DEVELOPMENT BANKING ISSUES IN THE ECCB AREA

by
Garth P Nicholls

The concept of a development bank arises out of the perceived need on the part of a particular society to provide mechanisms which facilitate economic development. It finds its rationale in the appeal to the concept of market failure on the part of existing financial institutions. However, a development bank, by financing projects which possess positive externalities, usually fulfills only one aspect of an overall strategy aimed at economic development. To be effective, it must form part of a wider development strategy. The development bank's goal should therefore be assisting with the implementation of certain aspects of the development strategy using the private sector as an avenue. The performance of the development banks in the ECCB area has been mixed. A number of factors have had an impact on their overall performance; among them are over-exposure to risks in the domestic economy, high transaction costs and a dearth of long term domestic finance and technical capacity. However, these factors do not justify the suspension, by the authorities, of this type of activity. On the contrary, because market failure is pervasive in the domestic financial arrangements, the state may need to be more entrepreneurial, by playing either a facilitatory or interventionist role. In this sense, therefore, the solution may be to find ways of improving the operations of the development banks.

1. INTRODUCTION

The concept of a development bank arises out of the perceived need on the part of a particular society to provide mechanisms which facilitate economic development. It finds its rationale in the appeal to the concept of market failure on the part of existing institutions. A development bank is usually only one aspect of an overall strategy aimed at economic development. To be effective, it must form part of a wider economic development strategy of the government. The development bank's goal should be assisting with the implementation of certain aspects of the development strategy using the private sector as an avenue. In other words, these banks are really meant to be institutions which assist with private sector investment programmes.

The development banks in the ECCB area were formally launched in the late 1960s to early 1970s. The main purpose of these institutions, as stated in their various statutes, is primarily to assist in the economic development of their respective countries, by providing financing and managerial assistance to prospective domestic investors. Further, in the case of Antigua and Barbuda and Grenada, their statutes specifically mandate them to assist in capital and money market development.

In the experience of the ECCB area, two broad sets of factors have been identified as providing the impetus for the evolution of development banks. These are external and internal factors. On the external front, the major factor pushing development banks in the ECCB area was the emergent literature on development finance institutions, with the whole philosophy of planning and social engineering coming out of the 1950s experiences, and the concomitant demonstration effect of the development banks in India.[1]

In the case of the internal factors, the following have been identified as being of particular importance:

(i) the need for economic and financial sector diversification[2];

(ii) the formulation of development plans by individual ECCB member countries;

(iii) the development of a peasantry in some of the countries;

(iv) the orientation of the existing financial institutions; and

(v) the general need to create institutions to facilitate development in member states by correcting for the excesses and imbalances created by the long period of colonial domination.

The contemporary experience of the developments banks in the ECCB area, for the most part, has been mixed and has given rise to questions about their general usefulness. Some sections of the community are now actually questioning not only their operational effectiveness, but also the relevance of these institutions to the contemporary ECCB economy. This position is unfortunate, however, it is my conviction that the very factors, which in the first place provided the impetus for the formation of the development banks in the 1960s, remain. On the internal side, these countries

---

[1] *Industrialised countries in the 'North' also used development finance institutions to promote their industrialisation a century earlier.*

[2] *Even though the need for economic diversification is still as strong as when these institutions were initially established, the emphasis has shifted somewhat. The policy authorities in the sub-region are now focusing much more on the financial sector as the engine which can lead the real sector of the economy into a process of transformation and growth.*

most urgently need to diversify their economies; the concept of economic planning needs to be taken more seriously; and private sector development is required more than ever. This is necessary precisely because of the hostile external environment these countries now face and will continue to face in the future. The aim ought to be one where the domestic private sector becomes more dynamic and imaginative in their actions. The difficulties which some development banks are facing are largely due to incoherent development strategies and the hostile intellectual reviews by the multi-lateral lending institutions. The aim of this note is by design limited in scope. The primary intention is to present some basic features of the ECCB area development banks and survey some emerging issues. The remainder of the presentation is as follows. In Section 2, a discussion of the basic facts on the ECCB area development banks is presented. Section 3 surveys the main issues confronting the development banks in the sub-region. In the final section, a summary and some concluding thoughts are provided.

2. STYLISED FACTS

The analysis in this section of the paper can be most simply appreciated by examining a set of charts. Chart 1 illustrates the natural logarithm of the total assets and liabilities of the ECCB area development banks.[3]

The evolution of the liabilities can be divided into three phases: a period of rapid growth, between 1985 -1987, a period of gradual growth, 1987-1992, and finally a period of relatively flat growth, 1992-1995. The associated annual flows and growth rates can be seen in Table 1. As a proportion of GDP, total liabilities represented approximately 0.02 per cent in 1985; by 1994, however, it was over 0.06 per cent. This evolution of liabilities can be traced to the path of debt accumulation, in particular debt, by the development banks. The mobilisation of the majority of the resources of these institutions is done through the Caribbean Development Bank (CDB) and the European Investment Bank. Initially, both of these institutions used the national development banks as 'agency offices'. That is, the local development banks were the first to screen potential borrowers. Moreover, when a loan was provided these institutions disbursed the funds and monitored the project on the ground. However, the relationship has shifted with the lending focus of these institutions. The practice now is to provide the local development banks with a line of credit, on the basis of conditionalities which are regularly assessed.

[3]The series has been plotted in logs so that the slopes of the lines can be interpreted as growth rates.

The pattern of growth of the foreign debt, as shown in Chart 3, can also be divided into three phases, generally similar to those of total liabilities except for the period 1992 to 1995, when foreign debt actually declined. During this period, there was an increase in the growth of domestic debt of development banks. However, foreign debt was still much higher than domestic debt. This pattern of foreign and domestic debt is also revealed in Chart 4 as a percentage of GDP. In 1985, total loans were approximately 0.02 per cent of GDP; by 1994 however, they represented approximately 0.04 per cent of GDP. As shown in Chart 4, the majority was foreign loans, as domestic loans over most of the period was less than 0.01 per cent of GDP. Overall, during the period under consideration, debt represented on average 60 per cent to 70 per cent of the total liabilities of the ECCB area development banks.

An analysis of the individual development banks revealed that in all countries except St Lucia, and Antigua and Barbuda, foreign loans represented the major source of funds. In all cases, these accounted for well over 50 per cent of the funds mobilised by the development banks. Except for Dominica and St Lucia, the second major source was "capital and reserves". The third largest source for most countries was domestic loans. However, this source was almost non-existent in some countries.

In the case of St Lucia there has been a clear trade-off between foreign and domestic loan funds. Beginning in 1986 foreign loans were the main source of funds; by 1992 this situation had changed when domestic loans assumed as much importance as foreign loans. The situation in Antigua and Barbuda was even more interesting. From about the late 1980s domestic loans increased relative to foreign loans. In 1992 these loans as a percentage of total liabilities, were virtually the same. Since then foreign loans as a source of funding, became less important relative to domestic loans. This situation may be indicative of the cut-off of funding to Antigua and Barbuda by CDB due to delinquency in respect of its debt payments.[4] From about 1993 Dominica increased its efforts at accessing domestic loans with varying degrees of success. In 1985 domestic loans represented 4.9 per cent of total liabilities, and by 1995, it was 12.8 per cent. The comparative figures for foreign debt were 82.9 per cent in 1985 and 57.5 per cent in 1995. These developments are significant and may be a model to follow, as one of the major aims of these development banks ought to be the mobilisation of scarce domestic savings for domestic investment.

The other development banks in the ECCB area appeared more capable of mobilising foreign capital. Given that domestic investment in these open economies is equal to domestic savings plus

[4] *This situation relates to arrears on central government debt obligations.*

the deficit on the current account of the balance of payments, it can be argued that the foreign resources serve to augment domestic investment expenditure. However, the inability of development banks to wean themselves from foreign capital as a major source of finance creates a high level of dependency, which can lead to policy paralysis. This source of funds increases the vulnerability of the domestic economy to external shocks and further circumscribes the type of lending which the development banks can undertake.[5] Indeed, one of the main objectives of a development bank ought to be ultimately self supporting and financially autonomous, with a capacity to mobilise resources entirely on competitive terms.

None of the development banks has actively pursued alternative sources of funds other than borrowing (see Table 2). For instance, the category "deposits" on the balance sheet has remained insignificant, except for St Lucia, but even in this case, the amount of deposits as a percentage of the overall balance sheet size is small. The mobilisation of deposits is an issue that the policy authorities may want to look at more closely. It is ironic that the commercial banks in the ECCB area usually have surplus funds, most of which are from the social security schemes. These funds are by their very nature long term. There is no reason why the development banks in the ECCB region cannot bid for a portion of these and other long term funds by paying competitive interest rates. These funds could then be used to finance projects which accord with specific economic and financial criteria.

Chart 5 indicates that the evolution of loans disbursed to the domestic economy followed closely the pattern set by total liabilities and debt. Loans outstanding represented approximately 80 per cent of total assets. The exception to this general rule was St Vincent and the Grenadines, where only 30 per cent of their resources was disbursed as loans. In St Vincent and the Grenadines the majority of resources mobilised were used for investments, largely in industrial estates.

Outstanding loans from development banks have grown in importance. As shown in Chart 6, in 1985 loans disbursed represented 0.02 per cent of GDP; however, by 1994 it was 0.05 per cent. This is also evident in Table 4, which shows that outstanding credit from development banks as a percentage of commercial banks loans for the ECCB as a whole, grew from 3.2 per cent in 1985 to 7.0 per cent. Within the area, Dominica consistently showed the highest percentage. Only in two countries, Antigua and Barbuda, and St Vincent and the Grenadines, were the amounts less than 5 per cent. This suggests that development banks are becoming more important and have a role to play in the overall allocation of credit within the domestic economy. The majority of development banks' resources was channelled into lending for education and construction of hotels and private dwellings.

[5] *It is recognised that domestic saving and foreign saving are complementary.*

3. EMERGING PERFORMANCE ISSUES

There are a number of issues confronting the development banks in the ECCB area. These include the purpose of development banks, savings mobilisation and sustainability, governance, transaction costs, regulation and the future of development banks in a single financial space.

Identifying the Purpose of a Development Bank

Development banks are microeconomic institutions, which exist because of segmentation in the financial system. Financial resources are available for short term and relatively 'safe investments'. On the other hand funding is not readily available for medium to long term investments which require more resources and carry a risk premium because of the uncertainty of their outcomes. Such projects normally take into account positive externalities and are chosen on the basis of cost-benefit analysis.[6] This is a classic case of market failure due to information asymmetries. The question which can be asked is to what extent have the development banks been equipped to deal with these particular difficulties, or can they actually deal with these concerns and remain financially sound?[7]

Development banks are not only major sources of funding, but have other equally important functions such as monitoring their loans and investments, and screening projects. In addition, development banks provide technical and entrepreneurial services, including nurturing of enterprises. They are responsible for ensuring that the funds supplied by them, together with their own funds or internal finance of their 'clients', are used judiciously in order to promote the productivity or efficiency of investments. The mere fact that one of their roles is to promote high priority projects in the economy also suggests that the productivity of their activities should be greater than the average for the economy. Development banks perform other crucial functions in addition to the provision of finance. These other functions, if effectively performed, should increase the productivity of the activities in which they are involved. Since they are also supposed to finance high-priority activities, the increase in the efficiency of their operations would be further enhanced if their finances are used as intended. This would require policy makers to identify correctly the

---

[6] *This is not to suggest that financial return is not important. Instead, we are merely highlighting the fact that there are other considerations which can be just as important to the overall development process. For example, a project assessed on the basis of financial criteria alone would be regarded as profitable where the effects of its negative externalities are not accounted for. However, on the basis of cost-benefit analysis the project may actually yield a negative effect on economic welfare.*

[7] *An additional issue is the fact that government failure can also become pervasive. However neither of these has easy solutions. Market failure does not automatically require government intervention, nor does government failure mean that the market is the solution, since the transactions costs of either action can be significant.*

high-priority and hence more productive sectors which these institutions were established to promote. It is accepted that some of these institutions have not performed as intended. Indeed a number of them have accumulated bad debts and had to be restructured. However, this does not mean that the authorities ought to suspend this type of activity. On the contrary, the solution may be to find ways of improving the operations of these banks as they have an important role to play in the financial system in view of the existence of the information asymmetries which exist.

Savings Mobilisation and Sustainability

As mentioned previously, developments banks in the area have been more successful at the mobilisation of foreign compared with domestic resources. There are reasons for this, which may be more in keeping with the original thinking on development when these institutions were established. However, this particular orientation of the development banks has the potential to impart a high level of dependency, which in turn can lead to policy paralysis. Total dependence on one source of funding exposes the activities which these institutions undertake to external shocks and further circumscribes the type of lending opportunities of the development banks. Since foreign creditors and donors are not familiar with the economic possibilities of the various sectors in the economy, there would be a tendency for external funding to be directed towards projects which are familiar to the external agencies or are culturally acceptable to them.

Given that the majority of their funds are borrowed it is not too surprising that development banks concentrated on loans. The various balance sheets showed little or no investment by the development banks, except in St Vincent and the Grenadines. Such a situation has several shortcomings. Firstly, it results in a less diversified balance sheet of development banks. Secondly, by extending loans only to its customers it potentially weakens the balance sheet of borrowing firms, since loans imply a future outflow of resources whether or not a profit is made. On the other hand, equity investments in the individual firms by the various development banks would increase the level of such financing and in so doing serve to strengthen the individual firms, other things equal, by improving their cash flow position.

The bidding for long term domestic funds by development banks would have several effects. In the first place it should improve the quality and size of the balance sheets through the exploitation of economies of scope and provide an additional source of information on the banks' customers. One way in which additional funds can be mobilised is to channel the existing student loan programme or other special loan arrangements, such as low income mortgages of the Social Security Scheme (SSS), through the various development banks. The use of SSS funding must be informed by the average income - expenditure lag of the schemes. This is important, as the SSS in the area have a surplus of resources because they are relatively young schemes with a young population and low benefit levels. However, in time the SSS would operate purely on a pay-as-you-go basis, in which case the resources available for long term investment would be eliminated. The adjustment to this phase would be governed by the average income-expenditure lag of the SSS. There is the additional issue of the required rate of return by SSS and the need for a subsidy from government to the development banks. This can be addressed by the provision of a larger subsidy by the government, which is passed on to the SSS. This additional subsidy should equal the difference between the return paid by the development bank and the return to SSS in the next best alternative investment. This would allow them to engage in more imaginative project financing and assistance. Additionally, the development banks should be encouraged to issue domestic debt instruments - guaranteed by the government - to tap into the domestic and also the regional capital markets. Competition in the ECCB financial system may increase, as the various financial institutions compete for the available long term funds which ought to make the financial system more dynamic.

The category "capital and reserves" is relatively insignificant. This may be the result of the ownership structure of these institutions. The fact that they are government owned precludes equity participation by other sectors in the domestic or international economy which have the requisite capital and motive to invest in these institutions. It might be necessary to change the ownership structure of these institutions to allow for participation by other sectors in the economy. This can be done by the government as a specific policy action whereby it sells shares to the social security schemes, the credit unions, the commercial banks, and the rest of the private sector, including individuals. The proceeds of these sales can be used to recapitalise the various development banks. The government would retain controlling interest, given its role in risk underwriting associated with projects subject to asymmetric information,[8] and can earmark a portion of funds annually for the continued capitalisation of the development banks in the ECCB area. One suggestion may be to reduce concessions to importers and use these funds, which otherwise would have been lost to the treasury. According to available data, between 1991 and 1992 the member countries granted tax concessions estimated at $292.7m. If the authorities had collected at least half this amount, each development bank in the ECCB area could have received on average an extra $20.5m during the period. Another measure may be to impose an environmental tax on fuel at the pump.

Those institutions which possess a large portfolio of bad or doubtful debts ought to engage in a process of research and dialogue with their customers on the reasons for the non-payment of

[8] *Government ownership is required for continued access to Caribbean Development Bank and World Bank facilities.*

loans. The institutions ought to design their contracts with a view to eliminating or at least reducing any incentives on the part of borrowers to default on their loan commitments. One such incentive may arise because of the relative size of the borrowers' equity in the project for which loan financing is sought from the development banks. A borrower who has little equity in a project with significant loan financing may not be inclined to service the loan if the business runs into difficulties.

Another mechanism for increased resources is securitisation of the banks' loans. This option would be available only to those institutions which have high quality assets. In this way the bank could package its loans in particular categories and use them to raise funds for new projects. These securitised loans can also be sold overseas to interested investors. The proposal has other spin-off advantages, one of which is to broaden the ownership structure of these projects.

An issue which foreshadows the performance of these development banks is the concentration of their assets in a particular geographical location. As a result they are subjected to a concentration of risks, both economic and environmental, which the countries face. It is often suggested that because the national development banks lend to different sectors, they spread their risks. However, this does not address risks which are country specific and may result in a positive correlation of outcomes. At a very basic level it may be useful for the individual development banks to exchange some portion of their portfolios.

Another issue relates to the type of projects which are funded by the development banks. It is anticipated that these projects would result in wider spread effects on other areas in the economy. For instance, subsidised funding for higher education results in a trained and innovative labour force. Also the funding of a project in the informatics industry creates employment, generates foreign exchange earnings and ultimately diffuses technology to the local economy. Moreover, funding for small enterprise development and self employment projects, may also help to address issues of income redistribution. Therefore, the development banks must plan and operate strategically and may even be required to act as entrepreneurs in one way or another.

Governance

The operations of some of the development banks in the area are constrained by a lack of managerial skills and political interference. These two factors can also have an important bearing on the economic development process.

Because of the perceived poor management of some ECCB area development banks, restructuring and amalgamation of the development finance institutions with the existing national commercial banks (NCBs) have been proposed. The case for amalgamating the development banks with the NCBs can be made on several grounds, among which is the type of long term deposits (i.e. NIS deposits) held by these banks. The NCBs are government owned and have development financing as one of their objectives. If the commercial banking system is operating properly then there is no need for government intervention. However, if the NCBs are operating in the same manner as the commercial banks then there may be a situation of government failure. There may be savings in terms of administrative cost and monitoring from having one developmental institution. The NCBs have built up some ability in financing long term loans through residential mortgages. The merged institutions would be closely supervised, by the ECCB which regulates the operations of commercial banks. However, there are some concerns with such a proposal. Among these are the increased risk and the possible conflict of interest which may result from combining the developmental and operational aspects of financing. The merged institution may choose to ration credit through the manipulation of transaction costs it imposes on applicants. Such an outcome may be undesirable, as it may discriminate against the very sectors which the development credit is supposed to assist.

The board of these institutions ought to consist of special interest groups in industry and individuals with a good understanding of developmental issues. It is recognised that the political directorate may wish to appoint functionaries in the top management of these institutions. However, this must be matched or balanced by the employment of a nucleus of technocrats with a capacity to undertake analysis, formulate coherent policies, give timely signals, and provide leadership and continuity in the policy making process. In the process of making choices about project proposals which come before the board these technocrats would be able to provide the development banks with the long-term view.

The institution should have two main units - a technical unit which will monitor the projects funded by the development banks, and an economic intelligence and research unit to provide detailed appraisals of project proposals. The economic intelligence and research unit would apply the necessary economic criteria to projects. The board of the development bank makes the final decision on the projects to be funded and the terms and conditions of such funding.

The development banks must be allowed to take effective decisions, such as the foreclosure on a customer and the selection of investments, without the direct interference of the political directorate. Since the process of economic change is not linear there ought to be a mechanism for regular consultations among the development bank, the ministry of finance and planning, and the private sector. These consultations would allow for better co-ordination in the development process and transparency in decision making. Of particular importance in this regard would be information sharing among all groups in the economy. These meetings would serve as a mechanism for monitoring, and if needs be, sanctioning of individual businesses to which loans were granted.

Transaction Costs

Transaction costs are major factors in the overall performance of development banks. These refer to 'explicit and implicit spending made by the participants in financial transactions, excluding the payments for interest rate, the cost of resources, and cost of potential credit losses'.[9] These costs are particularly important in situations where there is subsidised credit - an exogenous interest rate. The financial intermediary can discriminate among potential borrowers on the basis of transaction costs.

Transaction costs depend on a number of factors and are therefore rarely the same for two sets of borrowers. Among the factors are the characteristics of the borrower. In particular, new clients may be regarded as risky by the Bank, and therefore may attract a higher level of transaction costs. However, as the relationship between the borrower and the lender matures, presumably because of reputational effects, the transaction costs are expected to be reduced. Another important factor is the amount of credit required by the borrower. If the development bank has a preference for financing large or medium sized companies, small firms which require low levels of credit would attract a higher level of transactions costs. Other factors which may influence transaction costs include the activity in which the firms are involved. For instance, if the firms seeking credit are engaged in activities favoured by the banks, then the transaction costs may be lower relative to those for other activities. If the application form is accompanied by a letter of recommendation from an influential individual in the community this may also attract lower transaction costs. These high transaction costs can result in supposedly cheap subsidised credit effectively becoming more expensive than credit from the commercial banking system.

In some instances, transaction costs become the mechanism for rationing the available credit. This mechanism yields results which may contradict the original objectives of preferential credit programmes. Borrowers have to use scarce resources to meet their transaction costs, which effectively raises the total cost of credit. It can therefore be argued that high transaction costs results

[9] *Adams (1994). Transactions costs in Decentralized Rural Financial Markets. Studies in Rural Finance Occasional Paper No.2039. Columbus, OH: Ohio State University.*

in an unproductive use of resources. If the objective of the development banks is to provide subsidised credit to strategic sectors in the economy, the authorities may do well to focus on addressing those factors which have an impact on transaction costs. The solution may be to operate a subsidised credit programme which has low transaction costs relative to those associated with loans from the commercial banking system.

Regulation

There are several ways in which governments can intervene in the economy to achieve certain desirable goals. These include direct ownership, administration and regulation of the activities of enterprises and institutions. The authority for the regulation of the development banks is vested in the parliaments of the countries and the statutes passed by them. This regulatory framework gives rise to a number of questions which the policy authorities would have to resolve. These include the following: Is this arrangement satisfactory? How have development banks performed? What are the replacement mechanisms? Some commentators have argued that these institutions performed poorly because of the weak regulatory and supervisory frameworks within which they operate. The challenge is to identify a mechanism, which would promote the objectives of development without compromising prudent management. Important in this regard may be the strengthening of the governance framework of these institutions, to insulate them from political interference. The political directorate ought to be in control of the overall policy direction of the institutions, but the implementation of policies and the day-to-day operations of the bank should be the responsibilities of the board. One solution to the regulatory dilemma of the development banks may be self regulation via a system of peer reviews. Out of this process, it may be desirable to grade each development bank based on generally accepted criteria. This process of grading should be available to the public. This is even more important if development banks are to raise funds on the domestic and regional capital market.

Without providing any specific advice, however, we can make a number of points. In the first instance, it may not be appropriate for the ECCB to assume the role as regulator of the development banks. Such a role would increase the operating cost of the ECCB, as there are no significant economies of scope in expanding its supervisory activities to the development banks. Additionally, regulation of the development banks does not further the monetary policy objectives of the ECCB and may needlessly increase policy conflicts.

A related question is - what should be the aim of the regulatory framework as it is applied to the development banks? Development banks are different from the commercial banks in several respects. In the first place, the risk levels to which they are subjected are much higher than those of the commercial banks. This arises because of the long-term nature of their loans and the fact that the projects for which they lend are associated with high levels of uncertainty and asymmetric information. Development banks are not solely profit driven as explained previously, and there is little competition from other institutions. As a consequence it is suggested that the development banks ought not to be regulated on the same basis as commercial banks.

The main goal of regulatory oversight of the development banks is to ensure prudent governance within the limits of the statutes which established these institutions. Among the main concerns are those related to the management of resources and automatic foreclosure procedures on chronic defaults. It is envisaged that good governance would result in an improvement in the selection of projects.

Enhanced regulation of development banks would complement the proposed adjustment in the ownership structure of these institutions and more importantly address issues related to the need to raise deposits on a systematic basis. The ultimate goal would be the provision of incentives for the proper management of these funds. This may require an enhanced level of financial regulation and increased internal controls and accountability on the part of the institutions. The development banks need to be internally oriented in a particular manner which would enhance their external effectiveness.

ECCB Area Development Banks in a Single Financial Space

In an integrated financial system there would be pockets of underdeveloped and unexploited opportunities. Indeed, there has been the tendency in the past for capital to accumulate in certain regions of a country while the other parts remain capital scarce. The existence of development banks in each territory could provide a mechanism through which eight centres of growth can be developed within the area and therefore avoid the backwash effects of polarisation.

4. SUMMARY AND CONCLUSIONS

This note has two purposes. First, the basic features of the ECCB area development banks were outlined. In particular, it was revealed that the operations of these institutions, measured as a percentage of assets to GDP, were increasing but were still much smaller than the commercial banks. The majority of the resources held by ECCB area development banks originate from foreign loans. As a result, the domestic assistance provided is dictated by external institutions. Domestic sources of financing are less significant, although there are signs that these are increasing in importance, measured as a percentage of total commercial bank loans outstanding. The second aim of the note was to survey a number of the economic, administrative, conceptual and identity issues which affect the overall performance of development banks.

It is accepted that some of these banks have not performed as intended. Indeed some have accumulated bad debts and had to be restructured. However, this does not mean that the authorities ought to suspend this type of activity. On the contrary, because market failure remains pervasive in the domestic economy and in particular in the financial arrangements, the state may need to be more entrepreneurial, by playing either a facilitatory or interventionist role. In this sense, therefore, the solution may be to find ways of improving the operations of development banks.

Table 1
Development Banks Debt and Assets/Liabilities

	Annual Average Flows			
Type	1985 - 1987	1987 - 1992	1992 - 1995	1985 - 1995
Domestic Debt	5.00	4.20	1.60	4.20
Foreign Debt	12.10	17.20	-0.58	12.50
Assets	23.40	29.00	1.20	22.60
	Annual Growth (%)			
Type	1985 - 1987	1987 - 1992	1992 - 1995	1985 - 1995
Domestic Debt	72.00	16.00	3.50	27.10
Foreign Debt	28.80	16.70	-0.33	16.40
Total	100.80	32.70	3.80	43.50
Assets	32.30	15.80	0.40	17.00

Source: ECCB

Table 2
Structure of Liabilities of ECCB Area Development Banks
(Percentage)

Country	Year	Capital Reserves	Domestic Loans	Foreign Loans	Deposits	Other	Total
Anguilla	1987	28.60	n.a.	71.03	0.28	0.09	100.00
	1996	23.80	6.10	71.10	n.a.	-1.00	100.00
Antigua & Barbuda	1985	24.40	7.20	36.90	5.70	25.80	100.00
	1994	53.30	25.30	6.90	n.a.	14.50	100.00
Dominica	1985	9.30	4.90	82.90	1.60	1.30	100.00
	1995	24.30	12.80	57.50	0.90	4.50	100.00
Grenada	1986	31.00	n.a.	-62.90	n.a.	6.10	100.00
	1995	4.30	15.50	69.10	1.20	9.90	100.00
St Kitts & Nevis	1985	32.90	18.30	43.90	n.a.	4.90	100.00
	1995	24.50	n.a.	73.00	n.a.	2.50	100.00
St Lucia	1986	21.90	25.70	37.90	6.80	7.70	100.00
	1996	18.70	28.80	39.70	7.00	5.80	100.00
St Vincent & the Grenadines	1989	39.20	5.80	17.80	n.a.	37.20	100.00
	1994	37.00	1.50	44.10	0.80	16.60	100.00

Source: ECCB

Table 3
Development Bank Loans Outstanding as a Per Cent of Total Commercial Banks Loans Outstanding

Year	Anguilla	Antigua & Barbuda	Dominica	Grenada	St Kitts & Nevis	St Lucia	St Vincent & the Grenadines	Total
1985	n.a.	4.5	9.0	6.2	3.5	n.a.	n.a.	3.2
1986	n.a.	4.6	12.2	8.4	4.6	8.2	n.a.	5.9
1987	7.8	4.2	16.2	10.8	7.7	7.9	n.a.	6.9
1988	6.8	4.3	14.1	12.4	n.a.	7.4	n.a.	6.0
1989	11.7	4.0	14.7	10.6	n.a.	6.2	3.8	6.1
1990	9.5	3.9	13.1	11.0	7.8	6.3	3.8	7.1
1991	10.0	3.8	14.5	10.7	6.9	7.3	4.1	7.4
1992	9.5	3.5	16.5	9.7	6.1	8.2	2.4	7.4
1993	10.0	3.5	17.0	7.5	6.4	8.4	2.3	7.4
1994	10.0	3.5	17.4	6.9	6.0	9.2	2.3	7.5
1995	9.4	3.0	15.8	6.4	5.6	9.5	2.0	7.0

Source: ECCB

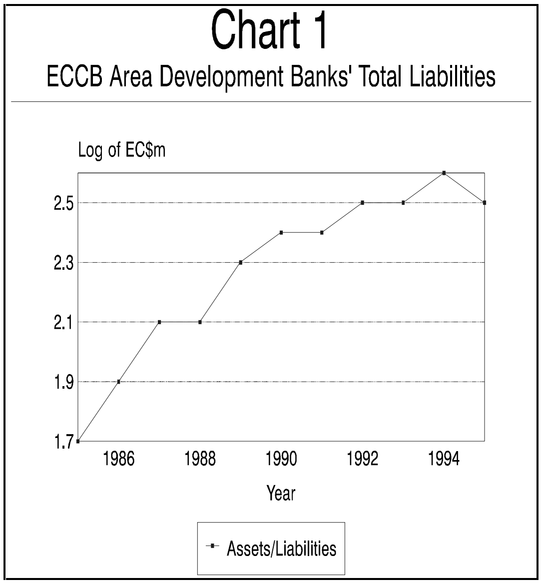
Chart 1
ECCB Area Development Banks' Total Liabilities
Log of EC$m
2.5
2.3
2.1
1.9
1.7
1986
1988
1990
1992
1994
Year
Assets/Liabilities

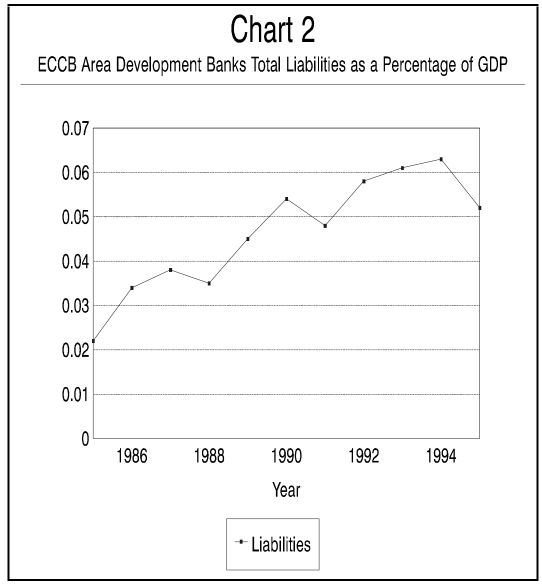
Chart 2
ECCB Area Development Banks Total Liabilities as a Percentage of GDP
0.07
0.06
0.05
0.04
0.03
0.02
0.01
0
1986
1988
1990
1992
1994
Year
Liabilities

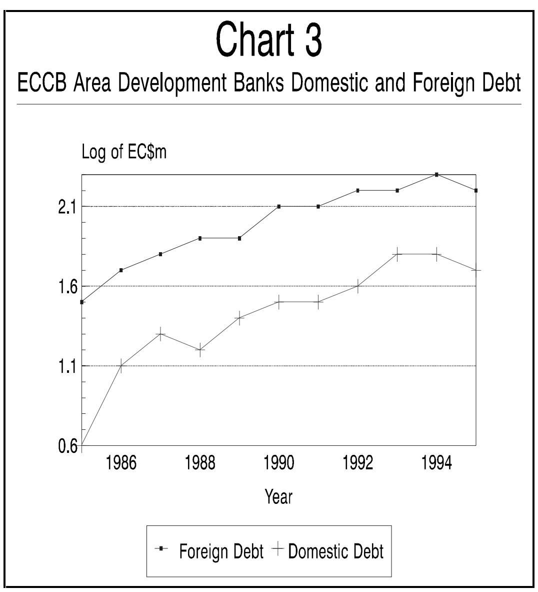
Chart 3
ECCB Area Development Banks Domestic and Foreign Debt
Log of EC$m
2.1
1.6
1.1
0.6
1986
1988
1990
1992
1994
Year
Foreign Debt
Domestic Debt

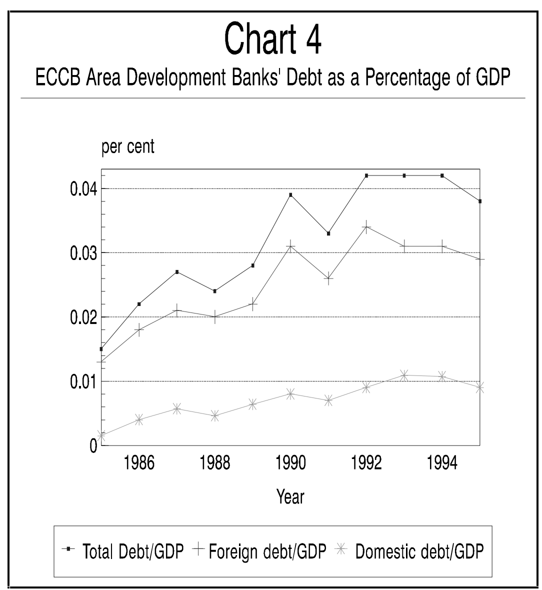
Chart 4
ECCB Area Development Banks' Debt as a Percentage of GDP
per cent
0.04
0.03
0.02
0.01
0
1986
1988
1990
1992
1994
Year
Total Debt/GDP
Foreign debt/GDP
Domestic debt/GDP

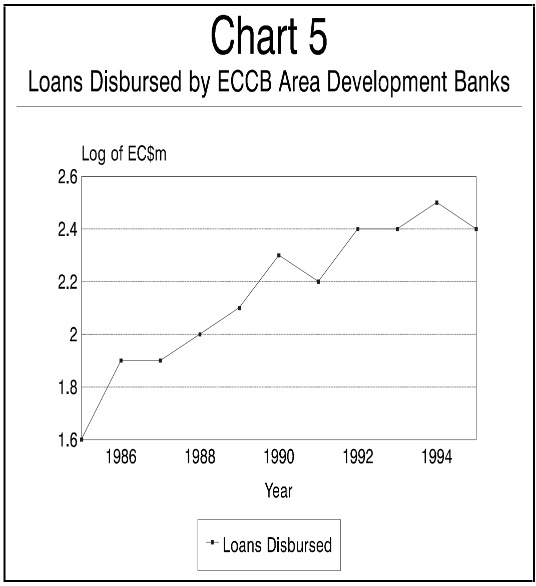
Chart 5
Loans Disbursed by ECCB Area Development Banks
Log of EC$m
2.6
2.4
2.2
2
1.8
1.6
1986
1988
1990
1992
1994
Year
Loans Disbursed

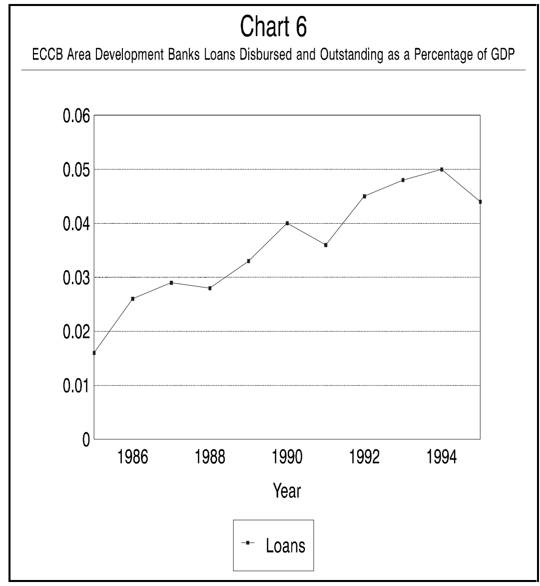
Chart 6
ECCB Area Development Banks Loans Disbursed and Outstanding as a Percentage of GDP
0.06
0.05
0.04
0.03
0.02
0.01
0
1986
1988
1990
1992
1994
Year
Loans

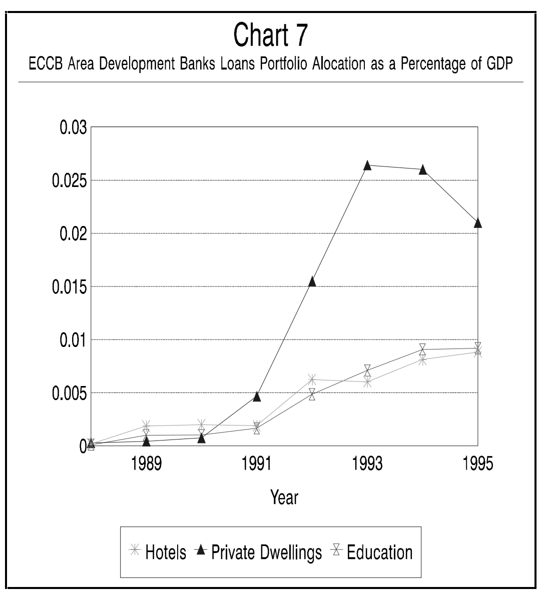
Chart 7
ECCB Area Development Banks Loans Portfolio Alocation as a Percentage of GDP
0.03
0.025
0.02
0.015
0.01
0.005
0
1989
1991
1993
1995
Year
Hotels
Private Dwellings
Education