

CCMS 1989 Annual Monetary
Studies Conference

CHAPTER 8

Credit unions in Jamaica: Performance, problems and prospects

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The main objectives of the credit union movement include the encouragement of increased levels of household savings, provision of short-term 'provident' loans at low cost, granting of loans to small-scale, productive enterprises, and provision of financial counselling geared mainly, though not exclusively, towards improvement in household financial management. Such objectives are important in developing countries, especially in the context of the need for increased domestic savings mobilisation, and the allocation of funds to those economic units like small-scale firms whose loan financing requirements are not adequately satisfied by the traditional lending institutions.

Credit unions are simple financial institutions using few inputs and producing even fewer outputs. Most credit union operations in the Caribbean are based on the CUNA International (the international association of credit unions) model where members deposit their savings in a pool which is then made available for lending to fellow members at strictly regulated interest rates. Whenever there exists a residual of loan revenue over operating costs, members receive dividends or interest rate rebates.

It is generally assumed that in comparison with the larger bank and non-bank financial intermediaries, credit unions provide better accessibility to the working people, allow for more popular participation of members in decision-making, are more adaptable to local needs, and may also make available lending and deposit facilities neglected by other financial institutions. Credit unions play an important role in domestic savings mobilisation by facilitating untapped categories of savings, while providing for credit allocation to neglected areas of the economy.

Funds mobilised by credit unions are generally made available to depositors and, especially in rural areas, this may facilitate the allocation of funds in rural communities from which they have been mobilised. In many developing countries, rural credit requirements greatly exceed available supply from the commercial banking sector and the larger non-bank financial intermediaries. Credit unions may

all credit unions, members' ability to access funds via loans is dependent on prior saving, and a commitment to continue saving in the credit union.

Credit unions: A general overview

Croteau's work initiated detailed academic research on credit unions and provided valuable information on their economic behaviour in the United States (Croteau, 1963). Subsequently, a number of institutions and scholars have examined credit union behaviour in developing countries (COLAC, 1978; Kang, 1981; Dublin, 1983; Stemper, 1987). The published work on credit unions in Jamaica is limited to a study conducted by the National Savings Committee in 1972.

Generally, credit unions operate outside the regulatory framework which governs the operations of commercial banks and the more traditional non-bank financial intermediaries. They are sometimes not identified as being part of the formal financial system, leading some analysts to place them in the category of 'semi-formal' or even 'informal' financial institutions. The majority of credit unions operate under government regulations, usually those concerning co-operatives, which specifically delineate their roles and functions. Governments in some countries provide financial and technical support to credit unions in an attempt to reduce the dominance of certain informal financial agents, such as money-lenders.

In Jamaica, credit union operations are regulated by the Co-operative Societies Law (Chapter 75). Credit unions operate under the control of the Registrar of Co-operatives who must ensure that they comply with the statutory regulations governing their operations. In addition, the Registrar of Co-operatives is empowered to investigate the operations of credit unions and, where necessary, dissolve and liquidate those credit unions whose operations are assessed to be unsatisfactory.

At the end of 1987 there were nearly 40,000 credit unions affiliated to the World Council of Credit Unions (WOCCU) operating throughout the world. Just under two-fifths were located in the USA (38%), while about one-third (31%) operate on the African continent, with 446 (or 1% of total) operating in the Caribbean. Of the 65.7 million recorded credit union members internationally, some 50.1 million (76% of total) were from the USA; the available data show that there were just over 650,000 members in the Caribbean. Savings deposits in credit unions throughout the world were US\$173.7 billion in 1987, with 86% mobilised in US credit unions. World credit union loans outstanding amounted to US\$119.9 billion (1987), while assets were about US\$190 billion. Caribbean credit unions are reported in 1987 as having total deposits of just over US\$300 million, loans outstanding of US\$158.6 million, and total assets of US\$331.4 million.

Credit unions in Jamaica, 1941-62

Credit union operations in Jamaica began in 1941 with the establishment of the Clerks Co-op Credit Union. Located in Kingston, this credit union started with 98 members and total deposits of J\$520. In 1943, the six existing credit unions formed themselves into a League which was then registered with the relevant government authority. Both the number and membership of credit unions increased significantly over the period up to 1950. By 1950, there were 39 credit unions with 3614 members with savings averaging J\$21 per member (see Table 8.1). Recognising the increasing importance of co-operatives generally and more specifically the credit union movement, the government implemented legislation (Co-operatives Societies Law, Chapter 75) in 1950 which stipulated guidelines for the operation and regulation of credit unions. During the same year, the Jamaica Credit Union League was affiliated with CUNA International, thus facilitating its access to a range of services, including deposit and loan insurance. Jamaica was the first country member of CUNA International outside North America.

Between 1950 and 1955, the number of credit unions almost doubled, membership reached 10,000, and total nominal savings deposits were almost J\$400,000. This period of Jamaica's economic history was characterised by impressive economic growth rates; the average annual real product growth rate was 10.1%, with the construction sector being dominant; real per capita income grew at an annual average of about 7%, while real net domestic savings also increased. The growth in real credit union savings averaged over 40% per annum during the period 1950-5. Credit union annual average real savings growth rates for the period exceeded the annual average nominal growth rates of both gross national product and national income. No data is currently available on any other credit union liabilities, assets, or their geographic dispersion for the 1950-5 period.

The period 1955-60 in Jamaica saw a slowing down of macro-economic growth to an annual average real growth rate of just over 7%, due mainly to reduced activity in the construction sector. Average annual growth rates of credit union numbers and membership declined in the period 1955-60, relative to the preceding five years; the average annual growth rate of credit unions was down to 20% from 25%, while the comparable figures for membership trends were 15% and 8%, respectively. However, in real terms, credit union annual average savings growth rates exceeded those of the preceding period, being around 50% per annum.

By 1962, the credit union industry in Jamaica had 26,448 members in 113 credit unions, an average of 234 members per credit union, with nearly J\$3 million in savings deposits. At that time, credit union savings as a

Table 8.1 *Jamaica: Credit unions' early growth (selected indicators, 1941-62)*

Year	Number of credit unions	Number of members	Total savings	Average savings per member	Total loans	Total assets
			(J\$000)	(J\$)	(J\$000)	(J\$000)
1941	1	98	0.5	5	n.a.	n.a.
1942	4	196	1.2	6	n.a.	n.a.
1943	6	843	5.4	6	n.a.	n.a.
1944	18	1,450	14.7	10	n.a.	n.a.
1945	25	1,820	21.1	12	n.a.	n.a.
1946	31	2,209	41.3	19	n.a.	n.a.
1947	30	2,298	42.9	19	n.a.	n.a.
1948	35	2,350	58.2	25	n.a.	n.a.
1949	34	2,887	54.7	19	n.a.	n.a.
1950	39	3,614	75.5	21	n.a.	n.a.
1951	45	4,523	104.7	23	n.a.	n.a.
1952	52	5,200	142.6	27	n.a.	n.a.
1953	63	6,500	203.4	31	n.a.	n.a.
1954	67	8,700	300.0	34	n.a.	n.a.
1955	73	10,000	390.0	39	n.a.	n.a.
1956	81	13,336	592.1	44	n.a.	n.a.
1957	89	14,789	837.7	57	n.a.	n.a.
1958	92	18,279	1,143.6	63	1,331.8	1,331.8 ¹
1959	99	21,000	1,500.0	71	1,445.6	1,562.7 ¹
1960	101	22,245	1,879.3	84	1,880.8	1,943.7 ¹
1961	110	25,000	2,265.1	91	2,195.2	2,467.0 ¹
1962	113	26,448	2,864.2	108	2,651.6	2,996.0

¹ Approximated as the greater of (Loans + other assets) or (Shares/deposits + reserves).

Sources: Jamaica Co-operative Credit Union League (JCCUL), *Annual Report 1987*; Department of Statistics, *Monetary Statistics*, various issues.

percentage of total personal savings in Jamaica was 11%, rising slightly from about 9% in 1958. The composition of total credit union assets for the first five years for which data are available (1958-62) indicates the major quantitative significance of loans, which account for an annual average of 93% of total assets. The loans/savings ratios of the credit union movement averaged 100.1% for the period, reflecting what may be interpreted as both a commitment to, and confidence in, member borrowers.

Credit unions after political independence, 1962-72

During the first decade following political independence, economic growth in Jamaica was significantly slower than in the previous decade. The national level of real savings mobilisation was correspondingly diminished and the number of credit unions remained relatively stable (see Table 8.2). The average annual growth rate in the number of credit union members was nearly 7%. In 1962, there were 113 credit unions with 26,448 members, with average credit union membership of 234. By 1972 membership had grown to over 50,000 in 125 credit unions, with an average membership of 406. During the 1969-72 period, the Credit Union League upgraded its promotional activities. This may be one of the reasons which explain the pattern of membership growth during those years.

Kingston and St Andrew (predominantly urban areas) accounted for an average of two-thirds of credit union membership in Jamaica. In the parishes of Western Jamaica (Hanover, St Elizabeth, Trelawny, and St James), the credit union movement was virtually non-existent during the period even though fairly high levels of economic activity in mining, tourism, and agriculture existed in those parishes.

Credit unions are usually organised only within groups having what is termed a 'common bond'. Historically, in many countries, the most pre-

Table 8.2 *Jamaica: Credit unions (selected indicators, 1963-72)*

Year	Number of credit unions	Number of members	Average members per credit union	Total savings	Average savings per member	Credit union total loans outstanding
				(J\$m)	(J\$)	(J\$m)
1963	125	28,000	224	3.5	126	3.2
1964	127	31,000	244	4.2	135	3.9
1965	126	32,000	254	4.6	144	4.4
1966	130	35,000	270	5.5	158	5.2
1967	131	36,000	275	6.3	174	5.9
1968	132	37,865	287	6.9	181	7.1
1969	132	39,185	297	7.8	198	7.9
1970	128	41,256	322	8.4	205	8.3
1971	127	45,583	359	9.6	210	9.2
1972	125	50,723	406	12.7	251	13.1

Sources: Computed from data in JCCUL, *Annual Report 1987*; Department of Statistics, *Monetary Statistics*, various issues.

valent form of this bond is employment, followed by trade unions, churches, and co-operative societies. Community-type credit unions have tended to be the least prevalent. In Jamaica between 1963 and 1972, the number of credit unions whose common bond related to employment (occupational-type) moved from nearly half to about 60%. Significantly, the second most important type of credit union during the period was the community-based one, accounting for an average of 25%.

In terms of both membership and savings mobilised, the occupational credit unions dominated, with 54% of total membership and 65% of total savings mobilised in 1963, and about 60% of total membership and three-quarters of total savings by 1972. Although the number of community-based credit unions declined slightly during the period, both their share of total membership and their percentage of total savings remained stable. Associational-type credit unions were relatively unimportant in terms of numbers, membership, and savings deposits.

Government sector and sugar industry worker-based credit unions were dominant between 1962 and 1972. These two occupational-type credit unions accounted for at least one-fifth of the total number of credit unions, averaging over one-third of total membership, and mobilising nearly half of total credit union savings.

No time series data exists on the distribution of credit unions by asset size during the specific review period. However, the data for 1971 show that of the 127 credit unions, 98 (or 77% of the total) had asset sizes of under J\$100,000. Only five credit unions (1971) had asset sizes of over J\$500,000, three of which operated in the government sector. The small asset size of the majority of credit unions indicates their macro-economic impact was minimal.

Total nominal credit union savings increased from J\$3.5 million (1963) to J\$12.7 million in 1972 (see Table 8.2). The nominal value of average savings per member in credit unions almost doubled over the period moving from J\$126 to J\$251. The annual growth rate of savings deposits averaged 16% for the period, while savings deposits remained the dominant source of total credit union liabilities, averaging nearly 90%.

When savings mobilised by the credit unions are compared with those by commercial banks during the review period, the most significant years for credit union savings were 1964 to 1967 when their savings levels peaked at just over 5% of those mobilised by commercial banks, demonstrating that credit unions did not provide effective competition to commercial banks. As a percentage of Gross Domestic Product (GDP), credit union savings were miniscule, accounting for less than 1% annually during the 1963-72 period.

Between 1963 and 1972, nominal interest rates on credit union deposits exceeded those offered by commercial banks on savings deposits (see

Table 8.3); real interest rates on credit union savings were positive, except for two years - 1966 and 1971. However, during this period, as already indicated, credit union savings declined as a percentage of total commercial bank savings. This suggests interest rate insensitivity by Jamaican savers during the period.

The value of loans granted by credit unions during the 1963-72 period almost quadrupled (see Table 8.2). The average annual loan growth rate of 15.6% was slightly less than that of savings. Loans continued to be the dominant credit union asset, with loan/asset ratios averaging over 80%. For 1968, 1969 and 1972, credit unions were net lenders of funds (or dis-savers) as evidenced by loans/savings ratios of over 100%. More detailed information indicates that, in 1966, only those credit unions associated with public utilities were net lenders; by 1971, however, five categories had reached that position (church, government, education, manufacturing and public utilities). In 1966, none of the parishes had credit unions which were net lenders of funds; by 1971, credit unions in Kingston/St Andrew, Clarendon and Manchester, had loans/savings ratios exceeding 100%.

Credit union lending for the review period averaged under 3% of commercial bank loans. Unfortunately, there is no detailed information on sectoral loan allocations to facilitate further analysis. However, the credit union contribution to consumer instalment lending is considerable. Credit unions were beginning, by the late 1960s, to emerge as important suppliers of instalment credit. Credit union real loan rates were positive throughout the period and exceeded prime lending rates of commercial banks (see Table 8.3); this may be one of the possible explanations for low credit union loan demand.

Development of the credit union movement since 1972

Since 1974 successive governments have attempted to restructure the economy, largely in response to external factors. Financial institutions operating locally have been the target of various aspects of monetary, exchange rate and other macro-economic policies.

The number of credit unions operating in Jamaica has contracted since 1972. However, the average membership has increased nearly seven times. Significantly, membership growth rates declined during the 1980s, in the context of positive growth trends of the country's main macro-economic indicators. The most recent data (see Table 8.4) indicate that the credit union movement experienced a net loss in membership during 1986. Although there are more urban than rural credit unions, membership of rural credit unions has grown to nearly half the total number over the period since 1972.

Table 8.3 Jamaica: Comparative deposit and loan interest rates, 1963-87

Year	Commercial banks ¹		Credit union savings rates ²		Credit union loan rates ²		Commercial bank loan rates			
	Savings rate	Average weighted deposit rate	Nominal	Real ³	Nominal	Real ³	Prime lending rates		Average weighted loan rates	
							Nominal	Real ³	Nominal	Real ³
1963	3.0	n.a.	6	n.a.	12.0	n.a.	6.4	n.a.	n.a.	n.a.
1964	3.0	n.a.	6	6.4	12.0	12.4	7.0	7.4	n.a.	n.a.
1965	3.0	n.a.	6	5.6	12.0	11.6	7.0	6.6	n.a.	n.a.
1966	3.5	n.a.	6	-3.6	12.0	2.4	7.5	-2.1	n.a.	n.a.
1967	4.0	n.a.	6	2.2	12.0	8.2	8.0	4.2	n.a.	n.a.
1968	3.0	n.a.	6	3.1	12.0	9.1	7.0	4.1	n.a.	n.a.
1969	3.5	n.a.	6	2.3	12.0	8.3	8.0	4.3	n.a.	n.a.
1970	3.5	n.a.	6	0.1	12.0	6.1	8.0	2.1	n.a.	n.a.
1971	3.0	n.a.	6	-0.3	12.0	5.7	7.0	0.7	n.a.	n.a.
1972	3.5	n.a.	6	3.3	12.0	9.3	8.0	5.3	n.a.	n.a.
1973	4.0	n.a.	6	-13.1	12.0	-7.1	9.0	-10.1	n.a.	n.a.
1974	6.0	n.a.	6	-24.2	12.0	18.2	11.0	-19.2	n.a.	n.a.
1975	6.0	n.a.	6	-14.8	12.0	-8.8	10.0	10.8	n.a.	n.a.
1976	7.0	10.2	6	-5.1	12.0	0.9	11.0	-0.1	n.a.	n.a.
1977	7.0	6.8	6	-6.2	12.0	-0.2	11.0	-1.2	13.65	1.4
1978	7.0	6.1	6	-20.0	12.0	-14.0	11.0	-15.0	13.60	-12.4

Table 8.3 (continued) Jamaica: Comparative deposit and loan interest rates, 1963-87

Year	Commercial banks ¹		Credit union savings rates ²		Credit union loan rates ²		Commercial bank loan rates			
	Savings rate	Average weighted deposit rate	Nominal	Real ³	Nominal	Real ³	Prime lending rates		Average weighted loan rates	
							Nominal	Real ³	Nominal	Real ³
1979	7.0	8.0	6	-10.7	12.0	-4.7	11.0	-5.7	13.96	2.7
1980	9.0	9.0	6	-11.9	12.0	5.9	13.0	-4.9	16.68	1.2
1981	9.0	11.4	6	-2.4	12.0	3.6	13.0	4.6	16.25	7.8
1982	9.0	11.4	6	-3.2	12.0	2.8	13.0	3.8	16.43	7.2
1983	9.0	12.3	6	-10.5	12.0	-4.5	13.0	-3.5	17.02	0.5
1984	13.0	17.2	6	-29.0	12.0	-23.0	18.0	-17.0	20.10	-14.9
1985	20.0	19.6	6	-19.0	12.0	-13.0	23.0	-2.0	29.20	4.2
1986	15.0	14.8	6	-11.1	12.0	-5.1	23.0	5.9	25.60	8.5
1987	15.5	15.5	6	-6.3	12.0	-0.3	23.0	10.7	25.19	12.9

1 Rates prevailing at end of December of relevant year.

2 Rates are set at a maximum of 6% by law for savings and 12% for loans.

3 Real values are calculated using the GDP deflator.

Source: Computed from Bank of Jamaica, *Statistical Digest*; Department of Statistics, *Monetary Statistics*.

A 1987 survey of credit union members in Jamaica has provided some interesting results (Jamaica Credit Union League, 1987). First, nearly one-half of credit union membership (48%) was in the 26–35 year age group; approximately one-quarter of the employed work force falls into this age category. Only about 15% of membership is between 16 and 25 years old, while this age group accounts for nearly one-quarter (23%) of the employed work force; the credit union movement in Jamaica is not attracting the younger potential saver. Second, the sex distribution of credit union membership follows fairly closely the sex distribution (male 60%, female 40%) of employment in the formal economy. Third, the dominant occupational groups which comprise the membership of credit unions in Jamaica are clerical workers (23%), artisan/craft workers (20%), and service workers (20%). The professional/administrative and self-employed categories are less significant. The data indicate that the majority of credit union membership falls into the lower income category.

When we examine credit union categories during the 1970s, the evidence suggests a declining role for those operating in the sugar industry, and those involving workers in the government sector. Credit unions in the industrial/agricultural, teaching, and community categories showed increases in the percentages of total savings mobilised. Community-based credit unions moved from about one-fifth of total membership and almost 10% of total savings in 1972 to 45% of total membership and over one-quarter of total credit union savings mobilised in 1978. This particular growth trend may have reflected the increased emphasis placed by the government on community development during the 1970s.

Measured in nominal terms, savings mobilised by credit unions increased from J\$16.8 million in 1973 to J\$432.3 million by the end of 1987 (see Table 8.5), with an increase in average nominal savings per member from J\$279 (1973) to J\$1,373 (1987). Savings deposits remained the most important component of total credit union liabilities, accounting for an average of over 80% during the period, and rising slightly during the 1980s. Rural-based credit unions increased their share of the total to one-third, and had a higher average annual growth rate of savings mobilised (32%) when compared with those operating in urban centres (26%).

In real terms, credit union savings deposit growth was much slower, moving from J\$21.9 million in 1973 to J\$54.1 million in 1987, peaking in 1983 at about J\$75 million. When compared with real savings of commercial banks during the period, real credit union savings accounted for an average of 9.6%. This ratio was, however, much higher than the comparable one for the 1962–72 period. As a percentage of real GDP, real credit union savings remained insignificant, averaging only 2.5% over the 1973–87 period; this average, however, was greater than that of the earlier decade.

In Table 8.3, certain aspects of credit union deposit rates are examined.

Table 8.4 Jamaica: Growth of credit unions (numbers/membership), 1973–87

Year	Number of credit unions	Number of credit union members	Average membership per credit union	Number of credit unions ¹ – regional breakdown (%)		Number of members regional breakdown (%)	
				URBAN	RURAL	URBAN	RURAL
1973	113	60,027	531	65.5	34.5	n.a.	n.a.
1974	112	68,179	609	65.2	34.8	63.9	36.1
1975	113	81,067	717	65.5	34.5	58.5	41.5
1976	103	92,062	894	71.8	28.2	60.7	39.3
1977	103	111,388	1081	71.8	28.2	57.8	42.2
1978	98	142,262	1452	72.4	27.5	55.1	44.9
1979	96	171,100	1782	72.9	27.1	52.9	47.1
1980	96	197,647	2059	72.9	27.1	52.5	47.5
1981	96	221,619	2309	72.9	27.1	52.7	47.3
1982	96	252,109	2626	72.9	27.1	52.4	47.6
1983	97	274,128	2826	73.2	26.8	52.2	47.8
1984	96	292,871	3051	74.0	26.0	52.4	47.6
1985	95	299,642	3154	74.7	25.3	51.9	48.1
1986	91	298,527	3281	74.7	25.3	50.2	49.8
1987	89	314,840	3538	74.2	25.8	50.5	49.5

1 'URBAN' refers to Kingston and St Andrew (i.e. the 'Corporate Area'); 'RURAL' refers to the remaining twelve parishes.

Source: Jamaica Co-operative Credit Union League.

Table 8.5 Jamaica: Credit unions savings deposits - growth and composition, 1973-87

Year	Total savings deposits (J\$m)	Average savings per member ¹ (J\$)	Savings deposits regional breakdown (%)		Total savings/ total liabilities (%)
			URBAN	RURAL	
1973	16.8	279	78.0	22.0	81.5
1974	22.3	327	75.2	24.8	84.0
1975	31.5	389	72.5	27.5	86.0
1976	42.0	456	71.3	28.7	84.2
1977	57.1	513	68.7	31.3	86.6
1978	84.8	596	65.0	35.0	86.0
1979	114.7	670	64.0	36.0	86.8
1980	146.8	743	63.6	36.4	86.8
1981	185.1	835	64.9	35.1	86.1
1982	224.4	890	66.7	33.3	86.7
1983	269.8	984	67.2	32.8	87.8
1984	312.7	1068	67.5	32.5	88.5
1985	347.1	1158	67.9	32.1	89.5
1986	379.1	1270	66.7	33.3	90.8
1987	432.3	1373	66.7	33.3	n.a.

1 Figures are rounded to the nearest dollar.

Source: Computed data in Jamaica Co-operative Credit Union League (data reported to the Bank of Jamaica); Department of Statistics, *Monetary Statistics*, various issues.

These deposit interest rates have been set by law at 6% per annum. In addition to being more attractive than comparable commercial bank savings rates in nominal terms up to the end of 1973, credit union real rates of interest on savings deposits were positive between 1964 and 1972, except for 1966 and 1971. Since 1972, however, real credit union deposit rates have been negative.

If credit union savers are free of money illusion, it is reasonable to assume that negative real interest rates affected credit union savings growth. This is further reinforced by the credit union Member Survey results which indicate that 'low returns on savings' was an important factor influencing persons away from membership of local credit unions. It is also likely that certain transaction costs may have impacted negatively on incentives for depositors. Although service charges are assumed to be relatively low, and transportation costs based on journeys to and from credit union offices are expected to be minimal as a result of nearness of credit union offices to workplace or home, one possible disincentive is the generally slow service provided by credit unions with respect to savings withdrawals. Additionally, the limitations placed on large withdrawals which require in some instances up to six months' notice, and the constraint that members who have outstanding loans are not allowed to withdraw funds, may act as disincentives to deposit growth.

In the period under review, credit union loans remained the dominant component of their asset portfolio. Their loan/asset ratios averaged over 80% between 1973 and 1987 (see Table 8.6). During the 1970s, the Jamaican economy was characterised by major economic dislocation, negative economic growth and economic contraction. To the extent that credit unions were able to maintain their high loans/savings ratios, they demonstrated a level of resilience in periods of economic crisis.

Credit union loans outstanding in nominal terms increased from J\$16.8 million in 1973 to over J\$400 million in 1987. In real terms, credit union loans peaked in 1973 at J\$73 million and have declined since. The geographical distribution of credit union loans follows closely the pattern of savings mobilised; the data indicates that, as a percentage of total, both credit union savings and loans in rural communities were increasing. During the 1970s and up until 1980, the growth rates of credit union savings and loans in rural areas significantly outstripped those of the urban areas. These trends suggest that credit unions' loan finance played a crucial role in rural Jamaica in facilitating a minimum level of economic survival during the economic crisis of the 1970s.

The total loans/savings ratios during the period continued to be very high, averaging over 95%, reflecting a high level of commitment to borrowers. Additionally, as a percentage of total loans to the private sector, credit union loans have been increasing since 1973, and have been much higher

Table 8.6 Jamaica: Credit union loans outstanding - growth and composition, 1973-87

Year	Credit unions' total loans outstanding (J\$m)	Credit union loans - regional composition (%)		Total loans/ total assets (%)	Total loans/ total savings (%)
		URBAN	RURAL		
		1973	16.8		
1974	22.4	76.2	23.8	85.8	100.0
1975	31.5	73.7	26.3	86.3	99.9
1976	42.1	71.9	28.1	86.5	100.3
1977	55.8	69.5	30.5	85.2	97.8
1978	83.2	66.6	33.4	86.6	98.1
1979	112.6	65.3	34.7	84.2	98.2
1980	144.2	64.7	35.3	85.1	98.2
1981	184.1	65.6	34.4	85.6	99.4
1982	219.5	67.7	32.3	84.8	97.8
1983	265.2	67.7	32.3	86.3	98.3
1984	299.9	68.6	31.4	84.9	95.9
1985	328.6	68.7	31.3	84.9	94.7
1986	353.9	67.0	33.0	84.8	93.3
1987	404.6	67.2	32.8	n.a.	93.6

Source: Computed from data in Jamaica Co-operative Credit Union League; Department of Statistics, Monetary Statistics, 1977; Statistical Institute of Jamaica, Monetary Statistics, 1986.

than was the case in the previous decade.

Credit union loans are usually made for 'provident and productive purposes'. Loans are usually appraised by a loan committee comprising management personnel from the credit union. Loans are limited to credit union members 'in good standing' (i.e. those who have no outstanding arrears on previous loans); potential borrowers may be required to provide guarantors or 'co-makers' if certain loan preconditions are not satisfied.

As for the sectoral distribution of loans, for the most recent period for which detailed information is available (1982-87), housing/construction-related loans accounted for an average of 43% of total, the personal category averaged 37%, while the share of business-related loans averaged 15% (see Table 8.7). In the housing category, nearly half of the loans were for consumption (rent, purchases of household goods, and other loans for household purposes) rather than investment activity. All of the sub-categories in the personal category refer to consumption loans, mainly instalment credit. If one assumes that all credit union lending goes to provide instalment credit, then these institutions have been the dominant source of such lending in Jamaica since 1977, rising to 96% of total in 1984.

'Business-related' loans by credit unions rose from 13% to 21% of total loans during the review period. Since loans are restricted to credit union members who are mostly in the lower income category, it is reasonable to assume that these borrowers are involved in micro-enterprise activities which have been the source of considerable employment creation and income generation in Jamaica, especially since 1980.

In nominal terms borrowing costs have not changed since 1963, and up until 1979 were higher than commercial bank prime loan rates. Over the last decade, however, both commercial bank prime and average-weighted nominal loan rates have been much higher than credit union loan rates. This, however, has not been reflected in any marked increases in credit union lending. Real credit union loans have actually declined since 1983. Since 1983, in real terms, credit union loan rates have been negative.

Prospects for the Jamaican credit union industry

In 1985, the dominant views of both management and the broad membership of credit unions concerning the future prospects of the credit union movement in Jamaica were generally pessimistic (Magill, 1985). Firstly, credit union growth rates were projected to show declining trends and the sector was expected to 'shrink in size and importance'. Secondly, it was anticipated that commercial banks and other traditional financial institutions would provide significant competition for potential credit union sav-

Table 8.7 Jamaica: Credit union loans by categories, 1982-87 (Percentages of total loan portfolio)

Categories of loans	1982	1983	1984	1985	1986	1987
<i>Housing/construction related</i>						
Purchase of land/building	44.28	47.24	44.39	42.65	37.71	42.78
Home improvement	8.34	9.79	10.37	9.73	6.12	12.66
Rent/mortgage and utility	13.83	15.67	15.03	10.79	12.82	8.41
Household furniture/appliances	4.49	3.05	1.01	4.32	0.95	1.54
Household request	14.01	14.56	13.25	14.95	15.84	12.99
	3.61	4.17	4.73	2.86	1.98	7.18
<i>Personal</i>						
Vacation and travel	36.68	34.39	36.58	40.17	43.00	33.23
M/Vehicle purchase/repair	3.71	3.44	2.31	2.76	3.22	2.93
Medical expenses	21.77	18.41	17.58	16.67	16.92	16.44
Education	3.41	3.42	3.28	3.68	3.21	3.10
Legal expenses	4.87	6.19	7.15	6.35	6.69	5.86
Wedding and funeral	0.62	0.67	0.69	0.71	0.92	0.71
Insurance premiums	1.71	1.74	2.06	2.21	2.01	2.01
Personal requisites	0.06	0.11	0.35	0.28	0.14	0.17
	0.53	0.41	3.16	7.51	9.89	2.01
<i>Business-related</i>						
Agriculture	13.32	13.80	12.71	13.45	15.25	20.90
Business (general)	3.28	3.79	4.18	3.09	3.13	4.40
	10.04	10.01	8.53	10.36	12.12	16.50
<i>Miscellaneous</i>						
	5.72	4.57	6.32	3.73	4.04	3.09
TOTAL	100	100	100	100	100	100

1 Pertains to categories of (new) loans granted.

Source: Adapted from data reported to the Bank of Jamaica.

ings deposits, leading to a reduced credit union share of the domestic financial market. Thirdly, it was predicted that there would be increasing levels of credit union loan delinquencies, more account closures and fewer members. Fourthly, with decreased savings, credit union loan capacity was projected to decline. Fifthly, based on the generally negative expectations, credit union operations were expected to become less viable, leading to staff reduction and reduced services.

These projections were generally accurate. From the available data, some of which we have already discussed, trends in credit union numbers and membership declined after 1985, although membership levels increased marginally in 1987. Credit unions' real savings and loans also declined. Unpublished information indicates that credit union loan delinquencies have increased since 1985; expenses have been growing faster than income, and the estimated average expenses/income ratio for credit unions had reached 77% in 1986 showing an increasing trend from 63% in 1980.

Although the general prognosis for credit union growth in Jamaica still appears to be pessimistic, there exists considerable developmental potential with respect to the behaviour and operations of these institutions. The first aspect of this potential can be discussed in the context of the pattern of ownership of credit unions. These institutions are basically member-owned; members' savings provide almost all of the funds available to credit unions. In Jamaica, the largest segment of credit union membership comprises working people; they also participate in the overall management and operations. Most importantly, they share in the profits of the credit unions, which may be interest income on savings deposits and shares or interest rebates to borrower members. Credit unions may also provide financial and management services to segments of the population which may not otherwise have obtained such expertise. However, at present, credit union management structures in Jamaica are generally weak and skills must be upgraded.

Secondly, credit unions have historically encouraged the savings habit. Increasing domestic savings mobilisation is an integral part of any development process, and is particularly important for those developing countries with limited access to foreign funding. Although not spectacular in terms of savings mobilisation domestically, trends in real credit union savings in Jamaica suggest that some potential exists. Many urban and rural households have a readily available alternative to non-financial forms of savings via the deposit services provided by credit unions. The existence of such services may also be assisting in the monetisation process, especially in rural areas. Credit unions in Jamaica should examine the services which they now provide with a view towards becoming 'full service' institutions, offering a much wider range of financial instruments and commercial bank-type services. A review of deposit interest rate structures is also necessary.

The third issue relates to loan portfolio behaviour. Credit union lending policies are geared towards members' needs. Credit union loan applications are processed by a loan committee, usually elected by the membership from among its ranks. The committee is expected to be more sensitive to loan requirements than traditional financial institutions might be. In the Jamaican context, credit unions need to review carefully their sectoral allocation of loans. It is true that credit unions may be allocating funds to those sectors of the society neglected by the major financial institutions. However, the credit unions in Jamaica ought to be required to place more emphasis on productive loans and reduce their existing specialisation on instalment credit. It may be necessary to upgrade the loan appraisal arrangements and employ professional staff who are able to provide financial counselling to potential borrowers, so as to limit the trend towards increasing loan delinquency.

Finally, credit unions in Jamaica have reported mainly low net incomes or losses over the last few years in spite of low costs involved in credit union savings mobilisation, and the expected low administrative and operating costs. It seems that administrative practices are weak and operating procedures relatively backward. Credit unions must upgrade their administrative organisation and streamline their overall operations.