special fiduciary obligations.	Non Compliant Customer Disclosure Rule Required	Non Compliant Customer Disclosure Rule Required	Non Compliant Customer Disclosure Rule Required	Non Compliant Customer Disclosure Rule Required
An Exchange must require its member firms to issue a confirmation of each transaction which must be sent to customers. It is also required that the customer confirmation include note such information as may be appropriate to confirm fair dealing.	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market
Rules & regulations of an Exchange must require that there be disclosure of such facts as may impair a member firm's independence in its dealings with customers.	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market
An Exchange must require its member firms to maintain a detailed record of each trade, in order to be able to respond to customers' or the Exchange concerning best execution.	Compliant	Compliant	Compliant	Compliant
Exchanges must require member firms to ensure that their partners or officers and directors are sufficiently active in the affairs of the firm to demonstrate their compliance with statutory and self-regulatory obligations.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required

Requirement	Barbados	Eastern Caribbean	Jamaica	Trinidad & Tobago
Rules & regulations of an Exchange must require its member firms to develop systems for the supervision of employee accounts and employee account compliance with applicable regulations.	Non Compliant Employee Rules Required	Non Compliant Employee Rules Required	Non Compliant Employee Rules Required	Non Compliant Employee Rules Required
An Exchange is required to formulate and enforce rules for the business conduct of Exchange staff as well as employees from member firms.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
An Exchange must have systems and procedures in place assuring that important information related to listed companies and of a price-sensitive nature be distributed as soon as possible to all market participants.	Compliant	Compliant	Compliant	Compliant
Exchange must provide pre-trade and post-trade information. Such information must be available to market participants and supervisors. Selected market data must also be available to the public, either through the traditional media or using modern communication tools.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
COMPLIANCE STATEMENT - CENTRAL SECURITIES DEPOSITORIES (CSDS)				
Securities settlement systems should have a well-founded, clear and transparent legal basis in the relevant jurisdictions.	Compliant	Compliant	Compliant	Compliant
Confirmation of trades between direct market participants should occur as soon as possible after trade execution, but no later than trade date (T+0).	Non Compliant T+0 Required	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market
Rolling settlement should be adopted in all securities markets. Final settlement should occur no later than T+3.	Non Compliant T+3 Required	Compliant	Compliant	Compliant
The benefits and costs of a settlement cycle shorter than T+3 should be evaluated.	Non Compliant Evaluation Required	Non Compliant	Non Compliant	Non Compliant
Securities Lending and Borrowing Schemes, or repurchase agreements and other economically equivalent transactions, should be encouraged as a method for expediting the settlement of securities transactions.	Non Compliant B&L Plan Required	Non Compliant	Non Compliant	
Securities should be immobilized or dematerialized and transferred by book entry in CSDs to the greatest extent possible.	Non Compliant Demat Required			
CSDs should eliminate principal risk by linking securities transfers to funds transfers in a way to achieve Delivery versus Payment (DVP) settlement.	Non Compliant DVP Settlement Required	Non	Non	Non
Final settlement should occur no later than the end of the settlement day. Intraday or real-time finality should be provided where necessary to reduce risks.	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market

Requirement	Barbados	Eastern Caribbean	Jamaica	Trinidad & Tobago
CSDs that extend intraday credit to participants, including CSDs that operate net settlement systems, should institute risk controls that, at a minimum, ensure timely settlement in the event that the participant with the largest payment obligation is unable to settle. The most reliable set of controls is a combination of collateral requirements and limits.	Non Compliant Risk Controls Required	Non Compliant Risk Controls Required	Non Compliant Risk Controls Required	Non Compliant Risk Controls Required
Assets used to settle the ultimate payment obligations arising from securities transactions should carry little or no credit or liquidity risk. If central bank money is not used, steps must be taken to protect CSD members from potential losses and liquidity pressures arising from the failure of the cash settlement agent whose assets are used for that purpose.	Non Compliant Settlement Guarantee Fund Required	Non Compliant Settlement Guarantee Fund Required	Non Compliant Settlement Guarantee Fund Required	Non Compliant Settlement Guarantee Fund Required
Sources of Operational Risk arising in the clearing and settlement process should be identified and minimized through the development of appropriate systems, controls, and procedures.	Non Compliant Ops Risk Required	Non Compliant Ops Risk Required	Non Compliant Ops Risk Required	Non Compliant Ops Risk Required
Securities settlement systems should be reliable and secure, and have adequate, scalable capacity.	Compliant	Non Compliant System Assessment Required	Compliant	Compliant
Securities settlement systems must be supported by contingency plans and backup facilities that allow for timely recovery of operations and completion of the settlement process.	Compliant	Compliant	Compliant	Compliant
Entities holding securities in custody should employ accounting practices and safekeeping procedures that fully protect customers' securities. It is essential that customers' securities be protected against the claims of a custodian's creditors.	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required	Regional Consistency Required
Governance arrangements for CSDs should be designed to fulfill public interest requirements and to promote the objectives of owners and users.	Compliant	Compliant	Compliant	Compliant
CSDs must have objective and publicly disclosed criteria for participation that permit fair and open access.	Compliant	Compliant	Compliant	Compliant
While maintaining safe and secure operations, securities settlement systems are required to be cost-effective in meeting the requirements of users.	Non Compliant Demat Required	Compliant	Compliant	Compliant
Securities settlement systems must use or accommodate the relevant international communication procedures and standards in order to facilitate efficient settlement of cross-border transactions.	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market	Compliant In Home Market
CSDs should provide market participants with sufficient information for them to identify and evaluate accurately the risks and costs associated with using CSD or CCP services.	Compliant	Compliant	Compliant	Compliant
Securities settlement systems should be subject to transparent and effective regulation and oversight.	Compliant	Compliant	Compliant	Compliant

Requirement	Barbados	Eastern Caribbean	Jamaica	Trinidad & Tobago
CSDs that establish links to settle cross-border trades should design and operate such links to reduce effectively the risks associated with cross-border settlements.	Non Compliant X-Border Cash Settlement Required	Non Compliant X-Border Cash Settlement Required	Non Compliant X-Border Cash Settlement Required	Non Compliant X-Border Cash Settlement Required

ANNEX C: REMITTANCES ASSESSMENT

Executive Summary

Background

The increasing focus on remittance flows in recent years has resulted from several factors. There has been growing recognition of the importance of remittance flows to nations' balance of payments, households' income and safety nets, and the economic benefits that can result from remittance flows when investment levels, trade, and other sources of financing are not as widely available as desired. For the recipient countries, these can be of immense importance, sometimes exceeding ten percent of GDP.

There has also been a gradual yet steadily increasing pattern of migration around the globe, with large foreign-born populations in major economic centers staying for long periods, and sending back substantial sums of money to relatives and friends in their origin countries. The OECS countries are both recipients and senders of workers' remittances and other private transfers, with consolidated outflows approximately 32 percent of inflows.

More recently, there has also been a concerted global effort to crack down on money laundering and other financial crimes. Issues of offshore banking, money laundering, the financing of crime, and other issues were considered problematic several years ago in some OECS jurisdictions. With the more concerted global effort to root out money laundering, the financing of terrorism, and other financial crimes, the OECS financial system has undergone significant reform in recent years.

As a subset of that effort, the focus on remittances seeks to identify problems that add to transactions costs, and to make recommendations on how incentives can be more favorably structured to increase service levels, bring down costs, and generally accommodate the growing flow of remittances. As an extension of that effort, the focus of this study is to make recommendations on how to encourage the use of remittance inflows increasingly for investment purposes that will potentially have a greater economic impact through income generation and job creation.

Statistics and Methodological Considerations

In general, remittances are confusing from an accounting or statistical standpoint. Conceptually and geographically, they are international in scope. The typical transaction involves changes in international assets and liabilities. However, in terms of the actual transfer process, there is usually *not* a physical movement of funds. Rather, it is more like a debit and credit operation, with the payment instruction determining which accounts are debited and credited.

Informal transactions generally go unrecorded. As regimes liberalize, the level of informality decreases due to more competitive formal financial sectors (lower fees, better service, etc.) plus less distortion in terms of exchange rates. This generally applies to the OECS countries, where capital controls are limited, exchange rates are pegged, and a significant number of people have accounts with banks or credit unions.

The core figures utilized in this assessment are primarily from the Eastern Caribbean Central Bank (ECCB). The methodology utilized is inexact by the Central Bank's own admission. Essentially, the ECCB increases the previous year's total by the real GDP growth rates of the G-7 countries. Thus, having a precise measure for workers' remittances is virtually impossible, particularly as there are no specific recording forms classified as remittances that clear through the payment system.

The actual construction of the remittance figures is derived from the overall base of inward private transfers. Total inward private transfers are defined to include insurance payments, pension fund transfers, remittances, and other inflows. Workers' remittance inflows approximated $581 million into the OECS from 1998-2002, or $116 million per year on average. The OECS figures for remittance inflows approximate 4.2 percent of GDP. While lower than several other LAC countries, the 4.2 percent figure is consistent with many other developing and middle-income countries. In terms of individual incomes, the OECS figures approximate $218 per year per capita in annual remittances, which is higher than virtually all LAC countries. Only Barbados ($267), El Salvador ($249), and Jamaica ($295) exceed the OECS average, and none of them by much.

Economic Impact of Remittance Inflows in the Eastern Caribbean

The OECS does have remittance *outflows*, some of which are intra-OECS, and others which flow from OECS members to non-member states. Based on ECCB data, private transfers out of the OECS countries approximated $44 million-equivalent per year from 1998-2002, or about 32 percent of total private transfers into the OECS member states. This is reported to include sizeable flows to Guyana and the Dominican Republic, depending on the member state, although specific tracking of outflows was not done for this study.

However, the real impact is from remittance inflows, particularly given the openness of the OECS economies, the fragility of the tax base, the small size of each of the countries, the reliance on tourism receipts for foreign exchange, and above all, the vulnerability of the region's small economies to external events and natural disasters. Remittance inflows are equivalent to about 13 percent of gross tourism receipts, and more than 41 percent of merchandise exports. Likewise, they are equivalent to about 37 percent of inward direct investment, a level that has been higher proportionally since 2001. They also exceed Government transfers and ODA received, thus helping to provide an income supplement and a safety net as Government support shows declines.

Key Remittance Indicators for the Organization of Eastern Caribbean States

	1998	1999	2000	2001	2002
Estimated Remittance Inflows (EC$ millions)	305.90	326.60	276.70	320.90	338.40
Estimated Remittance Inflows (US$ millions)	113.30	121.00	102.50	118.80	125.30
Remittances/GDP	4.35%	4.42%	3.62%	4.18%	4.30%
Estimated Remittances per Capita (US$)	222	242	190	212	224
Remittances/Gross Tourism Receipts	12.52%	13.19%	11.05%	13.61%	14.55%
Remittances/Merchandise Exports	40.92%	41.07%	33.38%	45.21%	46.49%
Remittances/Inward Direct Investment	34.78%	34.19%	30.68%	40.09%	45.12%
Remittances/Government Borrowings	140.49%	127.13%	98.40%	54.39%	77.09%
Remittances/Government Interest Payments	354.36%	325.43%	206.23%	200.36%	157.20%
Remittances/Overseas Development Assistance	138.90%	179.12%	122.11%	128.25%	151.06%

Notes: Remittance inflow figures from 1998-99 and 2001-02 = 90% of total estimated inward private transfers; in 2000 = 69%; exceptions are for 2000 in St. Kitts and Nevis, where the Financial Secretariat estimates are used, and general figures for St. Vincent and the Grenadines; for percentages, weighted averages are used for all eight OECS members

Sources: figures from ECCB, Departments of Statistics; author's calculations from figures

Sources of Remittance Flows

There is only fragmented information on sources of remittance flows from overseas communities of OECS nationals. The conventional view is that most of the overseas OECS population is in the United States, Canada, and the United Kingdom, with smaller pockets in other parts of the Caribbean and

Europe. A significant migration to the UK occurred in the 1950s and 1960s, whereas the flow to North America increased in the 1970s. Today, more OECS nationals are thought to be on the eastern seaboard of the U.S. than the UK or Canada. However, there are also UK citizens who are the children of OECS nationals, some of whom visit fairly frequently. Thus, if those numbers were included, they might shift the balance. There is also a view that those who left for the UK 40-50 years ago have long had plans to return and retire in the Caribbean, and that this is a major source of investment in property development. By contrast, anecdotally, OECS nationals in North America are generally not projected to return when ready to retire. Part of the contrast is the view that there were greater barriers to citizenship and acceptance in the UK in the 1950s-60s, whereas these barriers have come down since. One can argue the same barriers existed in North America, and that this was a deterrent to emigration to the US and Canada at the time.

There are only estimates of how many OECS nationals live abroad, and this is a moving figure. Some have become citizens of other countries, yet they retain ties to their OECS countries. Many people are abroad on a short-term basis (a few months, or a few years for study and training). However, taking these and other factors into account, rough estimates are that the OECS community abroad approximates 200,000. This would be about 35 percent of the approximate population in the OECS countries as of 2000-01. The figure, if accurate, primarily applies to the US, Canada, and UK. The number would likely be higher when accounting for intra-OECS and intra-Caribbean migration.

General US Census data from 2000 show that the foreign-born LAC population in the US approximated 16.9 million, equivalent to about six percent of the total population. Of this, the Caribbean population accounts for about 3.1 million, or 18 percent of people from the LAC region. Specific country-of-origin figures are not available.

In terms of geographic location, about half of the Caribbean-born population in the US is in the northeast, with the New York metropolitan area being the main area of residence. The south has another 44.4 percent of the population, with the Miami area representing the largest concentration. Other communities in the US that have attracted Caribbean and, specifically, OECS nationals include Atlanta, Washington, DC, Philadelphia, and to a lesser extent, Chicago. The OECS community in the United States is reported to run up and down the eastern seaboard, but to have sparse representation elsewhere in the United States.

As for date of arrival, Caribbean-born immigrants are diverse in terms of how settled they are. About 39 percent of Caribbean-born immigrants arrived in the US in 1990 or later. However, another 27 percent arrived in the 1980s, and 34 percent arrived in the US before 1980. If trends elsewhere among LAC-born immigrants apply to OECS nationals abroad, this would suggest that a declining fraction of the population is likely to send remittances on a long-term basis. This is based on survey findings commissioned by the IDB that found that nationals living abroad had a tendency to remit greater funds back in years 6-10 once settled abroad, yet those remittances declined after 20 years abroad (notwithstanding higher incomes). It is likely that about half of Caribbean-born immigrants in the US have been there for 20 years of so.

In terms of income, about half of family households earned more than $35,000 per year. Among married couples, about 58 percent were above the $35,000 per year figure. Non-family and unmarried immigrants are younger and have lower incomes. Referring back to the survey commissioned by the IDB that indicated nationals abroad were less likely to remit funds when they had incomes exceeding $40,000 than when their incomes were under $20,000, this would suggest that about half of Caribbean or OECS nationals abroad are less likely to remit funds than more recent arrivals whose incomes may not be as high.

Data on OECS nationals in Canada are not available. However, according to Statistics Canada, the immigrant population from the Caribbean and Bermuda totaled 294,050 as of 2001. This is little more than 5.4 percent of the total immigrant population in Canada, and less than 1 percent of the total Canadian population. Thus, Canada plays much less of a role in the overseas life of people from the Caribbean living and working abroad. Among the Caribbean-born immigrants, approximately 80 percent are from Jamaica, Haiti, and Trinidad & Tobago, with the Jamaican community alone accounting for 72 percent of the total.

In terms of potential remittance flows from Canada to the OECS countries, one major consideration is that Scotiabank, Royal Bank of Canada, and CIBC are all widely represented throughout the Caribbean, and to some degree as well in the key metropolitan markets (i.e., New York, Toronto, London) where English-speaking Caribbean-born migrants are generally located. Thus, at a minimum, these three Canadian banks have an opportunity to target Caribbean-born immigrants living in Canada, the US, and the UK. Unlike the US and UK banks that generally do not have a physical presence in the OECS region, the Canadian banks have the opportunity to devise targeted marketing strategies that cater to the Caribbean-born population. This, in turn, can be accommodated by their presence in the OECS (and other Caribbean) countries with regard to savings instruments, investment plans, merchant banking operations, and other packages that might lead to incremental flows back to OECS countries.

Data on OECS nationals in the UK were not available. However, from discussions throughout the OECS region, there has been a slow but steady repatriation of funds from those who left in the 1950s-60s. In addition to the normal remittance flow to assist family with income support, there has also been money sent back to buy land and build individual retirement homes. These flows have been partly from pensions that are now being paid out by UK authorities.

The Role of Overseas Organizations and Uses of Remittances

Among the OECS communities abroad, there are scattered reports of organizations that have links back to the home country. Generally, OECS embassies and high commissions serve as the focal point for communities abroad to organize themselves.

Loose organizations sometimes mobilize resources and donate funds to charities and other causes. However, information on the amounts of these donations is not available, and there is nothing systematic or widespread.

There has not been any reported “hometown association” scheme of the sort that the Mexican or Salvadoran communities have organized out of the United States that leads to investment in roads, other infrastructure, housing, etc. Nor has there been any known initiative to encourage closer ties on an organized basis, as has been reported anecdotally about the Jamaican community in New York and Toronto.

The remittance inflows are generally used as income supplements for a range of needs—health care, clothing, food, child support, gambling/lotteries, etc. In some cases, they are used to purchase small inventories for commercial trade businesses. This is also a major portion of remittance outflows, essentially pre-payment for goods imported. For the most part, discussions throughout the region suggest that remittances are used to finance personal consumption and basic needs, not investment. The small average value of transactions through Western Union and Money Gram reinforces this impression. Relative spikes in remittance inflows are basically during carnival season, the beginning of the school year (for fees, uniforms, books and supplies), and Christmas. As noted above, there are also significant in-kind remittances known as the “barrel trade.”

As far as the use of remittances (and other direct private transfers) for investment purposes, they are used primarily for property development. In some cases, the funds may be used to start up a business, or to finance a relative’s/friend’s business. However, in most cases, people abroad remitting back large enough sums for a house are usually doing so after many years of work abroad. Or they have done so in installments, with transfers going directly into their own deposit accounts. At this point in their lives, they are more focused on a more comfortable retirement than a new business enterprise. As such, the remittances may be for payment on tracts of land, permits/licenses needed for construction, and the actual construction of the house itself.

The Financial Sector and Remittance Transfers

The OECS countries have a high degree of banking penetration. Many people and households have bank accounts. Moreover, in the OECS countries, banks are responsible for clearing, and thus are the focal point of remittance flows through the formal financial system. Even those transfers going through the credit unions, money transfer companies and other institutions have to clear and settle through their accounts at the banks. Thus, the banks play a key role in the remittance market of the OECS.

Transactions through banks are generally cheaper than those sent by money transfer companies like Western Union. Wire transfers from abroad routinely cost about $30-$45 from the US, and $20-$30 to send from the Canadian banks. Among “indigenous” Caribbean banks, the main issue is receipt rather than sending, although their liquid balance sheets reduce incentives to encourage people to keep funds in accounts. Rather, when they provide transfer services (including serving as agents for Money Gram, as is the case with RBTT), they do so as part of their array of services to bring in more customers, not to necessarily make significant money from transfers. There are usually no receiving charges, although several banks may slightly adjust the exchange rate.

Considering that money transfer companies charge about 12.5 percent per transaction, this suggests that once a transfer amount exceeds $160-$240, the remitter would prefer a bank wire transfer if price were the only consideration. Considering that remittance transfers are generally about $200-$300, this means that banks do offer savings relative to the typical amount transferred, but not enough to compensate senders for the perceived trade-off of speed and convenience. Even taking the lowest wire transfer charge of about $20, this would mean that cost savings for a transfer through a bank of $300 would approximate $17.50. In fact, the cost savings would be less, at only $7. In either case, this may not be worth a special trip to a bank in New York or Toronto when a transfer can be made at a food store, gas station, or convenience shop. However, on large sums transferred to/from abroad, there are significant cost savings relative to a money transfer company. For instance, cost savings with a bank for a “large” wire transaction of EC$10,000, or $3,700, would approximate $115-$140.

Exchange rate manipulation is the additional source of earnings for banks and money transfer companies on remittance transfers. However, this is less of an issue in the OECS than in other countries. Even when exchange rates used in the transaction differ from official rates, the relative stability of the pegged exchange rate means that there is little scope for playing with exchange rates, unlike in other markets where banks and money transfer companies are able to derive additional earnings/fees from exchange rates. The general bid-offer range is 2.67-2.71, compared with the EC$2.7 peg to the US dollar. Thus, the scope for material additional earnings from exchange rates is limited. This applies to all parties, not just banks.

Problems associated with the banks for many people sending/receiving remittances include the perception of complex procedures, waiting time, lack of an account (among the poor and disenfranchised, who are among those most likely to receive remittances for support), and the general perception that banks are not necessarily fair or interested in people. For those living in more rural and mountainous areas where bank branches are not easily accessible, this obviously adds a barrier. For these reasons, money transfer organizations like Western Union and, to a lesser extent, Money Gram, will continue to have a significant share of the market.

Credit unions are relatively insignificant in the OECS states with regard to remittances. This is partly because remittance transactions (and other transfers) are cleared through banks, and because the money transfer companies are faster and more convenient. Credit unions generally lack the technology for fast transfers (as per the money transfer companies), and they still have to go through the banks even if members at home or abroad wish to remit funds (in either direction). Moreover, because credit unions generally do not have ATM networks, debit cards, credit cards, and other basics of electronic banking, their mix and range of services is more focused on traditional deposit safekeeping and small-scale lending. They are also restricted from engaging in foreign exchange-related activities in the various Cooperative Societies Acts, thus limiting the scope of their remittance activities to depositing EC$ checks sent from abroad and following the payment instructions once communicated by the clearing bank. For all intents and purposes, credit unions are virtual non-players in the OECS remittance market.

Since September 11, there has been a global crackdown on informal financial activities. One of the consequences has been a greater opportunity for money transfer companies to boost their markets. With stricter oversight of money transfers, legally incorporated companies with specialized systems, technologies, and experience have an opportunity to capitalize on public recognition that transfers are now coming under greater scrutiny. Thus, in the OECS, Western Union and, to a lesser extent, Money Gram have succeeded in tapping into this market. They currently play a very significant role in the remittance business, essentially providing services for people who either do not have bank accounts, or are sending small enough transactions such that any price differential between the money transfer companies and the banks is immaterial. Moreover, because of the perception of speed and convenience of money transfer companies, they have a substantial part of the remittance market.

From figures cobbled together from interviews and individual agents who have been willing to share basic volume and value figures, Western Union would appear to have about 20-30 percent of the remittance inflow business based on value, with some variation from one country to another. However, in terms of numbers of transactions, the share is higher. Money Gram, whose agent in the OECS is frequently (but not exclusively) RBTT bank, appears to have about five to ten percent of the remittance business in countries where data have been made available. These shares are not particularly different from other markets in the LAC region, although it is likely that informal transfers (mainly trusted individuals that physically transport funds) are more common in Latin America and some parts of the Caribbean than in the OECS markets. The view here is that money transfer companies have helped to formalize what previously was sent informally in the OECS.

The criticism from those claiming Western Union and Money Gram are expensive is that those who pay the high costs are among the poorest and most vulnerable, without bank accounts, and therefore practically “forced” to use the money transfer organizations because they lack an alternative. On the other hand, the money transfer companies are conveniently located throughout their markets, and are perceived to be faster than banks. Their reputation for service is strong, and the OECS market has shown its willingness to pay the premium in exchange for the convenience and service. Moreover, the cost issue is also being addressed by increasing competition and new technologies. Estimates are that money transfer costs have declined about 25 percent in recent years on individual transactions (net of check cashing fees or other commissions).

As with the banks, there is another issue of rising costs of operations. Particularly with the crackdown on informal funds transfers after September 11, the money transfer companies have had to develop and refine systems that monitor suspicious transactions. As with the foreign banks, the money transfer companies have had to invest in systems and technology to oversee the transactions carried out in the OECS (and elsewhere around the globe). While there are complaints about these companies being unregulated when compared with licensed banks and credit unions, this is not entirely true. They submit transaction reports to the Financial Intelligence Units in the OECS countries, and US regulators oversee the companies. Thus, while the ECCB does not necessarily supervise these companies, they do have reporting requirements and compliance responsibilities to several regulatory authorities across jurisdictions.

The role of other organizations in remittance inflows is not reported to be all that prominent. Travel agencies and courier services handle some of the traffic. This generally is cleared through (and captured statistically by) customs. The postal system plays a very minor role in sending or receiving international money orders or other forms of remittances. Net of these institutions, there is still a role played by the "mule", namely the person who physically transports cash. One Western Union agent cited this as a competitive challenge, but it is impossible to quantify how much informal trafficking continues.

Major Gaps and Challenges

There are a few major gaps that limit the amount of remittance inflows and other private transfers to the OECS economies. Additionally, there is little in the market that provides incentives for keeping funds in accounts for savings and investment. Key gaps and constraints include:

- There are few customized financial products to attract greater inflows.
- Weak incentives for long-term savings instruments for investment.
- The weak condition and limited services of the credit unions.
- The costs of transfers sent by money transfer companies, and the tendency of recipients to not place their funds in accounts.
- The absence of an automated clearing house among OECS members, let alone links with major remittance-originating markets.
- Incomplete statistics and information on remittances.

Recommendations

There are a few measures that could be taken to improve the incentive structure for more remittances and overall transfers, including those that would be utilized for savings and investment. These include the following:

- Develop more customized products and develop more focused marketing relationships with overseas OECS nationals.
- Develop focused strategies for investment and development to serve as a catalyst for the development of long-term financial instruments within OECS markets.
- Provide comprehensive assistance to the credit union movement.
- Encourage competition with the banks and money transfer companies.
- Promote development of an automated clearinghouse for OECS members, and link the ACH with that in North America.
- Improve statistics and information on remittances without causing undue burden on the various market providers.

I. Introduction

A. Background and Purpose of the Study

The increasing focus on remittance flows in recent years has resulted from several factors. There has been growing recognition of the importance of remittance flows to nations' balance of payments, households' income and safety nets, and the economic benefits that can result from remittance flows when investment levels, trade, and other sources of financing are not as widely available as desired. For the recipient countries, these can be of immense importance, sometimes exceeding ten percent of GDP.

There has also been a gradual yet steadily increasing pattern of migration around the globe, with large foreign-born populations in major economic centers staying for long periods, and sending back substantial sums of money to relatives and friends in their origin countries. This has clearly been the case with the Mexican and Central American community in the United States, the North African community in France and other European states, the Turkish community in Germany, the southern African community in South Africa, and a multiplicity of Asian communities working in the Arabian Gulf. Such patterns are not restricted to the most advanced or wealthiest economies. These patterns exist in less developed economies as well, reflecting more traditional patterns of language and production. For instance, many people from Moldova and other parts of the former Soviet Union work in Russia. Closer to the geographic scope of this study, OECS countries are both recipients and senders of workers' remittances and other private transfers, with consolidated outflows approximately 32 percent[160] of inflows.

More recently, there has also been a concerted global effort to crack down on money laundering and other financial crimes. In several parts of the world, informal funds transfers have traditionally been the preferred mode for those remitting funds.[161] There are several reasons, not the least of which are speed,[162] reliability,[163] cultural acceptability,[164] convenience,[165] lower transactions costs, and anonymity. From the perspective of the agent sending the funds on behalf of the remitter, there have also been numerous benefits. These include convenience,[166] foreign exchange opportunities,[167] and an extension of existing business opportunities, particularly if the sending agent is liquid and/or focused on cross-border

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[160] EC$592 million/EC$1,870 million = 31.7 percent. Note, this includes other transfers along with workers' remittances.

[161] The following summary is derived from El Qorchi, Maimbo and Wilson, "Informal Funds Transfer System: An Analysis of the Informal Hawala System", IMF and World Bank, March 24, 2003.

[162] Informal money transfers are often conducted within hours, and often faster than formal financial institutions.

[163] Many informal transactions are done on the basis of a code of honor. Default risk is generally covered. In some cases, trusted individuals in/from the community and/or in regular touch with the home community are called upon for the actual distribution of funds. However, in many cases, this is actually done through debits and credits, rather than via the physical transport of cash.

[164] This includes language, gender considerations, literacy levels, village/town bonds of trust, and other considerations that can serve as barriers for individuals re banks, credit unions and other formal financial institutions. For instance, a person not fluent in the language used by bankers will be deterred to open accounts. Cultures that have specialized divisions of labor in which one gender emigrates and remits while the other stays in the recipient country and receives funds may require less, not more, transparency in terms of actual transfers. Someone who is not literate or numerate will obviously have difficulties with bank forms. Migrants abroad may want to rely on someone who travels back to the "home town" on a regular basis to actually remit funds (even if not physically transporting funds), or on a trusted institution or figure in the community, rather than a bank or other institution that may well not have a branch or agency in the "home town".

[165] More flexible hours than with regulated institutions.

[166] Funds can be transferred from the home/shop by phone/fax/internet.

[167] As funds are usually not physically transported in these cases, a system of debits and credits can be used, just as a system of netting out obligations/arrears can be used. When working in two currencies, there are opportunities for foreign exchange gains.

exchanges (e.g., foreign exchange houses, brokers, money transmitters, export-import trade, travel agencies, telephone/call shops). Meanwhile, given the limited concern that informal transfer systems have about accounting, audit, tax, reporting, and general documentation, there have been limited transactions costs associated with such transfers.

While these features do not characterize the OECS members today, issues of offshore banking, money laundering, the financing of crime, and other issues were considered problematic several years ago. With the more concerted global effort to root out money laundering, the financing of terrorism, and other financial crimes, the OECS financial system has undergone significant reform in recent years. Yet, as noted in other volumes of the assessment, there are still many problems to be solved in the banks, credit unions, and the financial sector as a whole to increase intermediation levels, reduce costs, expand access to credit and other needed services, and to essentially make better use of the formal system as a catalyst for economic development.

As a subset of that effort, the focus on remittances seeks to identify problems that add to transactions costs, and to make recommendations on how incentives can be more favorably structured to increase service levels, bring down costs, and generally accommodate the growing flow of remittances. As an extension of that effort, the focus of this study is to make recommendations on how to encourage the use of remittance inflows increasingly for investment purposes that will potentially have a greater economic impact through income generation and job creation.

B. Acknowledgements

This study on workers' remittances in the member countries of the Organization of Eastern Caribbean States (OECS) is part of a broader financial sector assessment of the Caribbean region being conducted for USAID. Two separate volumes review deposit-taking and credit institutions, and the capital markets. A summary report includes key findings and recommendations from all three components of the financial sector assessment.

The study on remittances has been carried out by Michael Borish, President of Michael Borish and Company, Inc., under the management and direction of Deloitte Touche Tohmatsu Emerging Markets. Mr. Borish visited the Caribbean region twice during the period of August 3-September 6, 2003. The author would like to thank Mansfield Blackwood (Senior Technical Specialist) of USAID, Anna-Maria Eftimiadis (Project Manager) and Raheem Haji (Project Administrator) of Deloitte Touche Tohmatsu, and Bernard La Corbinière (private consultant) for their support, guidance and assistance. The author would also like to thank the many people in the Caribbean who took the time to meet, and for individuals who were willing to discuss issues over the phone and by email.

II. Statistics and Methodological Considerations

Figures are expressed either in US dollars ($) or Eastern Caribbean dollars (EC$). The former is primarily utilized because of the regional (Latin America and the Caribbean) and international comparisons that are made throughout the report. However, the tables frequently have both currencies presented. The EC$ has been pegged to the US dollar for decades, at EC$2.7 per US$1.

In general, remittances are confusing from an accounting or statistical standpoint. Conceptually and geographically, they are international in scope. The typical transaction involves changes in international assets and liabilities. However, in terms of the actual transfer process, there is usually *not* a physical movement of funds. Rather, it is more like a debit and credit operation, with the payment instruction determining which accounts are debited and credited.[168]

Informal transactions generally go unrecorded. As regimes liberalize, the level of informality decreases due to more competitive formal financial sectors (lower fees, better service, etc.) plus less distortion in terms of exchange rates. This generally applies to the OECS countries, where capital controls are limited, exchange rates are pegged, and a significant number of people have accounts with banks or credit unions.

The core figures utilized in this assessment are primarily from the Eastern Caribbean Central Bank (ECCB). The methodology utilized is inexact by the Central Bank's own admission. Essentially, the ECCB increases the previous year's total by the real GDP growth rates of the G-7 countries. The rationale for this approach is that most of the overseas population of the OECS countries is in the United States, Canada and the UK. Thus, there should be close correlation between these growth rates, the economic performance of OECS nationals abroad, and the consequent flow of remittances back home.

Having a precise measure for workers' remittances is virtually impossible, as there are no specific recording forms classified as remittances that clear through the payment system. Unlike 22[169] LAC countries whose workers' remittance inflow figures[170] have been recorded and published by the IMF,[171] there are nearly as many countries in the LAC region that do not publish such figures. This is true of all the OECS countries in terms of both inflows and outflows. Thus, the figures of the OECS do not have the same kind of statistical confidence that is implied in the figures of other countries reporting through the IMF. On the other hand, many countries reporting remittances have high levels of informal activity, and thus may actually have significant remittance figures captured in "errors and omissions." In general, inside and outside the OECS, some remittances are sent informally,[172] or in-kind,[173] making precise measurement difficult under any circumstances. Considering that most remittances are small in value and well below the EC$ 10,000 limit[174] that must be declared, this would be a challenge even if reporting forms were more specific. Thus, the figures used are recognized as imperfect and imprecise.

While there are significant problems with the methodology utilized for estimates of remittance inflows, there are also reasons to believe that the estimates may not be as inaccurate as in some other regions of the globe. There are four main reasons for this view:

First, banks (and the ECCB) are responsible for clearing. Thus, remittances that are sent through other channels, such as credit unions and money transfer companies (i.e., Western Union, Money Gram) are cleared through bank accounts. While there is no specific remittance classification in bank documentation, funds coming in from abroad can frequently be differentiated from insurance payments,

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168 This assumes "normal" accounting standards, and not other entries based on other business considerations (e.g., illegal, third party).

169 Figures for Trinidad and Tobago have not been available or published since 1999. However, the IDB has estimates for 2000 (see M. Orozco, "Costs, economic identity and banking the unbanked", Inter-American Dialogue, March 26, 2003).

170 These are "credit" figures. Outflow ("debit") figures are published by 17 LAC countries. There may be some overlap, as outflows from one LAC country may be an inflow in a separate LAC country.

171 See *Balance of Payments Statistics Yearbook*, IMF, 2002.

172 The transactions by which people travel to the region and distribute funds are not captured in official statistics, although they eventually are captured in the form of consumption, bank or credit union deposits, etc.

173 The "barrel" trade around Christmas time is considered a period in which significant "remittance" flows occur in the form of gifts and income supplements.

174 This is about US$3,700-equivalent.

pension payments, etc. If nothing else, this will leave a large residual under private transfers that are actually remittance flows.

Second, OECS nationals are accustomed to having bank accounts. While they may not be as "banked" abroad as they are at home, they are generally more accustomed to having bank accounts than many of their peers from Latin America who live abroad and rely on informal and non-bank systems for transfers back home. There are exceptions, as lower income people in the OECS member states do not always have accounts. Nonetheless, migrants from OECS countries are more accustomed to having bank accounts and being more integrated into the banking system than many other migrants living abroad. This suggests that many are accustomed to using banks. To the extent that they are not, they are accustomed to using money transfer companies (i.e., Western Union, Money Gram), both of which have been active in the OECS countries since the mid-1990s.

Third, informal flows that are common to countries with high taxation, foreign exchange and capital controls, dysfunctional banks, and poorly functioning governments frequently have high levels of informal funds transfers.[175] This is not the case in the OECS. These countries have reasonable or comparatively low tax rates, open economies, no significant foreign exchange or capital controls,[176] and governments that are perceived to be moderate-to-good in terms of corruption (although perceptions of and trust in government vary from country to country, and affect investment, the tax base, and general initiative). Thus, the incentives for informal transfers are less in the OECS than in many other countries, suggesting that much of what comes through is mostly captured in the formal statistics, albeit not precisely.

Fourth, banks and other financial institutions have gotten more serious about apprehending money laundering and other financial crimes. Know Your Customer policies are now in place. Suspicious transactions are being monitored. Countries have set up Financial Intelligence Units to investigate suspicious activities. Money transfer companies, credit unions, banks, and other financial firms either submit daily transaction reports to the authorities for evaluation, or submit reports upon demand by the authorities.[177] While not full proof, there is clearly more of an effort now to constrain money laundering, the financing of terrorism, and other financial crimes. This means that more data are available, and these data are being scrutinized more closely. This makes it more difficult for comparatively large remittances to make their way to the region.

The actual construction of the remittance figures is derived from the overall base of inward private transfers. Total inward private transfers are defined to include insurance payments, pension fund transfers, remittances, and other inflows. The ECCB estimates that these figures over the last five years have been fairly consistent year-to-year in the region. The exception is in 2000, when insurance claims were settled as a result of the hurricane damage in 1999. This mainly shows up in St. Kitts and Nevis. Cross-checks with other country figures showed more consistency than not. Also, the differences in St. Vincent and the Grenadines in 2000-02 were sufficient to use the Department of Statistics estimates there, rather than the figures from the ECCB. Thus, figures for the full five years are used from the Department of Statistics from 1998-2002 in St. Vincent and the Grenadines.

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175 For example, see El Qorchi, Maimbo and Wilson, "Informal Funds Transfer System: An Analysis of the Informal Hawala System", IMF and World Bank, March 24, 2003.

176 Approvals are required from the ECCB for the purchase of foreign exchange above EC$100,000.

177 In the case of Western Union, any request for information is automatically sent to its regional data center in Costa Rica for follow-up. The money transfer companies are not universally required to file daily reports.

Table 1: Inward Private Transfers

(EC$ millions)	1998	1999	2000	2001	2002
Anguilla	15.7	11.6	20.0	15.0	15.1
Antigua and Barbuda	28.3	56.1	39.9	32.2	32.9
Dominica	36.8	38.6	39.7	43.3	44.3
Grenada	59.8	64.3	65.9	66.9	68.2
Montserrat	1.0	13.3	3.3	2.0	2.1
St. Kitts and Nevis	80.9	59.6	184.6	66.8	67.7
St. Lucia	63.4	64.1	64.2	65.0	65.6
St. Vincent and the Grenadines	49.6	53.6	54.9	56.1	57.4
Total Estimated Inward Transfers	335.5	361.2	472.5	347.3	353.3

(US$ millions)	1998	1999	2000	2001	2002
Anguilla	5.8	4.3	7.4	5.5	5.6
Antigua and Barbuda	10.5	20.8	14.8	11.9	12.2
Dominica	13.6	14.3	14.7	16.0	16.4
Grenada	22.1	23.8	24.4	24.8	25.3
Montserrat	0.4	4.9	1.2	0.7	0.8
St. Kitts and Nevis	30.0	22.1	68.4	24.7	25.1
St. Lucia	23.5	23.7	23.8	24.1	24.3
St. Vincent and the Grenadines	18.4	19.9	20.3	20.8	21.3
Total Estimated Inward Transfers	124.3	133.8	175.0	128.6	130.9

Sources: figures from ECCB; author's calculations

Given this base, the remittance figures for the region are derived. Based on the ECCB formula, remittance inflow figures from 1998-99 and 2001-02 are equivalent to 90 percent of total estimated inward private transfers. In 2000, the figure is 69 percent. The difference in 2000 is due to the higher inflows of non-remittance transfers, namely insurance settlements that flowed to the region following hurricane damage in 1999. The exception to the ECCB formula for 2000 is St. Kitts and Nevis, where the Department of Statistics estimates are used because of the material difference between these and ECCB estimates.[178] Likewise, variances in figures for St. Vincent and the Grenadines have meant that this study uses the figures of the Department of Statistics of the Ministry of Finance there. Thus, taking into account all of these methodological considerations, remittance inflows for the region are estimated to be as follows:

[178] According to the Department of Statistics, remittance inflows into St. Kitts and Nevis in 2000 were EC$62.2 million. By contrast, using the 69 percent formula of the ECCB, the figure would have been EC$ 127.4 million.

Table 2: Estimated Remittance Inflows

(EC$ millions)	1998	1999	2000	2001	2002
Anguilla	14.1	10.4	13.8	13.5	13.6
Antigua and Barbuda	25.5	50.5	27.5	29.0	29.6
Dominica	33.1	34.7	27.4	39.0	39.9
Grenada	53.8	57.9	45.5	60.2	61.4
Montserrat	0.9	12.0	2.3	1.8	1.9
St. Kitts and Nevis	72.8	53.6	62.2	60.1	60.9
St. Lucia	57.1	57.7	44.3	58.5	59.0
St. Vincent and the Grenadines	48.5	49.8	53.7	58.8	72.1
Total Estimated Inward Remittances	305.9	326.6	276.7	320.9	338.4

(US$ millions)	1998	1999	2000	2001	2002
Anguilla	5.2	3.9	5.1	5.0	5.0
Antigua and Barbuda	9.4	18.7	10.2	10.7	11.0
Dominica	12.3	12.9	10.1	14.4	14.8
Grenada	19.9	21.4	16.8	22.3	22.7
Montserrat	0.3	4.4	0.8	0.7	0.7
St. Kitts and Nevis	27.0	19.9	23.0	22.3	22.6
St. Lucia	21.1	21.4	16.4	21.7	21.9
St. Vincent and the Grenadines	18.0	18.4	19.9	21.8	26.7
Total Estimated Inward Remittances	113.3	121.0	102.5	118.8	125.3

Sources: figures in EC$ are from the ECCB, and the Departments of Statistics of St. Kitts & Nevis, and St. Vincent and the Grenadines; US$ figures are author's calculations

The figures have been compared with the individual country estimates (when available) of the respective authorities (e.g., Departments of Statistics, Ministries of Finance). While there are some variances,[179] apart from the 2000 St. Kitts and Nevis figure and overall figures for St. Vincent and the Grenadines, the figures are similar enough to use from the ECCB.

The OECS figures for remittance inflows approximate 4.2 percent of GDP. While lower than several other LAC countries, the 4.2 percent figure is consistent with many other developing and middle-income countries. Among the LAC countries with higher remittance-to-GDP ratios[180] are the Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Jamaica, and Nicaragua.[181] This leaves another 15 or so

179 For instance, the average annual difference in worker remittance "credit" (inflow) figures was 0.3 percent in Dominica. Figures were not available in Antigua, Grenada and St. Lucia. St. Kitts and Nevis and St. Vincent and the Grenadines are discussed in the text.

180 Figures from the other countries are based on average remittances from 1998-2001 divided by GDP. This may understate the other countries' ratios relative to the OECS countries, since the latter is the average of both remittance flows and GDP. In the case of the other OECS countries, the 2002 GDP figure is generally higher than what the average would be from 1998-2001.

181 Cuba very likely has higher figures as well.

countries with lower ratios. Thus, the OECS members appear to be in the slightly higher range across the region relative to GDP, which is fully reasonable considering the comparative number of people living abroad. This suggests that the remittances captured in the statistics are reasonable for purposes of evaluation.

In terms of individual incomes, the OECS figures approximate $218 per year per capita[182] in annual remittances, which is higher than virtually all LAC countries. Only Barbados ($267), El Salvador ($249), and Jamaica ($295) exceed the OECS average, and none of them by much. Thus, the figures would suggest that the remittance information is being captured reasonably well, notwithstanding the inability to have more precise estimates due to limitations on information reported.

It should be noted that Mexico and Central America have much higher levels of remittance flows than the OECS, as do some other communities where migration has been significant (e.g., Dominican Republic, Haiti, Jamaica). However, when these figures are put on a more standardized basis (i.e., relative to GDP or per capita incomes), they appear to be reasonable.

As for the challenge of unrecorded remittance flows, this risk is less likely due to the general penetration of the banking sector (directly and indirectly) in the economies of the OECS,[183] and the sector's key role in clearing transfers. Because banks are responsible for clearing, and because of the other incentives noted above, there is less reason to believe unrecorded or informal remittance transfers are significantly higher than 10-15 percent, the lower bound of countries for which informal estimates are available.[184] Even if 25 percent higher, this would still mean that remittance inflows would not exceed five percent of GDP at market prices.[185] Thus, compared to other Caribbean and some Latin American markets, remittances would still be less as a share of GDP than many other economies.[186] On the other hand, even at four percent, the inflow of remittances remains an important item in the balance of payments, and a significant contribution to the safety net for lower income people.

III. Economic Impact of Remittance Inflows in the Eastern Caribbean

A. Introduction

This section reviews the economic impact of remittances, mainly *inflows*, in the Eastern Caribbean states. There are remittance *outflows*, some of which are intra-OECS, and others which flow from OECS members to non-member states. Based on ECCB data, private transfers out[187] of the OECS countries approximated $43.8 million-equivalent per year from 1998-2002, or about 32 percent of total private transfers into the OECS member states. This is reported to include sizeable flows to Guyana and the

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182 Weighted average from 1998-2002.

183 Banking assets-to-GDP are 141.44 percent (weighted average, but excluding Anguilla and Montserrat) in the OECS countries**.** By contrast, countries like Mexico and the Central American countries have lower ratios, averaging 49.5 percent on a weighted basis. In particular, Costa Rica, Guatemala and Mexico have low penetration ratios of less than 50 percent. (All figures calculated from *International Financial Statistics*.) Only 37 percent of employed Mexicans are reported to have bank accounts (Government estimates; see "Changing co-ops", *The Economist*, August 9, 2003).

184 See simulation model utilized in El Qorchi, Maimbo and Wilson, "Informal Funds Transfer System: An Analysis of the Informal Hawala System", IMF and World Bank, March 24, 2003.

185 The argument could be made as well that GDP is also underestimated and, therefore, the ratio is lower.

186 Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Jamaica and Nicaragua. Also, in all probability, Cuba.

187 EC$591.9 total, converted at EC$2.7 per US$1. Figures are debits to "other sectors" under Current Transfers of the balance of payments. No effort was made to differentiate worker remittance outflows from any insurance or pension payments, or any other non-remittance transfers.

Dominican Republic, depending on the member state, although specific tracking of outflows was not done for this study.

As noted above, this section evaluates the impact of remittance inflows on the OECS economies. This includes remittances relative to GDP and per capita incomes, as well as major balance of payment items. These items include merchandise exports, gross tourism receipts, foreign direct investment, Government borrowings and interest payments, and overseas development assistance. An effort is made to review general trends, and then to focus on individual country trends. Tables include data for Anguilla and Montserrat as well as the six member states.

B. Regional Impact and the OECS

As elsewhere around the globe, the economic impact of remittances is perceived to be important in the Eastern Caribbean, albeit less important than in other regions. Remittance inflows have been about US$110-125 million a year for the OECS region, accounting for about four percent of GDP. This is less than other parts of the Latin America-Caribbean (LAC) region, as well as other parts of the globe. For instance, the IDB claims there are six countries in the LAC region where remittances exceed ten percent of GDP,[188] with Central America being particularly prominent. While the Eastern Caribbean figure is lower than some other parts of LAC, it is in keeping with some neighboring Caribbean countries. For example, in Barbados, the figure in 2001 was $100 million in remittance inflows, or four percent of GDP.[189] While OECS ratios are lower than in other parts of LAC, the four percent share in the OECS countries is higher than about two thirds of the other LAC countries. Irrespective of the comparative regional measures, they are important by themselves, particularly given the openness of their economies, the fragility of the tax base, the small size of each of the countries, the reliance on tourism receipts for foreign exchange, and above all, the vulnerability of the region's small economies to external events and natural disasters.

Remittance inflows are equivalent to about 13 percent of gross tourism receipts, and more than 41 percent of merchandise exports. Likewise, they are equivalent to about 37 percent of inward direct investment, a level that has been higher proportionally since 2001. They also exceed Government transfers and ODA received, thus helping to provide an income supplement and a safety net as Government support exhibits declines. The summary table below presents key figures for the region to assess economic magnitude.

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188 See http://www.iadb.org/. Separate calculations using IMF data point to El Salvador, Ecuador, Haiti, Honduras, Jamaica and Nicaragua as the countries with the highest remittance inflows when compared to GDP. (See IMF, *International Financial Statistics* for 2001 GDP converted to US$ at annual average rates; and workers' remittances in the *Balance of Payments Statistics Yearbook*, 2002). The IDB cites the Dominican Republic as well based on earlier figures. Increasing dependence on remittances may be a more recent development in Honduras.

189 Figures are from the Central Bank of Barbados and the IMF.

Table 3: Key Remittance Indicators for the Organization of Eastern Caribbean States

	1998	1999	2000	2001	2002
Estimated Remittance Inflows (EC$ millions)	305.90	326.60	276.70	320.90	338.40
Estimated Remittance Inflows (US$ millions)	113.30	121.00	102.50	118.80	125.30
Remittances/GDP	4.35%	4.42%	3.62%	4.18%	4.30%
Estimated Remittances per Capita (US$)	222.00	242.00	190.00	212.00	224.00
Remittances/Gross Tourism Receipts	12.52%	13.19%	11.05%	13.61%	14.55%
Remittances/Merchandise Exports	40.92%	41.07%	33.38%	45.21%	46.49%
Remittances/Inward Direct Investment	34.78%	34.19%	30.68%	40.09%	45.12%
Remittances/Government Borrowings	140.49%	127.13%	98.40%	54.39%	77.09%
Remittances/Government Interest Payments	354.36%	325.43%	206.23%	200.36%	157.20%
Remittances/Overseas Development Assistance	138.90%	179.12%	122.11%	128.25%	151.06%

Notes: Remittance inflow figures from 1998-99 and 2001-02 = 90% of total estimated inward private transfers; in 2000 = 69%; exceptions are for 2000 in St. Kitts and Nevis, where the Financial Secretariat estimates are used, and general figures for St. Vincent and the Grenadines; for percentages, weighted averages are used for all eight OECS members

Sources: figures from ECCB, Departments of Statistics; author's calculations from figures

C. Remittance Inflows as a Share of GDP and Per Capita Incomes

Remittances from LAC figure more prominently on average than other regions of the world.[190] For instance, according to the Inter-American Development Bank, approximately $32 billion in remittances flowed into the economies of LAC in 2002.[191] The LAC region accounted for about 31 percent of global worker remittance flows in 2002, more than any other region of the globe. In particular, on a total value basis, Mexico benefits significantly from remittances sent back from the US.[192] Likewise, Brazil benefits from remittances, although far less than Mexico on a per capita basis.[193] These two countries accounted for half of total remittances in 2002. Moreover, the IDB projects remittance inflows to exceed $300 billion in value for the decade from 2001-10. One estimate is that the economic multiplier of remittances is three to four times,[194] thus the potential impact on economic development could be substantial.

As noted, the Eastern Caribbean's share of remittance inflows is about four percent of GDP, and has been increasing the last two years. This is from a base that is more than most countries in the LAC region, where the norm for remittances is to account for less than three percent of GDP.[195] However, as noted,

[190] According to the IDB, South Asia accounts for 20 percent, Middle East/North Africa for 18 percent, East Asia/Pacific for 14 percent, Europe/Central Asia for 13 percent, and southern Africa only 5 percent.

[191] The total inflow figure reported by the IMF for 2001 was nearly $21 billion. As noted, this figure does not include remittance inflows to about 15 LAC countries. Omissions include such countries as Chile, Cuba, Haiti and Uruguay, all of which may have significant worker remittance inflows. The difference between 2001 and 2002 figures likely reflect an increase in flows plus more accurate reporting. The second factor may be more important than the first, given the lackluster US economy in 2002.

[192] In 2002, these were estimated to approximate $10.5 billion, or about one third of total remittance flows to the LAC region.

[193] Brazil's remittance flows were estimated at $4.7 billion in 2002, or about 15 percent of total LAC remittance flows. On a per capita basis, this was about $27, as compared with Mexico's $103. (Per capita basis is inward remittance flows divided by national population figures as cited from *International Financial Statistics* of the IMF.)

[194] See "Making the most of an exodus", *The Economist*, August 2, 2003.

[195] Argentina, Bolivia, Brazil, Colombia, Costa Rica, Guatemala, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela had averages at or below 3 percent in 2002.

there is significant variation throughout the region, as some countries have high levels of remittance inflows, while others show very low levels relative to GDP and per capita incomes. In several countries, the ratio is increasing, reflecting increasing efforts in the US and other markets to formalize remittance transmission,[196] as well as efforts on the part of migrant communities to become more effectively organized. There is also the simple link of families, particularly in some of the countries where poverty is rampant (e.g., Haiti), civil war a recent memory (e.g., El Salvador, Guatemala, Nicaragua), and economic dislocation a current challenge (e.g., Jamaica). This suggests that the OECS countries are less dependent on remittance inflows than a few other countries of the LAC region (and other parts of the world), but that these inflows are actually as or more important than other countries whose remittance-to-GDP ratios are lower, due to the vulnerability and limitations of the OECS economies.

As for overall reliance on remittance flows, St. Kitts and Nevis consistently shows the highest average per capita remittance figures year-on-year. This is largely attributed to the number of workers in the US Virgin Islands working at the Hess petroleum plant. In recent years, they have been followed by St. Vincent and the Grenadines, Grenada, and Dominica, with offshore communities mainly in New York and London remitting funds back to family. These three countries are close to the average for the OECS, while St. Kitts and Nevis is well above the average. St. Lucia and Antigua have the lowest ratios. In general, the remittances serve as a needed income supplement to people whose per capita incomes are generally below the OECS norm of $5,200.

One may conclude that the wealthier the country, the lower the reliance on remittance flows. However, this would suggest that St. Kitts and Nevis would be less dependent on remittances as well, given that they have the second highest per capita incomes of the OECS after Antigua and Barbuda. Instead, St. Kitts and Nevis are more than twice the OECS norm for per capita remittance inflows. In addition, extending the logic that poor countries must have greater reliance on remittance inflows, St. Lucia has the lowest level of per capita remittances (along with Antigua), yet also has one of the lowest per capita incomes (unlike Antigua). Thus, there does not appear to be any particular link between per capita incomes and remittance flows. Other members appear to be close to the norm on a consistent basis apart from Montserrat, which fluctuates due to its precarious physical state.[197]

In terms of trends, remittances have increased at marginally higher levels than GDP. The average remittance inflows in 2001-02 were about 8.8 percent higher than 1998-2000 remittance inflows. St. Vincent and the Grenadines (29.2 percent), Dominica (24.2 percent), and Grenada (16 percent) all showed fairly substantial increases, whereas Antigua, Montserrat, and St. Kitts and Nevis experienced declines. As for GDP, the OECS increase (2001-02 vs. 1998-2000) was 5.6 percent. The highest increase was recorded by St. Kitts and Nevis (13.2 percent), whereas Dominica recorded a slight decline of 2.6 percent. Thus, while performance varied across countries, in general, the OECS members showed increases in both remittances and GDP from 2001-02 compared to the prior three years. However, as discussed below, the growth in remittances did not cover the declines in other key items, including gross tourism receipts, merchandise exports, or foreign direct investment. Furthermore, the remittance increases were minimal relative to some of the debt taken on by OECS governments. In particular, Antigua and Barbuda has shown large increases in borrowings since 2001, while remittances have declined from earlier years.

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[196] See S. Bair, "Improving Access to the U.S. Banking System Among Recent Latin American Immigrants", Multilateral Investment Fund of the Inter-American Development Bank, 2003.

[197] In recent years, the population of Montserrat has declined to just a few thousand people, raising questions about whether the island dependency of the UK will continue to be inhabited.

Table 4: GDP and Remittance Inflows as a Share of GDP

GDP at Market Prices (US$ millions)	1998	1999	2000	2001	2002
Anguilla	99.90	106.10	108.00	109.10	112.10
Antigua and Barbuda	620.00	651.90	665.30	697.90	720.90
Dominica	259.40	267.70	271.20	264.40	253.80
Grenada	350.60	377.90	409.00	396.30	401.40
Montserrat	37.60	35.40	34.80	34.70	38.00
St. Kitts and Nevis	287.20	304.50	328.60	341.70	352.90
St. Lucia	631.20	665.20	680.00	650.80	672.10
St. Vincent and the Grenadines	316.70	330.60	335.40	346.40	361.10
Total GDP	2,602.60	2,739.30	2,832.30	2,841.30	2,912.40

Remittances as a Share of GDP	1998	1999	2000	2001	2002
Anguilla	5.24%	3.64%	4.73%	4.57%	4.49%
Antigua and Barbuda	1.52%	2.87%	1.53%	1.54%	1.52%
Dominica	4.73%	4.81%	3.74%	5.46%	5.82%
Grenada	5.69%	5.67%	4.12%	5.63%	5.66%
Montserrat	0.89%	12.52%	2.42%	1.92%	1.84%
St. Kitts and Nevis	9.39%	6.52%	7.01%	6.52%	6.40%
St. Lucia	3.35%	3.21%	2.41%	3.33%	3.25%
St. Vincent and the Grenadines	5.68%	5.57%	5.93%	6.29%	7.40%
Weighted Average	4.35%	4.42%	3.62%	4.18%	4.30%

Sources: figures from ECCB, Departments of Statistics; author's calculations from figures

D. Remittance Inflows as a Share of Gross Tourism Receipts

Throughout the Caribbean, and certainly in the OECS, there is a high level of dependence on tourism for foreign exchange, employment, and ancillary goods and services. Tourism receipts have averaged 32 per cent of GDP in the region from 1998-2002, and are the largest generator of foreign exchange. Thus, orders of magnitude are important when comparing remittance inflows to tourism receipts.

However, recent trends have shown declines in tourism receipts. In 2001-02, gross tourism receipts declined 5.4 percent compared to averages from 1998-2000. The declines were broad-based, with only St. Vincent and the Grenadines experiencing an increase among the OECS countries. (Anguilla and Montserrat also experienced increases.)

The OECS region's annual remittance inflows tend to be about 12-15 percent of tourism receipts. However, there is significant variation across countries. St. Kitts and Nevis, Grenada, Dominica, and St. Vincent and the Grenadines show far higher figures, generally two to three times the OECS average. By contrast, Antigua and Barbuda and St. Lucia show far less reliance, with remittances well below the norm for the region.

Table 5: Remittance Inflows as a Share of Gross Tourism Receipts

Gross Tourism Receipts (US$ millions)	1998	1999	2000	2001	2002
Anguilla	61.70	57.70	56.30	62.50	57.90
Antigua and Barbuda	281.30	290.00	290.60	272.10	268.70
Dominica	46.50	50.70	48.20	46.30	44.10
Grenada	83.10	88.20	92.50	83.40	88.90
Montserrat	5.60	8.10	9.00	8.50	8.20
St. Kitts and Nevis	76.00	67.70	58.40	61.90	56.10
St. Lucia	277.60	278.60	297.40	258.40	256.20
St. Vincent and the Grenadines	73.20	76.50	75.30	80.20	81.30
Total Gross Tourism Receipts	905.10	917.30	927.70	873.20	861.50

Remittances as a Share of Gross Tourism Receipts	1998	1999	2000	2001	2002
Anguilla	8.49%	6.71%	9.07%	7.98%	8.69%
Antigua and Barbuda	3.35%	6.45%	3.51%	3.95%	4.08%
Dominica	26.37%	25.36%	21.06%	31.18%	33.45%
Grenada	23.98%	24.30%	18.20%	26.72%	25.56%
Montserrat	5.96%	54.91%	9.41%	7.86%	8.51%
St. Kitts and Nevis	35.47%	29.36%	39.42%	36.00%	40.22%
St. Lucia	7.61%	7.67%	5.52%	8.38%	8.54%
St. Vincent and the Grenadines	24.55%	24.10%	26.42%	27.18%	32.86%
Weighted Average	12.52%	13.19%	11.05%	13.61%	14.55%

Sources: figures from ECCB, Departments of Statistics; author's calculations from figures

E. Remittance Inflows as a Share of Merchandise Exports

The OECS region is fairly limited in the merchandise it can produce for export. Trends in recent years show persistent declines in the relatively small base of merchandise exports. The average in 2001-02 was down 9.1 percent in the OECS, with the greatest declines affecting all OECS countries except St. Kitts and Nevis and Antigua and Barbuda.

In the agricultural sector, traditional products such as bananas and sugar cane have either benefited from tariff protection that will disappear under WTO rules in the coming years, or have been perennial loss-makers. Thus, value-added from these traditional products has declined (e.g., bananas) or become value-subtracting (e.g., sugar cane). As a result, traditional agricultural commodities are no longer viewed as viable sources of foreign exchange generation, and countries of the region are looking for non-traditional products that are more niche-oriented and less dependent on economies of scale.

Likewise, in the industrial sector, OECS countries do not have the scale of production that can compete with neighboring countries in the Caribbean such as Trinidad and Tobago or Jamaica, let alone the larger countries in Latin America. Thus, there is little in the manufactured goods sector that is exported from the OECS countries. As a fundamental indication, the balance of payments show deep deficits in the merchandise trade sector relative to imports.

Because of the weakness of the merchandise export base, remittance inflows have become that much more important. In effect, they compensate for some of the natural lack of agricultural and industrial competitiveness of the region. Remittances are also that much more important because earnings from agricultural and industrial exports will come under continued pressure as international trade rules are liberalized.

Among the OECS members, remittances are about 40-45 percent of merchandise exports. The highest ratios are found in Anguilla, Antigua and Barbuda, Grenada, and St. Vincent and the Grenadines. In the case of the first two, the ratios actually reflect the lack of exports, considering that neither relies too heavily on remittances. In the last two, the ratio reflects comparatively higher reliance on remittances, with the increased ratio particularly noteworthy in St. Vincent and the Grenadines.

Table 6: Remittance Inflows as a Share of Merchandise Exports

Merchandise Exports (US$ millions)	1998	1999	2000	2001	2002
Anguilla	3.50	2.90	4.40	3.50	4.80
Antigua and Barbuda	14.80	15.80	16.30	17.10	17.40
Dominica	62.00	55.70	53.60	43.40	41.90
Grenada	41.60	69.50	78.10	59.50	39.60
Montserrat	1.20	1.30	1.10	0.70	1.50
St. Kitts and Nevis	41.90	44.30	49.40	52.50	60.80
St. Lucia	62.20	55.70	53.40	44.60	64.40
St. Vincent and the Grenadines	49.70	49.40	50.60	41.60	39.30
Total Merchandise Exports	276.90	294.60	307.00	262.90	269.60

Merchandise Exports (Percentages)	1998	1999	2000	2001	2002
Anguilla	150.32%	133.85%	115.97%	141.63%	105.35%
Antigua and Barbuda	63.68%	118.52%	62.43%	62.86%	63.00%
Dominica	19.77%	23.08%	18.93%	33.25%	35.25%
Grenada	47.93%	30.85%	21.55%	37.47%	57.42%
Montserrat	27.27%	352.06%	75.90%	94.74%	47.25%
St. Kitts and Nevis	64.43%	44.81%	46.63%	42.43%	37.13%
St. Lucia	33.98%	38.38%	30.70%	48.63%	33.97%
St. Vincent and the Grenadines	36.20%	37.30%	39.33%	52.35%	67.97%
Weighted Average	40.92%	41.07%	33.38%	45.21%	46.49%

Sources: figures from ECCB, Departments of Statistics; author's calculations from figures

F. Remittance Inflows as a Share of Foreign Direct Investment

The OECS region has experienced a decline in inward (foreign) direct investment in recent years. The decline has been particularly acute in St. Lucia and St. Vincent and the Grenadines, where the average in 2001-02 for these two countries has been about 35 percent of levels attracted in 1998-2000. (By contrast, Antigua, Dominica, Grenada, and St. Kitts and Nevis all increased their FDI in 2001-02 compared with 1998-2000.) Thus, the relatively limited flow of remittances to St. Lucia exacerbates a broader problem of investment and financial flows into the country. In the case of St. Vincent and the Grenadines, the comparatively high attraction of remittance flows helps to offset some of the decline in FDI.

With the decline in FDI, the OECS members have experienced an increase in remittances as a share of FDI. Remittances were about 34-35 percent of FDI in 1998-99. This ratio has climbed to 45 percent in 2002. In particular, St. Vincent and the Grenadines, Dominica and St. Lucia show high ratios. Once again in the case of St. Lucia, the relatively low level of remittances suggests its ratio is high because its FDI has significantly declined from earlier successes.

Table 7: Remittance Inflows as a Share of Foreign Direct Investment

Foreign Direct Investment (US$ millions)	1998	1999	2000	2001	2002
Anguilla	28.40	38.10	39.50	32.80	33.30
Antigua and Barbuda	27.50	42.90	51.60	56.70	54.10
Dominica	9.00	19.10	13.60	15.40	15.60
Grenada	49.90	43.00	39.40	51.00	43.10
Montserrat	2.60	8.30	3.50	1.10	1.10
St. Kitts and Nevis	33.40	59.60	99.00	90.10	83.00
St. Lucia	86.00	86.50	58.30	28.40	28.50
St. Vincent and the Grenadines	89.00	56.10	29.20	21.00	19.00
Total Inward Direct Investment	325.70	353.80	334.00	296.40	277.80

Remittances as a Share of Foreign Direct Investment	1998	1999	2000	2001	2002
Anguilla	18.45%	10.14%	12.95%	15.20%	15.10%
Antigua and Barbuda	34.33%	43.56%	19.76%	18.94%	20.27%
Dominica	135.74%	67.20%	74.64%	93.68%	94.70%
Grenada	39.99%	49.80%	42.74%	43.76%	52.73%
Montserrat	13.04%	53.44%	23.97%	62.07%	65.17%
St. Kitts and Nevis	80.72%	33.34%	23.27%	24.72%	27.18%
St. Lucia	24.57%	24.70%	28.16%	76.27%	76.78%
St. Vincent and the Grenadines	20.19%	32.82%	68.19%	103.59%	140.31%
Weighted Average	34.78%	34.19%	30.68%	40.09%	45.12%

Sources: figures from ECCB, Departments of Statistics; author's calculations from figures

G. *Remittance Inflows as a Share of Government Borrowings*

The OECS region has increased its Government borrowings in recent years. The average for the last two years (2001-02) is generally about two times the average from 1998-2000. This may reflect a weakening of public finances, considering that the economy has slowed in the wake of the global slowdown. This is evident in all the major categories covered above, including tourism receipts, merchandise exports, and foreign direct investment. In all three cases, these figures have declined from peaks in 1999-2000. Thus, with the general weakening of the region's balance of payments, there has been an increase in long-term government borrowings to cover for some of the gaps. These trends have been most apparent in Antigua and Barbuda, where 2001-02 borrowings were more than four times the average in 1998-2000, and in Grenada, where the average is more than three times. Other countries, such as St. Vincent and the Grenadines (1.2 times), St. Kitts and Nevis (1.4 times) and St. Lucia (1.5 times) have shown more discipline. Dominica was closest to the OECS average (2.2 times).

Because of the general increase in Government borrowings in recent years, remittances as a share of these borrowings have declined. Through 1999, remittances exceeded Government borrowings, and in 2000 they were nearly equal. However, these ratios have been reversed since 2001. In particular, Antigua and Barbuda have seen their remittances decline from more than two times Government borrowings in 1998 to 32 percent in 2002. Grenada has likewise seen a major shift, with remittances declining from more than two times Government borrowings in 1998 to about 50 percent in 2001-02.

Table 8: Remittance Inflows as a Share of Government Borrowings

Government Borrowings (US$ millions)	1998	1999	2000	2001	2002
Anguilla	1.40	-	0.70	1.90	0.20
Antigua and Barbuda	4.60	15.90	9.70	47.30	34.30
Dominica	7.10	10.40	16.00	30.00	19.40
Grenada	9.20	17.00	15.80	42.70	44.40
Montserrat	-	-	-	-	-
St. Kitts and Nevis	22.90	22.70	12.00	32.20	19.60
St. Lucia	15.60	22.60	41.50	44.60	37.00
St. Vincent and the Grenadines	19.90	6.40	8.50	19.70	7.70
Total Government Borrowings	80.60	95.20	104.10	218.50	162.60

Remittances as a Share of Government Borrowings	1998	1999	2000	2001	2002
Anguilla	362.31%	14914.29%	707.69%	258.75%	2613.46%
Antigua and Barbuda	207.07%	117.28%	105.48%	22.68%	31.98%
Dominica	173.40%	123.63%	63.56%	48.05%	76.09%
Grenada	216.14%	125.80%	106.74%	52.18%	51.19%
Montserrat	n/a	n/a	n/a	n/a	n/a
St. Kitts and Nevis	118.01%	87.50%	191.38%	69.18%	115.40%
St. Lucia	135.86%	94.57%	39.55%	48.55%	59.10%
St. Vincent and the Grenadines	90.22%	287.63%	234.12%	110.89%	345.07%
Weighted Average	140.49%	127.13%	98.40%	54.39%	77.09%

Sources: figures from ECCB, Departments of Statistics; author's calculations from figures

H. Remittance Inflows as a Share of Government Interest Payments

With the OECS region's increasing Government borrowings has come a rise in debt service costs. In general, interest service in 2001-02 has increased 76 percent from 1998-2000. The greatest impact has been felt by Grenada, with interest service in 2001-02 equivalent to 2.75 times levels serviced in 1998-2000. Dominica (2.18 times) and St. Kitts and Nevis (1.95 times) also experienced increases above the OECS norm (1.76 times).

With the rise in interest service has come a decline in remittance ratios. Whereas remittance inflows were generally more than three times interest service before 2000, they have since declined dramatically. By 2002, remittances were only 1.57 times interest service, less than half the coverage in 1999. The major declines have been in Grenada, Dominica and St. Kitts and Nevis. Antigua and Barbuda continues to have the lowest ratio, although this has been true every year since 1998.

Table 9: Remittance Inflows as a Share of Interest Service on Government Debt

Interest Payments (US$ millions)	1998	1999	2000	2001	2002
Anguilla	0.50	0.40	0.40	0.50	0.30
Antigua and Barbuda	12.90	11.00	15.30	15.00	23.70
Dominica	2.40	2.60	6.20	7.70	8.80
Grenada	2.80	4.20	5.20	6.90	15.40
Montserrat	0.10	-	-	-	0.10
St. Kitts and Nevis	5.10	7.90	8.30	11.40	16.40
St. Lucia	5.30	6.60	8.90	10.70	10.40
St. Vincent and the Grenadines	2.80	4.40	5.40	7.10	4.70
Total ECCU Government Interest Payments	32.00	37.20	49.70	59.30	79.70

Remittances as a Share of Government Interest Payments	1998	1999	2000	2001	2002
Anguilla	1086.92%	949.09%	1380.00%	961.07%	1698.75%
Antigua and Barbuda	73.40%	170.00%	66.50%	71.56%	46.19%
Dominica	501.82%	489.30%	163.25%	187.81%	168.73%
Grenada	717.60%	512.12%	324.79%	323.71%	147.90%
Montserrat	225.00%	11970.00%	7590.00%	4500.00%	630.00%
St. Kitts and Nevis	527.23%	251.12%	278.18%	196.09%	137.82%
St. Lucia	396.25%	322.29%	184.58%	201.72%	210.86%
St. Vincent and the Grenadines	638.68%	421.69%	368.01%	306.46%	565.65%
Weighted Average	354.36%	325.43%	206.23%	200.36%	157.20%

Notes: from ECCB Current Account (Interest on Government Transactions and debited Other Portfolio Investment Income, which includes interest paid on bonds by governments of Dominica (2000-02), Grenada (2002), St. Kitts & Nevis (1998-2002), and St. Vincent & the Grenadines (2002)

Sources: figures from ECCB, Departments of Statistics; author's calculations from figures

I. Remittance Inflows as a Share of Overseas Development Assistance

Unlike other parts of LAC and the globe, the OECS region has enjoyed fairly stable levels of overseas development assistance (ODA). In fact, ODA increased 13 percent in 2001-02 when compared to levels in 1998-2000. The increases have been fairly broad-based, with all but St. Lucia and St. Vincent and the Grenadines receiving higher levels of ODA. The greatest increases have been in St. Kitts and Nevis, Dominica and Grenada.

However, in absolute terms, ODA is still relatively small in the OECS states. Remittance inflows have been and continue to be greater than ODA received each year since 1998 (and perhaps earlier). Only Dominica and Antigua have had remittance levels lower than ODA in most years. This was true as well in St. Lucia in 1998-99, but since 2000 remittances have exceeded ODA. All other countries show their remittance levels are consistently higher than ODA on an annual basis.

Table 10: Remittance Inflows as a Share of Overseas Development Assistance

Overseas Development Assistance (US$ millions)	1998	1999	2000	2001	2002
Anguilla	1.40	1.90	3.60	2.40	1.80
Antigua and Barbuda	10.10	6.90	13.50	15.10	8.60
Dominica	12.30	9.40	9.60	15.30	16.20
Grenada	10.00	11.50	12.10	21.70	10.60
Montserrat	7.20	5.00	17.10	17.30	13.30
St. Kitts and Nevis	5.30	3.10	3.30	7.40	11.10
St. Lucia	23.10	23.30	13.90	6.50	10.70
St. Vincent and the Grenadines	12.10	6.50	10.80	7.00	10.70
Total ECCU ODA	81.60	67.50	83.90	92.70	83.00

Remittances as a Share of ODA	1998	1999	2000	2001	2002
Anguilla	362.31%	204.71%	140.82%	210.23%	283.13%
Antigua and Barbuda	93.64%	272.92%	75.63%	71.20%	128.18%
Dominica	99.46%	136.77%	105.36%	94.36%	91.03%
Grenada	198.60%	186.08%	139.48%	102.57%	215.37%
Montserrat	4.62%	89.33%	4.94%	3.86%	5.28%
St. Kitts and Nevis	509.16%	646.27%	688.05%	300.60%	202.90%
St. Lucia	91.59%	91.72%	117.81%	334.29%	203.59%
St. Vincent and the Grenadines	148.90%	282.09%	184.96%	309.68%	248.69%
Weighted Average	138.90%	179.12%	122.11%	128.25%	151.06%

Sources: figures from ECCB, Departments of Statistics; author's calculations from figures

IV. Sources and Uses of Remittance Flows to the OECS Countries

A. Introduction

This section reviews sources and uses of remittance flows in a general manner. Sources of remittance flows include a review of demographic information from the United States and Canada, as well as anecdotal information on communities in the UK and elsewhere. Uses of remittance flows evaluate reported information about how transfer monies are utilized, non-monetary forms of remittance flows, and how trends in the Eastern Caribbean compare with some of the research conducted by the IDB on Latin America. There is also a brief reference to hometown associations, common to some Latin American communities based in the US with well organized community development efforts that operate on a cross-border basis.

B. Sources of Remittance Flows

There is only fragmented information on sources of remittance flows from overseas communities of OECS nationals. The conventional view is that most of the overseas OECS population is in the United States, Canada, and the United Kingdom, with smaller pockets in other parts of the Caribbean and Europe. A significant migration to the UK occurred in the 1950s and 1960s, whereas the flow to North America increased in the 1970s. Today, more OECS nationals are thought to be on the eastern seaboard of the U.S. than the UK or Canada. However, there are also UK citizens who are the children of OECS nationals, some of whom visit fairly frequently. Thus, if those numbers were included, they might shift the balance. There is also a view that those who left for the UK 40-50 years ago have long had plans to return and retire in the Caribbean, and that this is a major source of investment in property development.

By contrast, anecdotally, OECS nationals in North America are generally not projected to return when ready to retire. Part of the contrast is the view that there were greater barriers to citizenship and acceptance in the UK in the 1950s-60s, whereas these barriers have come down since. One can argue the same barriers existed in North America, and that this was a deterrent to emigration to the US and Canada at the time. However, the current impression is that OECS nationals are now more welcomed in all three locations, and more likely to settle as a result. The reason for greater numbers leaving primarily for the United States is the sense that there are greater economic and educational opportunities.

There are only estimates of how many OECS nationals live abroad, and this is a moving figure. Some have become citizens of other countries, yet they retain ties to their OECS countries. Many people are abroad on a short-term basis (a few months, or a few years for study and training). However, taking these and other factors into account, rough estimates are that the OECS community abroad approximates 200,000. This would be about 35 percent[198] of the approximate population in the OECS countries as of 2000-01. The figure, if accurate, primarily applies to the US, Canada, and UK. The number would likely be higher when accounting for intra-OECS and intra-Caribbean migration. For instance, anecdotal estimates show that Antigua's population of about 70,000 is less than two-thirds Antiguan. Likewise, in many OECS member states, there were anecdotal reports that the population abroad equals or exceeds the population at home. Thus, the numbers abroad may not be 570,000, but they may be greater than 200,000.

General US Census data[199] from 2000 show that the foreign-born LAC population in the US approximated 16.9 million, equivalent to about 6 percent of the total population. Of this, the Caribbean population accounts for about 3.1 million, or 18 percent of people from the LAC region. Specific country-of-origin figures are not available. Therefore, it is not possible to determine the specific OECS component of this number. However, most of the Caribbean-born population is thought to be from Cuba, Jamaica, and Haiti along with Puerto Rico (who are naturalized US citizens at birth). Taking into account the relative population of the OECS (about 570,000) compared with the total for the Caribbean (about 22 million[200]), this would imply that OECS nationals account for about 2.6 percent of the total Caribbean population. Applied to the Caribbean-born population of the US, this would then approximate only 80,000. Considering that a smaller share resides in the UK and Canada, as well as some other locations, it is possible that this number is accurate. However, informal and anecdotal estimates put the number in the US much higher than 80,000. Much of the difference is likely in the form of people who are in the US illegally, including former students who have stayed in the US to work because of insufficient opportunities back home.

In terms of geographic location, about half of the Caribbean-born population in the US is in the northeast, with the New York metropolitan area being the main area of residence. The south has another 44.4 percent of the population, with the Miami area representing the largest concentration. Other communities in the US that have attracted Caribbean and, specifically, OECS nationals include Atlanta, Washington, DC, Philadelphia, and to a lesser extent, Chicago. The OECS community in the US is reported to run up and down the eastern seaboard, but to have sparse representation elsewhere in the United States.

As for date of arrival, Caribbean-born immigrants are diverse in terms of how settled they are. About 39 percent of Caribbean-born immigrants arrived in the US in 1990 or later. However, another 27 percent arrived in the 1980s, and 34 percent arrived in the US before 1980. If trends elsewhere among LAC-born immigrants apply to OECS nationals abroad, this would suggest that a declining fraction of the population

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198 This is consistent with the English-speaking Caribbean. See M. Orozco, "The Impact of Migration in the Caribbean and Central American Region", FOCAL, 2003.

199 See http://www.commerce.gov/

200 The figure excludes Cuba, Puerto Rico and US Virgin Islands.

is likely to send remittances on a long-term basis. This is based on survey findings commissioned by the IDB that found that nationals living abroad had a tendency to remit greater funds back in years six to ten once settled abroad, yet those remittances declined after 20 years abroad (notwithstanding higher incomes).[201] It is likely that about half of Caribbean-born immigrants in the US have been there for 20 years of so.

In terms of income, about half of family households earned more than $35,000 per year. Among married couples, about 58 percent were above the $35,000 per year figure. Non-family and unmarried immigrants are younger and have lower incomes. Referring back to the survey commissioned by the IDB that indicated nationals abroad were less likely to remit funds when they had incomes exceeding $40,000 than when their incomes were under $20,000,[202] this would suggest that about half of Caribbean or OECS nationals abroad are less likely to remit funds than more recent arrivals whose incomes may not be as high. This is likely due to a number of factors, not the least of which are they have become more settled in the US, their children may identify only partly with the Caribbean country of origin, and the inevitable aging process of older relatives and others who needed support when immigrants first arrived.

Other characteristics include:

- In terms of gender, Caribbean-born nationals are majority women (53.7 percent). Their locations do not deviate much from the norm, although there is a slightly higher concentration in the northeast. However, their median incomes ($22,073) are little more than half that of Caribbean males ($40,359).
- In terms of employment, the Caribbean-born population is generally employed. Unemployment rates are only 7.8 percent for women and 8.3 percent for men. While higher than the current national average of about 6.3 percent, they are lower than many other segments of the population. This suggests that OECS immigrants to the United States are more successful than many other immigrants, and this may also increase their incentive to stay and become more integrated abroad than to consider returning back to the Caribbean.

Data on OECS nationals in Canada are not available. However, according to Statistics Canada,[203] the immigrant population from the Caribbean and Bermuda totaled 294,050 as of 2001. This is little more than 5.4 percent of the total immigrant population in Canada, and less than one percent of the total Canadian population. Thus, Canada plays much less of a role in the overseas life of people from the Caribbean living and working abroad. Among the Caribbean-born immigrants, approximately 80 percent are from Jamaica, Haiti, and Trinidad & Tobago,[204] with the Jamaican community alone accounting for 72 percent of the total.[205] There is also a substantial Guyanese population living in Canada. Most English-speaking Caribbean-born immigrants to Canada reside in the greater Toronto region.

In terms of potential remittance flows from Canada to the OECS countries, one major consideration is that Scotiabank, Royal Bank of Canada, and CIBC are all widely represented throughout the Caribbean, and to some degree as well in the key metropolitan markets (i.e., New York, Toronto, London) where English-speaking Caribbean-born migrants are generally located. Thus, at a minimum, these three Canadian banks have an opportunity to target Caribbean-born immigrants living in Canada, the US and

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201 See "A Survey of Remittance Senders, U.S. to Latin America", Bendixen and Associates (for the IDB), and M. Orozco, "Remittances to Latin America and the Caribbean", IDB, 2002.

202 See "A Survey of Remittance Senders, U.S. to Latin America", Bendixen and Associates (for the IDB), and M. Orozco, "Remittances to Latin America and the Caribbean", IDB, 2002.

203 See http://www.statscan.ca/

204 See M. Orozco, "The Impact of Migration in the Caribbean and Central American Region", FOCAL, 2003.

205 According to Statistics Canada, Jamaican-born immigrants numbered 211,720 out of a total 294,050.

the UK. Unlike the US and UK banks that do not have a physical presence in the OECS region,[206] the Canadian banks have the opportunity to devise targeted marketing strategies that cater to the Caribbean-born population. This, in turn, can be accommodated by their presence in the OECS (and other Caribbean) countries with regard to savings instruments, investment plans, merchant banking operations, and other packages that might lead to incremental flows back to OECS countries. This has already been done by Scotiabank in at least one OECS country, with reportedly favorable results. However, such potential could be constrained by a number of competing demands, not the least of which are the financial requirements of the Caribbean-born immigrants abroad in meeting their own immediate and medium-term needs in North America,[207] as well as the perception that opportunities outside of property development and tourism in the OECS markets are limited. On the other hand, the OECS community abroad has reportedly responded to bonds and shares when offered by OECS members, with many instruments oversubscribed.[208] In some cases, more recent immigrants in North America are following the pattern of their counterparts who migrated to the UK in the 1950s-60s, returning and investing in personal retirement homes.

Data on OECS nationals in the UK were not available. However, from discussions throughout the OECS region, there has been a slow but steady repatriation of funds from those who left in the 1950s-60s. In addition to the normal remittance flow to assist family with income support, there has also been money sent back to buy land and build individual retirement homes. These flows have been partly from pensions that are now being paid out by UK authorities. However, it is commonly observed that migration flows to the UK are less now, and that North America (primarily the US) is where OECS nationals have migrated to since the 1970s. If patterns repeat themselves, this suggests that nationals living in the US (and Canada) might consider planning for retirement in the Caribbean, and that some of the funds coming from North America could be for the same purposes. However, there is no guarantee that such a pattern will repeat itself. Moreover, as most remittances are small, they are not considered to be for investment purposes. As noted earlier, immigrants appear to face fewer barriers to acceptance now than they did in North America and the UK 40 to 50 years ago. Thus, there is no assurance that the UK pattern will repeat itself with the OECS communities in North America.

C. *The Role of Overseas Organizations and Uses of Remittances*

Among the OECS communities abroad, there are scattered reports of organizations that have links back to the home country. Generally, OECS embassies and high commissions serve as the focal point for communities abroad to organize themselves. This has included notification of when prominent officials are visiting, and basic news items and events of importance. Often, the travel office for individual countries is in the same building as the embassy, consulate or High Commission.

Loose organizations sometimes mobilize resources and donate funds to charities and other causes. For instance, organizations from the eastern seaboard of the US (mainly New York, Washington D.C., and

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[206] The exception to the UK is Barclays which, via its new arrangement in the region with CIBC in the form of the First Caribbean International Bank, is now located in 15 LAC countries, mainly Caribbean. As for the US banks, they are reported to be peripatetic, rather than having branches in the OECS. The most dominant commercial banks are Citigroup and Bank of America. Bear Stearns is also reported to be active from the investment banking community.

[207] The Canadian banks are also active in the US, including in New York where the largest number of OECS nationals abroad live.

[208] This has been true as well in the domestic markets, when shares have been offered to households. For instance, individuals own 10 percent of the second largest bank in the region, the Bank of St. Lucia. The bank reported that these shareholders generally hold their shares, even to the point of framing them and putting them on their walls. This suggests there is a bit of national loyalty involved in share sales when offered. (It also suggests the market has too few securities available for purchase.) Such a sentiment should be part of the marketing campaign by banks and others to attract greater investment flows back to the OECS from abroad.

Atlanta) have reportedly donated funds to orphanages, homes for the elderly, health clinics, and other humanitarian causes. However, information on the amounts of these donations is not available, and there is nothing systematic or widespread.

There has not been any reported "hometown association" scheme of the sort that the Mexican or Salvadoran communities have organized out of the United States that leads to investment in roads, other infrastructure, housing, etc.[209] Nor has there been any known initiative to encourage closer ties on an organized basis, as has been reported anecdotally about the Jamaican community in New York and Toronto. In some cases, associations abroad are linked to the ruling party of government, or to opposition parties. This may make it easier for parties to fly non-residents back home (if eligible to vote) in exchange for votes. However, this simply perpetuates patronage, rather than stimulating investment. This also undercuts the willingness of many OECS nationals abroad to link any remittance flows to government-organized efforts that promote economic development. Again, when funds have been sent back in organized ways, they tend to support social infrastructure (e.g., health, education) in focused areas. What has been sent back is modest compared to the kinds of development projects being undertaken in parts of Mexico.

As for financial institutions with outreach programs, there is little to report. Scotiabank in Grenada has reported some success with marketing efforts in New York, Toronto, and London. Some other banks have begun initial research, and one or two have gone to the UK and North America to gather information. A credit union in Nevis is reported to have initiated an outreach program. This was focused on Nevis citizens in St. Croix, St. Thomas, St. Maarten, Philadelphia, and New York, with apparent results when measured by new accounts. Such efforts, if replicated by other credit unions, could help to strengthen the links with overseas communities, and with it the flow of remittances back to OECS markets. However, overall, OECS nationals abroad tend to transfer funds to family and others on a more private and individualized basis, rather than following any organized effort from governments or financial institutions.

The remittance inflows are generally used as income supplements for a range of needs—health care, clothing, food, child support, gambling/lotteries, etc. In some cases, they are used to purchase small inventories for commercial trade businesses. This is also a major portion of remittance outflows, essentially pre-payment for goods imported. For the most part, discussions throughout the region suggest that remittances are used to finance personal consumption and basic needs, not investment. The small average value of transactions through Western Union and Money Gram (see V-D below) reinforces this impression. Relative spikes in remittance inflows are basically during carnival season, the beginning of the school year (for fees, uniforms, books and supplies), and Christmas. As noted above, there are also significant in-kind remittances known as the "barrel trade."

209 For instance, hometown associations among Salvadoran migrants in the US have formed committees that have direct cross-border links with the objective of rebuilding home communities. Programs in Oaxaca and Jalisco in Mexico have led to public works projects being carried out by hometown associations with co-financing (usually matching) from state or municipal governments (as well as loans in some cases). Other examples have included associations in the US coming together to finance or co-finance completion of sewage systems, or to purchase/donate a school bus, wheelchairs, walkers for the elderly, and a health clinic. In the case of the Jalisco Hometown Association, they are currently engaged in a pilot project with UCLA to channel remittances from the US for productive investment in Jalisco state (where Guadalajara, Mexico's second largest city, is located). This pilot involves investment from the association, match funding from the Jalisco state government, technical assistance for effective implementation of projects, and transparency. See R. Moore Ortiz, "Mobilizing Remittances from Jalisco Hometown Associations to Productive Investment Projects", California in the World Economy, 2003.

As far as the use of remittances (and other direct private transfers[210]) for investment purposes, they are used primarily for property development. In some cases, the funds may be used to start up a business, or to finance a relative's/friend's business. However, in most cases, people abroad remitting back large enough sums for a house are usually doing so after many years of work abroad. Or they have done so in installments, with transfers going directly into their own deposit accounts. At this point in their lives, they are more focused on a more comfortable retirement than a new business enterprise. As such, the remittances may be for payment on tracts of land, permits/licenses needed for construction, and the actual construction of the house itself. These are often done on an installment basis, which explains some of the partial construction of housing in the region. Such an approach has reportedly been subject to abuse, leading to cost overruns (not atypical in construction) and/or the dodging code requirements. Such problems serve as a deterrent to investment, particularly when building codes need to account for hurricanes, and when building materials are often expensive and imported.

Relative to other communities in the LAC region, there is nothing documented that would permit a comparison of OECS nationals abroad with their peers from the LAC region. Findings from a survey[211] and other studies[212] conducted by the IDB of migrant populations from Latin America and the Caribbean in the US have shown the following:

- About 70 percent of migrants send money home
- Most send funds back home regularly (seven to eight times a year)
- Almost 60 percent have lived in US for more than ten years
- More than two-thirds of migrants are 25-49
- Most earn less than $20,000 per year in the US; despite this, they are more likely to send remittances back home than those earning more than $40,000 per year
- Most migrants send back at least $3,000 per year; transfers are often about $200-$300, and sent seven to eight times a year
- Since September 11, remittances may have declined due to a slower US economy, and less earnings resulting from job losses; however, this is not entirely sure, as the amount of remittances from the US to LAC has increased substantially from 2001 to 2002
- The longer migrants are away, the less money (relatively or absolutely) they send back; this is partly because remittances are meant to cover the needs of parents and others who have passed on once migrants have been away for more than 10-20 years
- Convenience of remittance transmission is more important than cost; this is one of the reasons why more expensive money transfer companies will continue to have significant market share of the remittance transaction market

It is not known whether OECS nationals abroad follow this profile. However, as noted above, the demographic information on the Caribbean community in the United States fits some of these characteristics. This includes more than 60 percent having been in the US for more than 10 years, 59 percent are between 21-55, and there is widespread use of money transfer companies like Western Union and Money Gram. In terms of the last point, most remittances also come in small lots of about $200-$300 per transaction, as they do from Latin American and other Caribbean immigrants.

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[210] This would include proceeds from pension payments and other retirement savings received from abroad.

[211] See "A Survey of Remittance Senders, U.S. to Latin America", Bendixen and Associates (for the IDB).

[212] Manual Orozco of the Inter-American Dialogue project of the IDB has produced numerous studies on remittances, many of which have been used in this report.

However, there are also differences, namely that the Caribbean-born population is wealthier on average than its Latin American counterpart, and job losses may not have been as high after September 11. The Caribbean-born population is also not likely to be as "un-banked" as the Latin American population, partly due to OECS banking tradition, possibly due to language skills, and possibly because the Caribbean-born population has tended to locate in cities that lend themselves to greater organization (e.g., credit unions, churches) as opposed to many Mexicans and Central Americans who have worked in agriculture and on itinerant construction squads.

V. The Financial Sector and Remittance Transfers

A. Introduction

Section V reviews the banks, credit unions, money transfer companies, and other institutions involved in the flow of remittances. The sections do not repeat information from other parts of the overall Financial Sector Assessment. Rather, they seek to focus on their role in remittance flows.

B. Banks

The OECS countries have a high degree of banking penetration. Significant numbers of people/households have bank accounts. Fairly standard measures of financial intermediation (e.g., broad money to GDP) and banking penetration (e.g., banking assets to GDP) suggest the OECS members are more "banked" than their counterparts in Latin America. While statistics on numbers of accounts relative to the adult population are not available for comparison, a simple comparison of bank assets to GDP shows the OECS countries have a high level of penetration, far higher than found in Central America. This would suggest that greater numbers of people (relative to total) have bank accounts in the OECS countries than in Central America. There is also much greater membership in credit unions than in Latin America as well (see V-C below).

Table 11: Comparative Banking Statistics: Bank Assets to GDP

(millions of US$)	Bank Assets	GDP	%
Central America			
Belize	692	805	85.94%
Costa Rica	7,640	16,887	45.24%
El Salvador	9,069	14,284	63.49%
Guatemala	6,429	23,262	27.64%
Honduras	3,571	6,569	54.37%
Mexico	317,705	637,203	49.86%
Nicaragua	1,878	2,522	74.45%
Total/Weighted Avg.	346,983	701,532	49.46%
OECS			
Antigua	987	721	136.96%
Dominica	322	254	126.66%
Grenada	613	401	152.78%
St. Kitts/Nevis	707	353	200.42%
St. Lucia	813	672	121.04%
St. Vincent/Grenadines	464	361	128.46%
Total/Weighted Avg.	3,906	2,762	141.44%

(millions of US$)	Bank Assets	GDP	%
Advanced Economies			
Canada	767,777	731,166	105.01%
US	8,075,300	10,445,600	77.31%
UK	4,939,490	1,681,591	293.74%
Euro Area	18,156,460	7,407,194	245.12%
Japan	6,404,587	4,197,698	152.57%
Total/Weighted Avg.	38,343,614	24,463,249	156.74%

Notes: includes other banking institutions (e.g., credit unions, cooperative banks) when figures available; US lower due to share of assets held by non-banks

Source: International Financial Statistics; author's calculations

Moreover, in the OECS countries, banks are responsible for clearing, and thus are the focal point of remittance flows through the formal financial system. Even those transfers going through the credit unions, money transfer companies and other institutions have to clear and settle through their accounts at the banks. Thus, the banks play a key role in the remittance market of the OECS.

In terms of specific market share, it is not possible to quantify with precision. As noted above, there are no forms that specify "remittance" as opposed to other transfers and transactions. However, because of the high percentage of people with accounts, transfers often go through the banks. In particular, for those with accounts (or accounts abroad with correspondent banks), transactions are generally cheaper than those sent by money transfer companies like Western Union. Wire transfers from abroad routinely cost about $30-$45 from the US, and $20-$30 to send from the Canadian banks.[213] Among "indigenous" Caribbean banks, the main issue is receipt rather than sending, although their liquid balance sheets reduce incentives to encourage people to keep funds in accounts. Rather, when they provide transfer services (including serving as agents for Money Gram, as is the case with RBTT), they do so as part of their array of services to bring in more customers, not to necessarily make significant money from transfers. There are usually no receiving charges, although several banks may slightly adjust the exchange rate. However, even here, there is limited scope for manipulation given the pegged exchange rates of the EC$ to the US$. Considering that money transfer companies charge about 12.5 percent per transaction,[214] this suggests that once a transfer amount exceeds $160-$240, the remitter would prefer a bank wire transfer if price were the only consideration. Considering that remittance transfers are generally about $200-$300, this means that banks do offer savings relative to the typical amount transferred, but not enough to compensate senders for the perceived trade-off of speed and convenience. Even taking the lowest wire transfer charge of about $20, this would mean that cost savings for a transfer through a bank of $300 would approximate $17.50.[215] In fact, the cost savings would be less, at only $7 (see V-D). In either case, this may not be worth a special trip to a bank in New York or Toronto when a transfer can be made at a food store, gas station, or convenience shop. However, on large sums transferred to/from abroad, there are significant

213 Figures are from discussions with Royal Bank of Canada and Scotiabank. These two banks are prominent in the OECS region. This is less than US banks, which usually charge $30-$45 on a flat fee basis.

214 Figures are from research by Manuel Orozsco. Money Gram and Western Union have sliding scales, not one fixed charge.

215 At $300, a 12.5 percent fee would = $37.50. This is $17.50 above the low $20 rate for wire transfers quoted by banks. Western Union actually charges about $27 for a transfer of this size.

cost savings relative to a money transfer company. For instance, cost savings with a bank for a "large" wire transaction of EC$10,000, or $3,700, would approximate $115-$140.[216]

Exchange rate manipulation is the additional source of earnings for banks and money transfer companies on remittance transfers. However, this is less of an issue in the OECS than in other countries. Even when exchange rates used in the transaction differ from official rates, the relative stability of the pegged exchange rate means that there is little scope for playing with exchange rates, unlike in other markets where banks and money transfer companies are able to derive additional earnings/fees from exchange rates. The general bid-offer range is 2.67-2.71, compared with the EC$2.7 peg to the US dollar. Thus, the scope for material additional earnings from exchange rates is minimal. This applies to all parties, not just banks.

Problems associated with the banks for many people sending/receiving remittances include the perception of complex procedures, waiting time, lack of an account (among the poor and disenfranchised, who are among those most likely to receive remittances for support), and the general perception that banks are not necessarily fair or interested in people.[217] For those living in more rural and mountainous areas where bank branches are not easily accessible, this obviously adds a barrier. For these reasons, money transfer organizations like Western Union and, to a lesser extent, Money Gram, will continue to have a significant share of the market.

C. Credit Unions

Credit unions are relatively insignificant in the OECS states with regard to remittances. This is partly because remittance transactions (and other transfers) are cleared through banks, and because the money transfer companies are faster and more convenient. Credit unions generally lack the technology for fast transfers (as per the money transfer companies), and they still have to go through the banks even if members at home or abroad wish to remit funds (in either direction). Moreover, because credit unions generally do not have ATM networks, debit cards, credit cards, and other basics of electronic banking, their mix and range of services is more focused on traditional deposit safekeeping and small-scale lending. They are also restricted from engaging in foreign exchange-related activities in the various Cooperative Societies Acts, thus limiting the scope of their remittance activities to depositing EC$ checks sent from abroad and following the payment instructions once communicated by the clearing bank. For all intents and purposes, credit unions are virtual non-players in the OECS remittance market.

There is clear potential to change this. According to the World Organization of Cooperative Credit Unions (WOCCU), the Caribbean region has about 350 credit unions with more than 1.4 million members. The penetration rate[218] is nearly 33 percent, making the Caribbean the largest credit union market outside of North America, where the penetration rate is 42 percent.[219] However, credit unions are small in size and scale in the Caribbean. Moreover, there appears to be a high concentration of one or two credit unions in each OECS member state, with many of the others being very small in assets, reserves, and general capacity to serve members with more than very basic services.

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216 Western Union charges about $160 for a transfer of this size. This is $130-$140 above the low $20 rate for wire transfers quoted by banks, and about $115 above the highest flat fee levels reported by US banks.

217 This is a report of perceptions. The study does not necessarily agree with any or all of these views.

218 Calculated as the number of members divided by the economically active population.

219 In this regard, the penetration rate for the Caribbean states was higher than in Canada. Thus, apart from the United States, the Caribbean region has the highest penetration rate in the world.

Averages per member indicate the Caribbean[220] is much smaller than virtually every other region except Africa and Latin America. Savings per member approximate $992, well below the global $4,982 average. Caribbean savings per member are larger only than Africa and Latin America. In terms of loans per member, the Caribbean average is $855. Again, this is below international averages ($3,593), and larger only than African and Latin American members. Reserves per member average $100, less than 20 percent of the international norm of $570. Total assets per member in the Caribbean are $1,238, well below the international norm of $5,716. The following table provides a basic profile of financial averages of credit unions and members around the globe in 2002, and where the Caribbean fits.

Table 12: Global Overview of Credit Unions: 2002

	Penetration (%)	Savings (US$)	Loans (US$)	Reserves (US$)	Assets (US$)
Africa (millions US$)	2.56%	752	768	48	849
per credit union (US$)		170,658	174,269	10,950	192,662
per member (US$)		245	250	16	277
Asia (millions US$)	1.71%	23,853	15,375	821	27,014
per credit union (US$)		1,438,130	926,999	49,492	1,628,751
per member (US$)		2,189	1,411	75	2,479
Caribbean (millions US$)	32.81%	1,424	1,228	144	1,777
per credit union (US$)		4,069,742	3,508,050	410,333	5,077,114
per member (US$)		992	855	100	1,238
Europe (millions US$)	2.42%	8,135	5,549	1,052	9,552
per credit union (US$)		1,347,057	918,835	174,201	1,581,790
per member (US$)		1,447	987	187	1,699
Latin America (millions US$)	2.05%	3,228	2,704	285	4,539
per credit union (US$)		1,666,626	1,396,144	147,157	2,343,378
per member (US$)		583	488	51	820
North America (millions US$)	42.23%	538,535	387,128	63,711	616,784
per credit union (US$)		50,843,543	36,549,131	6,014,975	58,231,153
per member (US$)		6,125	4,403	725	7,015
South Pacific (millions US$)	23.11%	13,293	12,198	1,359	15,533
per credit union (US$)		38,197,532	35,052,032	3,906,477	44,635,192
per member (US$)		3,507	3,218	359	4,098
Total (millions US$)	7.93%	589,220	424,951	67,420	676,049
per credit union (US$)		14,636,093	10,555,679	1,674,694	16,792,918
per member (US$)		4,982	3,593	570	5,716

Note: Penetration rate = members/economically active population

Source: WOCCU 2002 Statistical Report

Among the OECS countries/members, their credit unions tend to be smaller than the Caribbean average, yet their individual members have a larger financial profile than the Caribbean norm. Savings, loans, and assets per OECS credit union tend to be about three quarters that of the typical Caribbean credit union.

220 These figures include the member OECS states (less Anguilla) plus Bahamas, Barbados, Belize, Bermuda, Cayman Islands, Guyana, Jamaica, Netherlands Antilles, Suriname, Tortola, and Trinidad & Tobago.

Reserves are slightly higher, yet about 11 percent lower on average than the average Caribbean credit union.

Total savings among OECS credit unions approximate $207 million, which is about 8.7 percent of total deposits in the banking systems of the OECS members.[221] Considering that banks are responsible for clearing transactions, most of these are placed with banks or on account with banks. Meanwhile, total loans were about $192 million, for a loan-to-deposit ratio of about 93 percent. About 69 percent of credit union assets are loans, with the balance in property (buildings), equipment, supplies and furniture. Reserves are relatively low, at $26 million, or 9.3 percent of assets.

The latter ratio is significant, because many credit unions in the OECS states are considered to have problems with their loan portfolios. The result is that provisions for loan losses in the past were understated, resulting in overstated profits and retained earnings. With stricter capital requirements now in place for credit unions, they have sometimes had to reverse past income, bring provisions up to required levels, make efforts to collect on problem loans, and restate reserves to account for the losses. The result in many cases has been a decline in income, or losses. The resulting losses have made it more difficult for them to invest in new technologies (e.g., ATMs) and personnel training to increase their range and level of service. Along with other constraints, such as clearing through banks, this has implications for the role of credit unions in the sending and, primarily, receiving of remittances. Essentially, these are all done through their accounts at banks, with credit unions only debiting and crediting accounts once instructions are received from the banks handling the transaction.

Looking at individual member profiles, OECS members tend to have about 15 percent more in savings, 25 percent more in loans (and assets), and 43 percent more in contributions to reserves than the average Caribbean credit union. Thus, while the typical OECS credit union is smaller than peers throughout the Caribbean, individuals have more at stake financially. This is also an important point regarding remittances. Considering that many of the credit union members are considered low or low-middle income and may not have bank accounts, these savings, loans and assets are of considerable importance to the members. Should capacity be enhanced so that credit unions could play more of a role in international remittance transactions, the credit unions would be expected to see a fair amount of volume given the low income nature of many of their members, and because they are a trusted intermediary. Moreover, because of the high penetration rate of the credit union movement in the Caribbean, including the OECS, the potential to play a more central role in remittances is clearly something that could occur with the right framework and institutional capacity. However, as of now, credit unions do not play much of a role in remittance flows in either direction.

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221 Deposit figures of the banks include demand deposits, time deposits, and foreign currency deposits as presented in *International Financial Statistics* at year-end 2002, converted at the pegged exchange rate. Thus, $207 million/$2,378 million-equivalent = 8.7 percent. Bank deposit figures do not include Anguilla or Montserrat.

Table 13: OECS Credit Union Profile

	Savings	Loans	Reserves	Assets
Antigua & Barbuda (millions US$)	13,786,560	11,537,308	2,147,288	17,579,042
per credit union (US$)	2,757,312	2,307,462	429,458	3,515,808
per member (US$)	1,280	1,071	199	1,633
Dominica (millions US$)	75,639,926	74,094,471	8,197,792	91,964,192
per credit union (US$)	4,449,407	4,358,498	482,223	5,409,658
per member (US$)	1,111	1,088	120	1,350
Grenada (millions US$)	31,603,325	29,313,339	2,366,857	39,451,201
per credit union (US$)	1,663,333	1,542,807	124,571	2,076,379
per member (US$)	1,489	1,381	112	1,859
Montserrat (millions US$)	3,425,025	3,007,070	96,588	3,690,510
per credit union (US$)	3,425,025	3,007,070	96,588	3,690,510
per member (US$)	775	680	22	835
St. Kitts & Nevis (millions US$)	14,276,692	12,804,095	1,695,755	17,487,465
per credit union (US$)	4,758,897	4,268,032	565,252	5,829,155
per member (US$)	1,309	1,174	155	1,603
St. Lucia (millions US$)	40,157,080	41,324,561	6,364,300	55,542,227
per credit union (US$)	2,362,181	2,430,857	374,371	3,267,190
per member (US$)	1,195	1,230	189	1,653
St. Vincent & Grenadines (millions US$)	28,263,792	20,380,821	4,994,805	52,651,946
per credit union (US$)	3,140,421	2,264,536	554,978	5,850,216
per member (US$)	891	643	157	1,660
Total OECS (millions US$)	207,152,400	192,461,665	25,863,385	278,366,583
per credit union (US$)	2,917,639	2,710,728	364,273	3,920,656
per member (US$)	1,146	1,065	143	1,540
OECS/Caribbean	14.54%	15.68%	18.01%	15.67%
per credit union	71.69%	77.27%	88.77%	77.22%
per member	115.51%	124.50%	143.04%	124.42%

Notes: figures not available for Anguilla
Source: WOCCU 2002 Statistical Report

D. Money Transfer Companies

Traditionally, there has been a significant amount of informal finance in the OECS region. This was earlier due to high levels of financial crime resulting from drugs and money laundering, with offshore financial centers playing a role in this activity. However, since September 11, there has been a global crackdown on these and other activities. One of the consequences has been a greater opportunity for money transfer companies to boost their markets. With stricter oversight of money transfers, legally incorporated companies with specialized systems, technologies, and experience have an opportunity to capitalize on public recognition that transfers are now coming under greater scrutiny. Thus, in the OECS, Western Union and, to a lesser extent, Money Gram have succeeded in tapping into this market. They currently play a very significant role in the remittance business, essentially providing services for people who either do not have bank accounts, or are sending small enough transactions such that any price differential between the money transfer companies and the banks is immaterial. Moreover, because of the perception of speed and convenience of money transfer companies, they have a substantial part of the remittance market.

Apart from a small number of examples, neither Western Union nor Money Gram has been open in their disclosure of financial information (e.g., monthly transfers in and out, commissions). However, they have been open about discussing general trends, monthly averages, average transaction size, general points of geographic origin, and general uses of funds received. One agent also provided a rate schedule (see Table 14 below).

From figures cobbled together from interviews and individual agents who have been willing to share basic volume and value figures, Western Union would appear to have about[222] 20-30 percent of the remittance inflow business based on value, with some variation from one country to another. However, in terms of numbers of transactions, the share is higher. Money Gram, whose agent in the OECS is frequently (but not exclusively) RBTT bank, appears to have about 5-10 percent of the remittance business in countries where data have been made available. These shares are not particularly different from other markets in the LAC region,[223] although it is likely that informal transfers (mainly trusted individuals that physically transport funds) are more common in Latin America and some parts of the Caribbean than in the OECS markets. The view here is that money transfer companies have helped to formalize what previously was sent informally in the OECS.

Some players criticize Western Union and Money Gram as excessively costly. In fact, their transactions costs are generally about two-thirds higher than those of banks, particularly if transfers approach values of EC$10,000 (US$3,700) that require declaration. General estimates[224] are that banks routinely charge about 6.5 percent (on average) for transfers, as opposed to 10.9 percent for money transfer companies. Exchange rate fees are generally about one percent by banks, and 1.7 percent for money transfer companies. Thus, on average, money transfer companies are nearly twice as expensive as banks. With average estimated transactions costs of about 12.5 percent (for transfer fees, exchange rate commissions, check cashing fees, other charges in recipient countries), and assuming 40 percent of the remittance inflow market, this would mean these companies were able to generate about $6 million in fees from transfers in 2002,[225] or about $1 million per OECS country. Considering security costs, marketing efforts, and related costs (e.g., faxes, time spent on reporting), this does not translate into major after-tax income. Rather, the service is usually part of a bundled package of services provided by companies that also offer insurance, travel arrangements, etc.

The following table profiles the rates charged on transfers sent from one OECS country in US and EC dollars. As noted above, outflows tend to be about one third of inflows. Thus, rates in the US, Canada, and the UK are more relevant than rates in the OECS countries. Nonetheless, the following table provides some insights into charges, which do not appear to deviate materially from the average of 12.5 percent noted earlier. The table also reveals there is little differentiation in effective rates charged by currency, and that the average transfer would be about US$-equivalent 250-300. Under such circumstances, the rates charged by Western Union (and presumably for Money Gram when non-bank agents send transfers out) are slightly higher than what banks charge, but not so much higher as to dissuade people from using non-banks for this service until the amounts sent get larger. By the time people plan to send more than EC$1,000 or US$500, it is economical to do so through a bank instead of a money transfer company.

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222 These are estimates only, and could be substantially different from actual share if perfect and complete information were available.

223 Research by the IDB suggests that Western Union has about 30 percent market share among many LAC countries, and Money Gram has about 11 percent. Smaller companies have less than 15 percent of these markets. See M. Orozco, “Remittances to Latin America and the Caribbean”, IDB, 2002.

224 These figures are from research conducted/commissioned by the IDB.

225 Remittance inflows in 2002 were about $118 million. Assuming 40 percent market share and average fees of 12.5 percent of the value of the transaction, this would be: $118 million x 40% x 12.5% = $5.9 million.

Table 14: Indicative Western Union Rates for Transfers Sent

EC Dollar Transfers			US Dollar Transfers		
Principal in EC$	Charge in EC$	Effective Rate in EC$	Principal in US$	Charge in US$	Effective Rate in US$
$150-300	$45	15-30%	$50-100	$14	14-28%
$600-900	$75	8.3-12.5%	$200-300	$27	9.0-13.5%
$1,100-1,400	$105	7.5-9.5%	$400-500	$37	7.4-9.3%
$2,000-2,700	$130	4.8-6.5%	$750-1,000	$47	4.7-6.3%
$3,400-4,000	$160	4.0-4.7%	$1,250-1,500	$60	4.0-4.8%
$4,750-5,500	$220	4.0-4.6%	$1,750-2,000	$80	4.0-4.6%

Notes: additional charges apply on larger transactions

Source: Western Union agent in OECS member state

The criticism from those claiming Western Union and Money Gram are expensive is that those who pay the high costs are among the poorest and most vulnerable, without bank accounts, and therefore practically "forced" to use the money transfer organizations because they lack an alternative. As noted above, movement to increase the role of credit unions through a formal "International Remittance Network" may provide an alternative to banks and money transfer companies in the provision of remittance services. This would help to increase access as well as bring down costs for low-income people. Links with automated clearinghouses would also bring down costs and increase access.

On the other hand, the money transfer companies are conveniently located throughout their markets and are perceived to be faster than banks. Their reputation for service is strong, and the OECS market has shown its willingness to pay the premium in exchange for the convenience and service. Moreover, the cost issue is also being addressed by increasing competition and new technologies. Estimates are that money transfer costs have declined about 25 percent in recent years on individual transactions (net of check cashing fees or other commissions). There is also the issue of reputation, as Western Union, Money Gram and Orlandi Valuta all agreed to a legal settlement in 1999, and compensation for customers over hidden charges. They do not want to repeat the experience.

As with the banks, there is another issue of rising costs of operations. Particularly with the crackdown on informal funds transfers after September 11, the money transfer companies have had to develop and refine systems that monitor suspicious transactions. As with the foreign banks, the money transfer companies have had to invest in systems and technology to oversee the transactions carried out in the OECS (and elsewhere around the globe). While there are complaints about these companies being unregulated when compared with licensed banks and credit unions, this is not entirely true. They submit transaction reports to the Financial Intelligence Units in the OECS countries, and US regulators oversee the companies. Thus, while the ECCB does not necessarily supervise these companies, it does have reporting requirements and compliance responsibilities to several regulatory authorities across jurisdictions.

In some cases, banks are agents for money transfer organizations. For instance, the Antigua and Barbuda Investment Bank is an agent for Money Gram, as is RBTT throughout much of the Caribbean. Meanwhile, in the non-bank sector, British-American Insurance is frequently the agent for Western Union. There are reports of a few credit unions that have tried to become agents for Western Union, and there may be one or two. However, one source claims that credit unions have not moved ahead with these efforts because they are waiting for the Caribbean Confederation of Credit Unions to introduce their plan for international remittance services offered by the World Organization of Cooperative Credit Unions.

E. Other Institutions

The role of other organizations in remittance inflows is not reported to be all that prominent. Travel agencies and courier services handle some of the traffic. This generally is cleared through (and captured statistically by) customs.

The postal system plays a very minor role in sending or receiving international money orders or other forms of remittances. It is considered slow and, in some cases, unreliable. With the recent involvement of the US Postal Service in offering remittance services for flat fees, this role may increase in the future. However, for now, it is not all that significant. In some countries, figures are not available. In other member states of the OECS, numbers of transactions number in the low thousands, and the average per transaction is generally less than $100.[226] It is assumed that the postal system accommodates people with low incomes without accounts at banks or credit unions, and often in locations where access to Western Union or Money Gram requires travel.

Net of these institutions, there is still a role played by the "mule," namely the person who physically transports cash. One Western Union agent cited this as a competitive challenge, but it is impossible to quantify how much informal trafficking continues.

VI. Key Gaps and Recommendations

A. Gaps and Challenges

There are a few major gaps that limit the amount of remittance inflows and other private transfers to the OECS economies. Additionally, there is little in the market that provides incentives for keeping funds in accounts for savings and investment. Key gaps and constraints are highlighted below:

- **Few Customized Financial Products to Attract Greater Inflows**: There is a general lack of information about the overseas OECS communities. While there is some organization and communication, largely through embassies and High Commissions in North America and the UK, there is very little coordination with the financial community. Apart from some initial approaches and market research, financial institutions in the OECS do not appear to make much of an effort to cater to these communities apart from the normal rendering of products and services they offer to their general client base. As a result, there do not appear to be any specially developed financial instruments to attract their business from abroad. This means there is less incentive for remittances received by family and friends to be used for anything but immediate consumption. The exception has been the willingness to make mortgage loans for investment in housing.
- **Weak Incentives for Long-term Savings Instruments for Investment**: There is a need for long-term deposit instruments in the OECS markets that pay adequate rates. There is reported to be a fair amount of interest-rate sensitivity in the OECS markets, meaning that people will extend the maturities of their deposits if rates are attractive enough. However, for the moment, interest rates paid are considered low. Part of this results from banks having "excess liquidity," meaning that banks have sufficient regional pools of funds from which to borrow that they do not need to pay higher interest rates to attract deposits. Lower rates reduce the willingness of recipients to keep funds in accounts on a term basis. In addition to interest rate sensitivity, there is foreign exchange (devaluation) risk. While the OECS member states have maintained their pegged exchange rate for decades, there are periodic concerns that the peg is unsustainable. While no change is projected any time soon, the risk is said to be a factor among prospective investors who might consider buying securities. In terms of the typical transfer that is relatively small, there is little incentive to keep it in accounts on a term basis,

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[226] For instance, averages were $70-$85 per money order received from abroad in Antigua and Barbuda, Dominica and Montserrat. In St. Kitts and Nevis, the average has been $25-$35 from 1999-2001. In Anguilla, the average transfer received was less than $10 in 1999. See http://www.upu.int/.

particularly as they are usually income supplements. Thus, remittances received are generally spent very quickly, with little investment impact on the economy.

- **Weak Condition and Limited Services of the Credit Unions**: The credit union movement is not as strong as it should be. The credit unions could fill some (not all) of the gap not covered by the banks, as well as handle remittances on a more affordable basis than rates charged by money transfer companies. However, credit unions appear to need significant strengthening in a number of areas, including credit risk evaluation, mortgage underwriting, electronic technologies, use of debit cards and ATMs, corporate governance, internal audit, risk management systems, and internal reporting. Apparently, credit unions also do not adhere to uniform accounting standards, making it difficult to benchmark performance against peers to be responsive and competitive. Until these fundamentals are addressed and strengthened, there may be some reluctance to see the credit unions play any more of a role than they currently are. Moreover, the credit unions will have to demonstrate considerable increases in capacity if the authorities are to contemplate any legislative changes, such as the right of credit unions to deal in foreign exchange. By extension, there are also constraints on available capacity at the various Departments of Cooperatives, the office (usually in a Ministry of Labor and Social Affairs) that is responsible for oversight.
- **Role of Money Transfer Companies**: Money transfer companies are sometimes criticized by financial intermediaries as being unregulated and excessively costly. Thus, there are suggestions in some quarters that they should come under stricter regulation. At a minimum, some financial intermediaries complain that there is not a level playing field. The criticism is mainly targeted at Western Union, as RBTT is an agent for Money Gram in most OECS countries. However, here, they only receive remittances, and do not send out transfers. (According to RBTT, this is due to technology issues. They do send remittances via Money Gram from Trinidad and Tobago and other non-OECS markets. Other Money Gram agents also send out transfers.)
- **Payment Systems and Telecommunications**: Wire transfers are currently administered via FX accounts in correspondent banks, or directly between accounts if the bank has branches in both countries. This is not a major gap, although it is less efficient and more costly than an automated clearinghouse (as exists within and between the US and Canada). It also appears that the telecommunications markets of some OECS countries are a monopoly, and that enhanced competition might be helpful in increasing market acceptance and use of new telecommunications, bringing down costs, and adding to productivity and efficiency.
- **Incomplete Statistics and Information**: Remittance information is imprecise and inexact. While there are estimates based on collections through banks, money transfer companies, post offices, credit unions, and courier services, these are subject to error. The OECS figures appear reasonable. However, in terms of confidence, there is a limit to how useful these balance of payments figures are as compared to other line items that also are significant to the economy. Given their fairly substantial importance, the authorities might want to consider amending daily transaction reports that are submitted by financial institutions to be more precise about the type of “direct private transfer” that has been made. This would also mean making daily reports universally required, including from money transfer companies. If required, the money transfer companies would complain, as it would reduce the convenience associated with them as a mechanism for transfers, thereby reducing one of their clear competitive advantages. In any case, the onus on this should originate with the sending institution and be communicated through correspondents so there is consistency at the receiving end. In the public sector, this may also call for an increase in statisticians and data management capacity, as steady and increasing demands for information are likely to persist.

B. Recommendations

There are a few measures that could be taken to improve the incentive structure for more remittances and overall transfers, including those that would be utilized for savings and investment. These include the following:

#1: Develop More Customized Products and Develop More Focused Marketing Relationships With Overseas OECS Nationals.

Some banks have expressed an interest in catering to the overseas nationals from OECS countries. However, they appear to be at the early stages, to the extent that there is any specific focus at all on these (potential) customers. Several products and approaches have been tried in other markets in Asia, Africa, the Middle East, Europe and, to some extent, the LAC region to cater to nationals abroad, with the objective of increasing remittances sent back to the home countries. Some examples that increase access, lower cost, and/or provide a broader array of services[227] include:

- Special interest rates for foreign currency deposits
- Import privileges for migrant workers
- Reduced tax rates for non-residents
- Financing to buy/build homes
- Low costs of remittance transfers
- Bonds and accounts for non-residents with higher interest and reduced tax rates
- Import duty exemptions upon re-entry
- Joint checking accounts for remitters and recipients
- Low wire transfer fees
- Joint debit cards with ATM access across borders

There appears to be a potential market, albeit uncertain, that might find retirement products, financing for retirement homes, and related long-term instruments to be attractive. Apart from standard housing loans, it is uncertain what the banks and credit unions have done otherwise to cater to this community.

While there is no specific role for USAID, it can play a market information role. This could include hosting a roundtable on remittance flows and market links, as well as potential for new financial products and services. It could put this study on its Internet site, and distribute the study to all licensed banks and credit unions to contribute to product development and stronger market links with OECS nationals living abroad. At a minimum, this would provide some new market information that could be folded into individual institutions' planning, marketing strategies, and product development.

#2: Develop Focused Strategies for Investment and Development To Serve as a Catalyst for The Development of Long-term Financial Instruments Within OECS Markets.

While it is up to the banks and other financial intermediaries to design instruments, USAID might contemplate working with the IDB, Caribbean Development Bank (Basic Needs Trust Fund), World Bank Group, and other interested parties in furthering schemes that help to promote long-term investment and lending by accommodating social/infrastructure needs. This would essentially be the development of "public-private partnerships" that bring financial sector development considerations together with social infrastructure (e.g., housing, health clinics, schools, roads, water) to increase long-term investment. One version that has been proposed, and is apparently working in some parts of Mexico, has been the use of matching funds through hometown or national associations to stimulate investment in housing, infrastructure, and other community needs.[228] However, associations appear far better organized among Mexican and Central American communities in the US than they are among OECS nationals abroad. This

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227 See M. Orozco, "Worker Remittances: An International Comparison", IDB, February 28, 2003; and M. Orozco, "Worker Remittances in an International Scope", Inter-American Dialogue Research Series, March 2003.

228 As an example, in Zacatecas, Mexico, the state provides a 3-1 financing ratio for roads, schools, churches, water systems, and parks. See "Making the most of an exodus", *The Economist*, August 2, 2003.

is partly because some associations are not trusted due to specific links to political parties, rather than having a broader economic development focus in mind.

An alternative approach for the OECS would be a push for strategic cohesion, with clear roles to be played by public and private sector actors, and with clear financial responsibilities and risks. Such clear objectives and strategies might then increase bank demand for term deposits (to fund projects), which might increase rates paid and serve as an incentive for depositors to place their funds with banks/credit unions for longer periods. Such an environment would then be more conducive to remittances being utilized for savings and investment purposes. Bonds and other instruments could also be structured to accommodate these objectives, and offered on the Eastern Caribbean Stock Exchange.

While this is ambitious and comprehensive, it might serve as a trigger for donor coordination on what would be long-term projects. One role for USAID would be to host a conference, with partners, to roll out considerations, plans, risks, and implementation requirements. USAID could provide substantial information for such a conference, with the intention of setting up working committees for follow through on initiatives. This could be coordinated with other institutions, with particular prominence given to CARTAC and its active supporters in financial sector issues, as well as the IDB and World Bank Group in terms of their regional experience with public-private partnerships. There would be a clear role for the Caribbean Development Bank in helping to coordinate the multitude of parties, as well as to provide insights into qualified institutions for specific tasks.

A second role for USAID would be to design a pilot project, building on other elements of the recommendations. This would include working with some credit unions to design new products geared to the remittance market, and to apply such products to an active outreach program geared to existing or prospective members living abroad. The influx of new monies would be transferred via the IRnet project of WOCCU, and efforts could be made to support community-based initiatives supported by credit union members, a bit along the lines of the Mexican hometown associations. These would need a system to determine feasibility, sound capital structures, the sharing of risk, the potential for public sector co-financing, needed technical assistance for implementation, and a system of reporting to ensure accountability and integrity. The pilot would likely need to focus initially on basic needs or modest infrastructure, due to cost considerations and the unlikely prospects of major remittances being retained in accounts for long periods to finance development projects. It is also not likely to be as effective until other parts of a credit union strengthening program have been implemented. This would include a better functioning electronic and back-office system, as well as some of the other areas identified by credit unions themselves as current weaknesses. USAID is reported to have had some experience along these lines in Guyana and Haiti. Lessons from these experiences should be applied and customized to any OECS design. This could be the focus of a credit union workshop to include WOCCU, the Caribbean Confederation of Credit Unions, interested donors, NGOs, and Government officials.

#3: Provide Comprehensive Assistance to the Credit Union Movement.

There are certainly opportunities to strengthen the credit union movement to compete with and/or complement the banks in fundamental areas of intermediation, as well as with the money transfer companies in the area of remittance transfers. In terms of remittances, the International Remittance Network (IRnet) initiative of WOCCU serves as an example of how the credit unions can help to achieve lower cost of transmissions and increased access to core banking services. However, to achieve this, the credit unions of the OECS will need to make significant investments in technologies, obtain substantial training, consider consolidation of back-office operations, and acclimate themselves to an increasingly prevalent electronic banking culture that is currently absent in most of the credit unions.

The role of USAID could be to assist with the purchase of equipment and systems, as well as training. Closer integration of credit unions into the electronic system should have the benefit of reducing the costs of transfers to/from abroad, increasing the number of accounts in the financial system, and, hopefully, increasing the term funding base needed for lending and investment.

#4: Encourage Competition With the Banks and Money Transfer Companies.

Despite some views that Western Union and Money Gram are unregulated, they are sometimes required to file daily transaction reports to newly established Financial Intelligence Units, and certainly to comply with anti-money laundering legislation to monitor and report suspicious transactions. As they do not take deposits, regulation and supervision of such companies do not need to be as strict as it is for banks, and as it should be for credit unions, insurance companies, and other intermediaries. Moreover, over-regulation might push the remittance community back into the informal mode, which is exactly the opposite of what is desired after September 11.

As for cost, there is no question that transaction costs can reach high levels with the money transfer companies. On the other hand, they have significant costs of operations themselves, not the least of which is the investment in systems and technologies they need to make on a continuous basis to remain in the good graces of US regulatory authorities.

USAID can play a role in strengthening the transfer system to make remittance transactions less costly by providing assistance that encourages competition. This would be particularly beneficial to recipients (and senders) who are relatively low income and use the funds as needed income supplements. In the end, a broader range of options will reduce costs and add further to convenience. The assistance proposed for the credit unions would introduce such competition. It can be noted that the money transfer companies have also brought their costs down in recent years. Thus, they would be expected to respond to such competitive challenges, while continuing to profit. The full variety of options would generally benefit consumers, while increasing opportunities to deepen financial markets and increase savings and investment from alternative remittance transfer schemes.

#5: Promote Development of an Automated Clearing House for OECS Members, and Link the ACH With that in North America.

As of now, there is no automated clearinghouse (ACH) among OECS banks. However, a feasibility study has been conducted for the ECCB. USAID should consider providing needed technical assistance to help bring this effort to fruition. Preliminary discussions suggest that the ECCB would benefit from assistance with preparation, planning, information systems and technology, needed specialists in IT and ACH operations, and specifics related to linkages with other clearinghouses. Should this become a reality, USAID should assist the Eastern Caribbean clearinghouse to specifically link with the ACH that is linked between the United States and Canada. Given the current US efforts to link more closely with the UK and Europe, such linkages would be ideal for the OECS states if their own ACH were linked with North America and the UK. This would further reduce the cost of transfers from the main markets where remittances into the OECS originate.

#6: Improve Statistics and Information on Remittances Without Causing Undue Burden on the Various Market Providers.

The OECS should work with the ECCB and the IMF to determine whether it makes sense to add additional line items to reporting forms regarding transactions. Discussions with some banks suggested it would not add excessively to the existing burden. On the other hand, banks and money transfer companies generally recognize there has been a significant increase in the reporting burden regarding money laundering, suspicious transactions, etc. This adds to cost as well as time. Thus, the cost of such procedures may exceed the benefit of having more specific balance of payments line items.

It is not clear if there is any role for USAID on this matter. However, should the authorities move forward with this, it is recommended that banks hire compliance officers with specialized legal, regulatory, and accounting backgrounds to ensure their information is complete, accurate, and up-to-date. With such structures in place, the banks would be able to handle these additional information disclosure requirements. This would have to be matched with North American and UK standards, as the initial information would need to be provided by originating banks. USAID could help in this process by providing resources for needed training. This would not only be for prospective compliance officers, but could also involve public sector personnel in reporting requirements and database management, as well as effective methods of coordination between financial institutions on regulatory and potentially criminal matters.

USAID might also consider targeted assistance to OECS governments to strengthen their Departments of Statistics. Such assistance could include budget for personnel, equipment, and training. This could be coordinated with the ECCB and the IMF to strengthen capacity and manpower in the collection and reporting of needed balance of payments and financial statistics, including more precise figures for remittances in and out of countries. As noted, the former would depend on better information linkages between sending and receiving institutions.

Schedule of Meetings

McAlister Abbot, Managing Director, Antigua Barbuda Investment Bank

M. Alexander, Manager, A & C (St. Lucia)

Selwyn Allen, Chief Statistician, Ministry of Finance, Government of St. Vincent and the Grenadines

Laura Antoine, Banking Operations Consultant, Grenada Cooperative Bank

K. Armstrong-Hollingsworth, Country Manager, Royal Bank of Trinidad & Tobago (Antigua)

Ethel Baptiste, Deputy Head of Statistics, Ministry of Finance, Government of St. Lucia

Ralph Blaize, Assistant Manager, National Commercial Bank of Dominica

Miriam Blanchard, Economist, Eastern Caribbean Central Bank

Ken Birch, Senior Customer Service Representative, Royal Bank of Trinidad & Tobago (St. Lucia)

Lennox Bowman, General Manager, General Employees Cooperative Credit Union (St. Vincent)

Nigel Bradshaw, Program Coordinator, CARTAC

Trevor Brathwaite, Permanent Secretary, Ministry of Finance, Government of St. Lucia

Michael Bynoe, Tax Specialist, Price Waterhouse Coopers (Barbados)

M. Campbell, Manager, Communal Cooperative Credit Union (Grenada)

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