

TRENDS IN COMMERCIAL BANK LENDING IN THE ECCU AND THE IMPLICATIONS FOR PRIVATE SECTOR FINANCING



Miss Jehann I J Jack
ECCB

Caribbean Centre for Monetary Studies
**XXXVII Annual Conference of
Monetary Studies**
01-04 November 2005
Nassau, The Bahamas

Outline

- **Introduction**
- **Literature review**
- **Analysis of commercial bank lending behaviour in the ECCU: 1990-2004**
- **Other available financing sources in the ECCU**

Outline (cont'd)

- **An examination of barriers that block access to capital**
- **Using venture capital funds as alternative financing**
- **Policy recommendations**
- **Conclusion**

Introduction

- **Rationale for the study:**
 - Financing activities in new and emerging growth sectors given changing global realities
- **Aims of the paper:**
 - To identify options for private sector financing;
 - To recommend measures for improving access to credit.

Literature Review

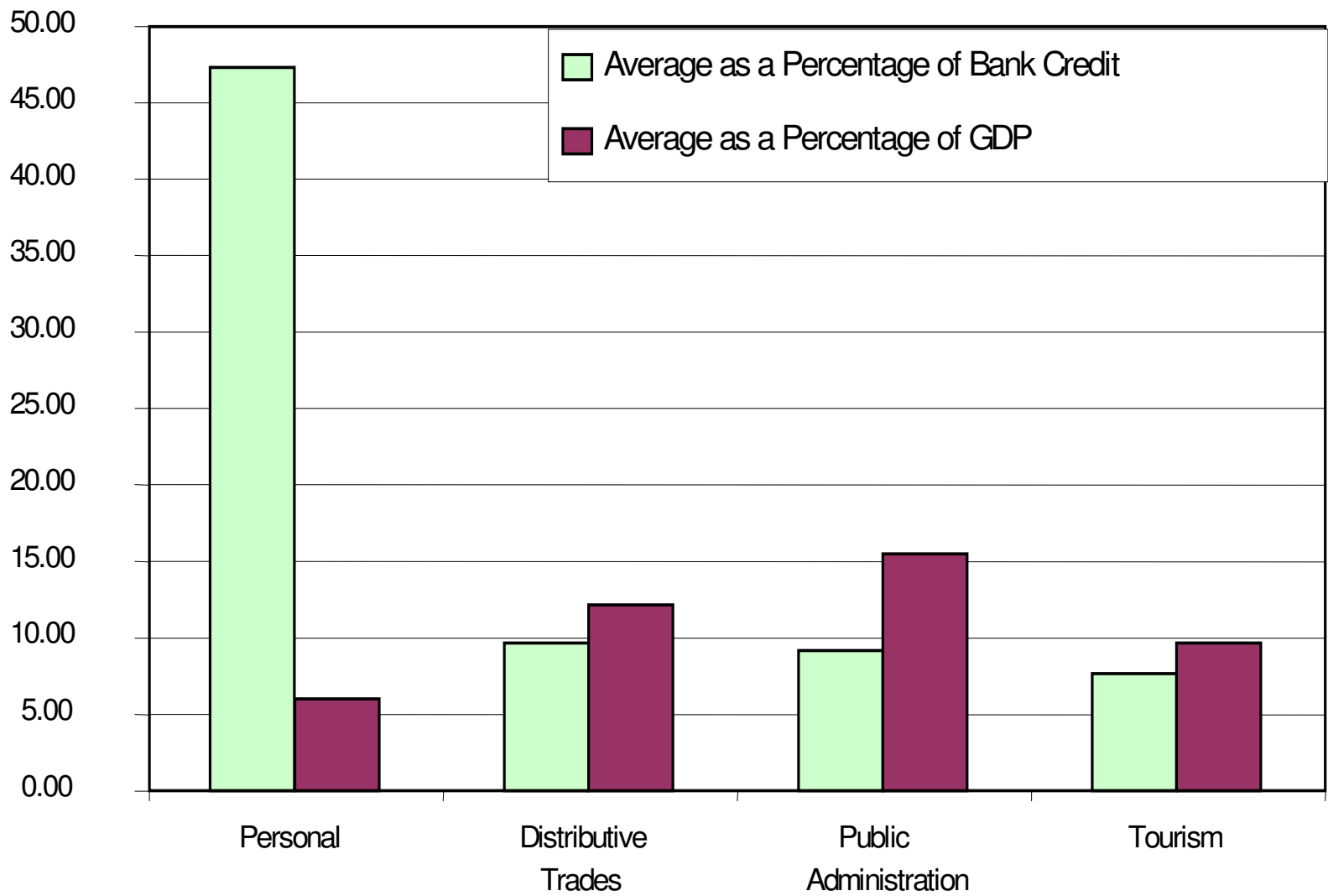
- **The relationship between finance development and economic growth:**
 - *Schumpeter (1912)*
 - *Fisher (1933)*
 - *McKinnon (1973) and Shaw (1973)*
- **The role of financial intermediaries:**
 - *Levine (1993, 1997)*

ECCU Commercial Banking Sector

- **No of commercial banks:**
 - 38 (2004); 42 (1990)
- **Asset base:**
 - \$15.3b (2004); \$3.9b (1990)
- **Loans and advances:**
 - \$8.2b (2004); \$2.6b (1990)
- **Liquidity:**
 - 38.5% (2004); 26.0% (1990)
- **NPLs to total loans:**
 - 12.5% (2004)

Trends in Bank Credit (1990-2004)

- **Loans and advances**
 - 8.6% (1990 - 2004); 5.0% (2000 - 2004)
- **Deposit liabilities**
 - 9.8% (1990 - 2004); 8.9% (2000 - 2004)
- **Credit to central governments**
 - 10.3% (1990 - 2004); 7.9% (2000 - 2004)
- **Private sector credit**
 - 8.5% (1990 - 2004); 4.6% (2000 - 2004)
 - Of which, credit to households averaged 58.3% during 1990 to 2004.*



Barriers to the Access of Capital

- **...relating to the commercial banks:**
 - Risk tolerance
 - Investment policy
 - Monetary authority's regulations
 - Bank's financial position
 - Information asymmetry
 - Social biases
 - Perception of credit quality

Barriers to the Access of Capital

- **...relating to the entrepreneurs:**
 - Inadequate business plan
 - Insufficient managerial training and/or experience
 - Poor credit history
 - High gearing ratios
 - Inadequate equity
 - Financial viability of project
 - Size of business
 - Stage of development

Barriers to the Access of Capital

- **...other:**
 - Current state and outlook of the local economy
 - Nature of the industry
 - Competitive environment for credit
 - Costs of credit

Other Available Financing Sources

- **Development Finance Institutions:**
 - National Development Banks
 - National Development Foundations
- **Credit Unions**

Venture Capital Financing

- **Venture capital** (also called *risk capital*) refers to financing that involves relatively high risk and potentially high returns.
- Venture capital differs significantly from share (or equity) and debt capital:
 - **Commitment**
 - **Long term**
 - **Risk sharing**

Areas for Further Work

- Survey of commercial banks:
 - Interest rates by economic activity
 - List of “non-bankable” projects
 - Demand for credit overtime
- Extend the data analysis to include other credit providers

Policy Issues

- Create an investment-friendly environment to encourage venture capital funds to set up in the region;
- Tap into (financial and human capital) resources within the Diaspora;
- Promote entrepreneurial attitudes as a matter of deliberate public policy;
- Establish a regional directory of funding agencies;
- Increase public awareness;
- Foster closer collaboration within the financial system.



THE END

Thank You

