



**The Role and Performance of the Barbados National  
Bank Since its Establishment in March 1977  
by Luther Francis**

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BARBADOS NATIONAL BANK

'THE ROLE AND PERFORMANCE OF THE  
BARBADOS NATIONAL BANK SINCE ITS  
ESTABLISHMENT IN MARCH 1978'

by

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The Barbados National Bank, the first indigenous commercial bank in Barbados, was established by the then Government primarily to direct and facilitate, profitably, the flow of depositors funds to those sectors of the economy which are of critical importance to and have the greatest potential for the achievement of self-sustaining growth.

The establishment of such an institution became an absolute necessity in an environment in which it was perceived that the existing foreign-owned commercial banks did not always operate in the national interest even though prevailing local economic conditions and financial developments in the region including the formation of national commercial banks in Trinidad and Tobago, Guyana, Dominica, St. Vincent and Jamaica, demanded the adoption of a new approach to commercial banking in Barbados. A shift in emphasis to long term developmental financing with more flexible terms and conditions was obviously required.

Over the eleven (11) years of its existence, the performance of the Barbados National Bank has been very creditable indeed. At December 31, 1988 the size of the loan portfolio was almost ten (10) times greater than in 1978, accounting for almost twenty-five (25%) of the credit market in Barbados. In 1978, the Bank's share of the credit market was a mere five percent (5%).

Of greater importance, however, is the quality and distribution of the Bank's loan portfolio particularly with respect to the developmental impact of the funds disbursed. In this regard, the Barbados National Bank has played and continues to play a pivotal role in the country's development efforts so much so that the survival of the sugar industry is totally dependent on the financial support received from the Bank. In addition, its contribution to major public sector commercial undertakings, e.g. cement manufacturing, the national airlines, both passenger and cargo, and to the manufacturing sector, in general, has been hailed even by the staunchest critics. And the evidence is there to support such commendation! At December 31, 1988, loans to the productive sectors, inclusive of Government commercial undertakings accounted for some sixty-five percent (65%) of the Bank's total loan portfolio!

We shall now proceed to describe this performance in detail. Section I deals with the establishment and role of the Barbados National Bank as perceived by the founders. Section II briefly analyses the Bank's source(s) of funds. In Section III the focus shifts to the performance of the Bank to date. This is followed by Section IV which critically examines some of the challenges ahead. A summary/conclusion is presented at the end.

## SECTION I

### THE ESTABLISHMENT AND ROLE OF THE BNB ESTABLISHMENT

The Barbados National Bank was incorporated on March 20, 1978 by an Act of Parliament - the Barbados National Bank Act 1978 - 10 and began operations the following day with the acquisition of the assets of the Bank of America then operating on Lower Broad Street.

The Bank was formally opened on April 3, 1978 by the then Prime Minister and Minister of Finance and Planning, the Right Honourable J.M.G.M Adams.

The Bank is an amalgamation of several government-owned financial institutions which were in operation at that time, viz. -

- (a) Barbados Savings Bank - 1852
- (b) Sugar Industry Agricultural Bank - 1907
- (c) National Housing Corporation (Public Officers Housing Loans Fund, 1958).

Out of these predecessor organisations emerged the three (3) functional divisions of the Bank, viz. -

- the Commercial Banking Division
- the Agricultural Banking Division
- Mortgage Financing or Trust Division

The operations of these Divisions are co-ordinated through and supported by a Head Office, which provides common services and acts as the Secretariat to the Board of Directors.

### The Role of the Bank

Given the multi-faceted nature of its operations, the fact that it would be the first indigenous commercial bank in the country and government owned, and the reluctance of the existing foreign-owned commercial banks to adopt more liberal credit policies, the 'founding fathers' saw the Barbados National Bank as a major instrument of Government policy relative to the systematic flow of surplus financial resources to the productive sectors of the economy in such

a manner as to promote and facilitate the achievement of sustained economic growth - while, at the same time, permitting the institution to maintain some reasonable level of profitability.

This perceived role was then translated into the following specific objectives -

- to rationalize the services of public financial institutions
- to assist in the mobilization of domestic savings for use in the best interest of the people of Barbados
- to provide adequate financial flows to the developmental sectors of the economy
- to act as a 'countervailing' power in the commercial banking sector, i.e. to play the role of market leader and pace-setter with respect to influencing the lending and interest rate policies of the foreign-owned commercial banks.

During the first decade of its existence, the Bank has achieved the above-mentioned objectives to a large extent and has not deviated too significantly from its role as identified by the 'founding fathers'. This will become even more evident in Section III - the performance of the Bank to date. Suffice it to say, however, that the costs of maintaining this development thrust have been tremendous - financially, socially, politically and otherwise. The Bank made losses, annually, for the first eight (8) years of operations. In fact, at the end of 1984, the accumulated deficit stood at \$8.3 million. As a result, the Bank has had to endure severe criticism even though the benefits to the national economy are there for all to see.

Over the past three (3) years, however, the emphasis has shifted somewhat to the achievement of consistent profitability targets. As such, it is becoming a bit more difficult to distinguish between the Barbados National Bank and the other foreign-owned banks, with respect to credit policies and the implication of those policies for the country's development thrust. The developmental role as perceived by the 'founding fathers' is slowly being eroded in favour of increased profitability. This is indeed a classic case of conflicting objectives and is going to be a major challenge for the Bank over the next three (3) to five (5) years.

## SECTION II

### SOURCES OF FUNDS

Technically, the Barbados National Bank, even though contributing significantly to national economic development, is not a development finance corporation and therefore, does not experience too much difficulty with respect to the sourcing of funds.

At commencement date, the Bank, being an amalgamation of existing public sector financial institutions, would have had direct access to the deposits of these institutions, particularly the Savings Bank and Bank of America. At the end of December 1978, total deposits stood at \$74.5 million, which was more than enough to finance the loan portfolio of \$45.8 million. In addition, Government, as the only shareholder, had injected equity capital in the amount of \$10.0 million - increasing it to \$12.5 million in 1985.

Currently, the main sources of funds for the Bank are deposits from individuals and Government institutions, particularly the National Insurance Office. At December 31, 1988, total deposits - demand, savings and time amounted to \$402.3 million. Occasionally, the mortgage division, on behalf of the Bank's subsidiary, Barbados Mortgage Finance Company, may source additional funds from the public through the issue of National Housing Bonds to finance residential housing construction.

The Agricultural Division, when the need arises e.g. for the marketing of sugar or for risky non-traditional agricultural projects, may utilize the special schemes at the Central Bank of Barbados such as the Industrial Credit Fund.

In recent months, the Bank, and for that matter the entire banking system, has been fairly liquid so much so that some banks are indirectly seeking to reduce their interest expense.

Additionally, when the situation merits it, funds may also be obtained from other commercial banks, through the inter-bank market or, as a last resort, from the Central Bank rediscount window.

So far, experience has suggested that the sourcing of funds to finance the Bank's loan portfolio has not been that difficult, particularly since most of it is done at the domestic level and, to a large extent, is readily available whether in the form of deposits, subscriptions to bond issues, Central Bank financing, or inter-bank borrowings.

## External Financing

Development Finance Corporations usually obtain external funding from international aid agencies such as the United States Agency for International Development (USAID) or international donor agencies e.g. the World Bank or from major international private banks - all with varying levels of conditionalities.

Given its commercial nature and the fact that funds are readily available locally, the Barbados National Bank except for extra-ordinary cases, does not need to source funds on the external market. One such occasion occurred recently when, although the funds were available locally, the Bank thought it prudent to fund the capital requirements of a particular agricultural project through a line of credit with a major Canadian Finance Company.

Some of the conditions attached to the line of credit are particularly onerous, e.g. the requirement of a Government Guarantee', the high interest rate and the several other charges.

As a result, the cost of funds to the project was, of necessity, burdensome especially in light of its development nature. This is one (1) of the more serious problems faced by Development Finance Corporations and has implications for the success of national development projects. It ought to be a matter of discussion at the highest level of the international aid and/or donor agencies.

### SECTION III

#### PERFORMANCE OF THE BANK'S LOAN PORTFOLIO

Over the eleven (11) years of its existence, the loan portfolio of the Barbados National Bank has increased at a more rapid rate than the banking system as a whole. As a result, its market share has moved from a mere five percent (5%) in 1978 to 26.8% in 1987 although falling slightly to 23% in 1988. This growth resulted from aggressive marketing, more flexible loan terms and conditions, tremendous goodwill and the decision of Government statutory corporations and commercial ventures to place their accounts with the Barbados National Bank.

At December 31, 1988, gross loans outstanding amounted to \$336.9 million - eight (8%) lower than in 1987. The decline in 1988 could be attributed to a sluggish demand in the main productive sectors, lack of aggression and to a lesser

extent, keen competition particularly from the credit unions. Every effort is being made to improve this situation.

The productive sectors - agriculture, manufacturing and tourism accounted for \$176.6 or more than 50% of the total portfolio. Currently, the Bank provides over 90% of the financing requirements of the country's sugar industry which remain of critical importance to the country's foreign exchange earning capacity. This is where the Bank makes its greatest contribution towards national economic development. There is no doubt that without the financing provided by the Bank, the sugar industry would have collapsed already.

Although the Bank also provides direct financing to the other productive sectors, its pivotal role in the further development of these sectors relates to the provision of working capital (overdrafts) in support of the long term financing provided by the country's lone Development Bank. The Bank's performance in this area, particularly to the manufacturing sector, has been very satisfactory indeed.

Ironically, it is precisely the Bank's involvement in these productive sectors, which have been in sharp decline over the past five (5) years, that has resulted in fairly large losses in the initial years and reduced profitability levels in recent years due to the large provision for loan losses. This brings into focus the question of the quality of the Bank's portfolio.

Given the development role which the Bank was expected to and has played over the years and the sharp decline in fortunes of the agricultural and manufacturing sectors, the quality of the Bank's portfolio is as good as can be expected in the circumstances. For whereas the foreign owned commercial banks concentrated on consumer lending and the financing of the less risky but more profitable distributive sector, the Bank continued to provide much needed support to the productive but high-risk sectors and therefore, should not be harshly criticised for a relatively high percentage of bad and doubtful debts and/or large allowances for loan losses. The Bank has made and continues to make an important contribution to the country and should be given all the support that is necessary.

The other areas in which the Bank has made a most valuable contribution is in the financing of residential construction in the lower to middle income groups - a definite contribution to the country's social development.



Finally, despite the above, the Bank has been able to record a satisfactory profitability level in the last four (4) years with that for 1988, estimated at \$5.3 million being the highest. As a result, the accumulated deficit has been taken care of and the Bank ended 1988 with an estimated accumulated surplus of \$2.7 million - not a bad performance at all!

#### SECTION IV

##### THE CHALLENGES AHEAD

The first decade has ended with the original role and purpose of the Barbados National Bank, i.e. the provision of adequate financial flows to the development sectors of the economy under some pressure as increased profitability is gradually becoming the number one priority. This will continue to be the major challenge for the Bank over the next few years. The main question is -

Can the Bank continue its development thrust and still attain a satisfactory level of profitability given the very competitive and sophisticated market in which it operates and rising administrative costs?

Perhaps, you the audience may wish to share your thoughts on this matter.

The second important challenge for the Bank is the achievement of the status of accepted market leader. This does not only relate to bank charges and interest rates but, more importantly, to -

- (i) the introduction of new banking services particularly with relevance to the needs of the domestic market
- (ii) provision of equity and venture capital
- (iii) establishment of subsidiary companies in the areas of advisory services; information services etc property development etc.

The final major challenge for the Bank will relate to automation and sophistication. The Bank will have to ensure that, at all times, it keeps abreast of the rapid changes which are occurring in the international financial market.

Perhaps, if the Bank successfully meets the last two (2) challenges, and there is no reason why it should not, then it should have little difficulty in meeting the first challenge, i.e. maintain its developmental role and yet attain, annually, satisfactory levels of profitability.

SUMMARY/CONCLUSION

The Barbados National Bank during the eleven (11) years of its existence performed creditably and, to a large extent, has met the role and purpose which were envisaged by the 'founding fathers'.

In recent years however, given the very competitive nature of the commercial banking sector, rising operating expenses and harsh public criticism, the emphasis has shifted to increased profitability with serious implications for the bank's development thrust.

In fact, this has become a major conflict of interest and how to deal with such a conflict to the satisfaction of all parties concerned will be the bank's major challenge in the years ahead. We are confident, however, that the Barbados National Bank, as was demonstrated in the past, has the will, the expertise and sufficient public support to successfully meet this challenge.

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