

## **Project Abstract**

### **BAHAMAS**

**Country/Region:** Bahamas/Region 3  
**Date:** March 23<sup>rd</sup>  
**Project Name:** Strengthening of the Bahamas Co-operative Credit Union System.  
**Project Number:** TC 98 03 27 3  
**Team Leader:** Stefan Queck, OD6  
**Project Team:** to be defined  
**Executing Agency:** The Bahamas Co-operative League  
**Financing Plan:** A US\$ 950,000 MIF Technical Cooperation, to be financed by the MIF (68%) and The Bahamas Co-operative League (32%)

#### **1. Background**

By comparison, The Bahamas' financial system is highly developed and dynamic, contributing an estimated 15% to GDP and providing a wide array of services through numerous and distinct institutions. While the system at the end of 1996 boasted a total of 425 licensed private financial institutions registered in the country, more than 400 were engaged in offshore banking activities and only 23 operated in the local market. Of the latter 9 are national or foreign owned commercial banks with a combined asset volume of approximately US\$ 2.7 billion and a total of 83 branch offices, serving an average of 4,000 people/branch. The domestic banking sector is marked by a high degree of concentration with four banks accounting for ca. 50% of the sector's total assets.

Although the financial system comprises an extensive number of institutions and a high degree of development, banks focus generally on medium and large size business clients and increasingly over the last years on consumer lending for higher and medium income segments of the population. Especially the latter has become a mainstay of the banking industry, as evidenced by the fact that "personal loans" constituted almost 65% of all claims on the private sector at the end of 1996; most of it generated through credit card operations. For their part, lower income segments and small and micro-enterprise clients generally lack adequate access to the banking sector, relying for the provision of financial services historically on Credit Unions and to some lesser extent the state run financial institutions.

Currently, the Bahamian Credit Union movement is comprised of 13 Credit Unions, all of which are formally closed bond institutions. The system's combined assets at the end of 1996 reached about US\$ 65m and total membership exceeded 22,000, equivalent to close to 17% of the employed work force of the country. Membership is basically drawn from the medium to lower income segments of the population, with a high percentage of members being employed in the public sector or the services industry, but a growing portion are self-employed in small and micro-enterprises. Oversight of the Credit Union system as well as of the non-financial cooperatives rests with the Department of Cooperatives in the Ministry of

Agriculture. The cooperative system as a whole is represented by its umbrella organization, the Bahamas Co-operative League, which principally provides political representation of the system, as well as some limited services.

In recent years the Credit Union movement has come under increasing competitive pressure from the banking system in the savings market and the up-scale client segment. This is mainly due to the fact that the financial services offered have not adapted to a changing market environment, given the system's limited capacity to develop and implement new products. While the League has been trying to improve delivery of services, progress has been hampered as much by a lack of resources and know-how, as it has been limited by a lack of a clear mandate. Limited resources and know-how have also prevented the individual Credit Unions from addressing the challenges posed by the need to adapt to new products and technology changes. Even so, there is a growing appreciation as to its importance, especially within the bigger Credit Unions. On the other hand, supervision and regulation of the system, which rest with the Department of Cooperatives, is weak. There is no regulatory framework or Prudential Norms in place, standards and procedures for supervision are lacking and the Department has no specialization in this area. The League for its part has not been able to develop adequate self-regulating and supervision mechanisms.

## **2. The Program**

### **Objectives**

The objective of the proposed non-reimbursable Technical Cooperation is to contribute to the deepening of The Bahamas' financial system, i.e. the improvement and enhancement of the supply of adequate financial services to the lower and medium income segments of the population. A better functioning financial system, inclusive of poorer population strata, should ultimately facilitate the expansion of the income generating activities of those population segments, especially in the area of small and micro-enterprise. The proposed operation's objective is to be achieved through the strengthening of the Bahamian Credit Union system ability to provide adequate financial services, while safeguarding and enhancing its self-regulating and supervision capacities.

### **Description**

Product development, technology and know-how transfer and the design and implementation of financial supervision constitute mayor areas of needed reform for the Credit Union system, if it is to maintain its competitiveness and ability to service efficiently the lower income strata of the population. Furthermore, the role of the Cooperative League needs to be revised and its capacity to provide adequate services needs to be strengthened. The proposed technical cooperation intends to address these issues through the financing of training activities and experts in the areas of (i) product development, (ii) financial management, and (iii) supervision and Prudential Norms. The operation would finance a long-term adviser to the League, who would, inter alia, advise the League on the services offered and assistance in developing a medium and long-term business plan for the League and the movement, and help to identify areas of regulatory and legal reform. Short term experts would be financed to provide assistance to the League and the individual Credit Unions to design and implement homogenous accounting systems and standards, develop inspection and supervision systems and procedures and to train League and Union staff in those areas. Furthermore, assistance

would be provided for advice and training in financial technology, specifically with regard to lending operations. The latter would include the introduction of lending technologies aimed at attending small and micro-enterprise credit operations, an important area of possible future business activities for the Credit Union movement. The proposed operation would also partially finance workshops and courses, as well as exchange visits by Credit Union and League staff.

#### Preliminary Budget

MIF: US\$ 650,000  
Local Counterpart: US\$ 300,000 (32%)

### **3. Relation with other Bank operations**

The Bank strategy supports improving the competitiveness of the Bahamas tourism sector and the diversification of the economy. However, given the specifics of The Bahamas' access to commercial funding, the Bank's operational pipeline has been relatively lean with regard to lending activities and much emphasis has been placed on technical assistance projects and policy dialogue. Major areas of Bank activities have been traditionally physical and social infrastructure. In December 1992 the Bank approved two OC loans (720 and 721) for the Multisectoral Credit Programme, which were declared eligible for disbursement in February 1995, but have since encountered difficulties in their execution, due principally to reduced absorption capacity of the executing agency and excess liquidity in the financial system. Currently a reformulation of the Programme is under discussion with the aim of placing greater emphasis on small business and micro-enterprise financing. In this context, the proposed operation, which would strengthen target group (MSE) orientated financial intermediaries, could eventually alleviate current supply-side constraints on the delivery capacity of the financial system. Furthermore, since the Credit Unions mainly attend economic segments unrelated to the mainstream tourism sector, fostering the sector is compatible with the GoBh and Bank strategy.

### **4. Plan of Action**

OD6 will anticipate a response from the MIF as to whether this project is eligible for MIF funding. If eligibility is granted, the understanding of OD6 is that we can proceed directly to the preparation of a draft Donors' Memorandum, expected to be presented in the second semester of 1998.

## **MIF ELIGIBILITY MEMORANDUM**

### **I. SUMMARY OF PROPOSED PROJECT**

COUNTRY: Bahamas

PROJECT: Technical Cooperation to Strengthen the Bahamas Co-operative Credit Union System

EXECUTING AGENCY: Bahamas Cooperative League (BCL)

FINANCING:

MIF:	\$650,000 ( 68%)
Local:	<u>\$300,000</u> ( 32%)
Total:	\$950,000 (100%)

### **II. MIF ELIGIBILITY**

The project proposal presented by Region 3 is eligible for grant financing through the Technical Cooperation Facility and the Small Enterprise Development Facility since it supports the modernization of the financial sector and is aimed at increasing small and medium enterprise access to credit.

### **III. ISSUES**

1. The counterpart amount should be increased to 40% of the total financing for the project and fifty percent of the counterpart contribution should be in cash.
2. MIF financial contribution towards the purchase of hardware should be limited to 20% of total MIF financing for the project. In the case of equipments, MIF resources will cover a maximum of 70% of the price of each equipment and the remaining resources should come from the counterpart.
3. The Donors Memorandum should elaborate on the importance of the project for small and medium enterprise development in the Bahamas.
4. As the projects will be executed by BCL and include as one of its specific objectives the review of the supervision and prudential norms, project design should ensure the coordination of BCL with Government authorities legally empowered to promote the required modifications.

Vo.Bo.

  
MIF/DEP