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BARBADOS

**INSTITUTIONAL STRENGTHENING OF THE SAVINGS AND LOAN
COOPERATIVES SECTOR OF BARBADOS**

(BA- M1001)

DONORS MEMORANDUM

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ACRONYMS AND ABBREVIATIONS

BCCULL	Barbados Cooperative Credit Unions League Ltd.
CDB	Caribbean Development Bank
IADB	Inter-American Development Bank
MIF	Multilateral Investment Fund
PEARLS	Credit Union Financial Monitoring System (Protection, Effective Financial Structure, Asset Quality, Rates of Return and Costs, Liquidity and Signs of Growth.)
WOCCU	World Council of Credit Unions

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I. EXECUTIVE SUMMARY

Country Beneficiary:	Barbados		
Executing Agency:	Barbados Cooperatives Credit Union League Ltd. (BCCULL)		
Target Beneficiaries:	The primary project beneficiaries are the approximately 100,000 members of the credit unions of Barbados who will be provided enhanced access to financial services through the strengthening of their credit unions, which will be accomplished through assisting BCCULL to provide training and technical assistance to a substantial majority of its affiliated members. At the same time, the Registrar of Cooperatives will be strengthened in its ability to regulate and supervise credit unions through a training and technical assistance program focused on enhancing the ability of the Registrar to implement risk-based supervision.		
Project cost and financing:	Modality:	Non reimbursable	
	MIF (FACILITY IIIA)	US\$	840,000 65%
	Counterpart	US\$	460,000 35%
	TOTAL	US\$	1,300,000
Objectives and components:	The goal of the project is to improve and strengthen the capacity of the Barbados credit unions to provide financial services to low and mid income families, through strengthening the credit union sector of Barbados. The purpose of the project is to strengthen the capacity and sustainability of at least 20 credit unions and the ability of the regulatory agency for credit unions to implement risk-based supervision.		
Execution and disbursement timetable:	Execution: 48 months Disbursement: 54 months		
Special contractual conditions:	Conditions prior to first disbursement: The conditions prior for the implementation of the project are that BCCULL (i) establish and adequately staff its Training and Education Department as the project's executing unit; (ii) hire a project coordinator; (iii) arrange to separate the assets of the Central Fund Facility from its own funds; and (iv) have a signed agreement with the Registrar to coordinate the implementation of the project.		

Exceptions to Bank policy:

None.

Coordination with other official development institutions:

The Caribbean Development Bank (CDB) sponsored a study on the Financial Sector Reform Project, which assesses the current supervisory structure of the non-bank financial institutions and recommends mechanisms to improve their supervision.

Environmental and social review:

IADB's standard environmental training program will be among BCCULL's course offerings. Percentages of males and females participating in and benefiting from project activities will be monitored.

II. BACKGROUND AND JUSTIFICATION

- 2.1 The credit union system of Barbados is composed of (a) just under forty credit unions of widely varying sizes; (b) the Barbados Co-operative and Credit Union League (BCCULL) registered in 1957 and representing virtually all of the credit unions on the island; and (c) the office of the Registrar of Cooperatives of the Ministry of Commerce, Consumer Affairs and Business Development, which is responsible for the regulation and supervision of the credit union system and of non-financial cooperatives.
- 2.2 During the past twenty five years, except for a brief period in the early 1990s, the island's credit unions have grown in number and especially in size, from fewer than thirty credit unions with some 10,000 members and less than B\$10¹ million in total assets, to almost forty in 2005 with more than 100,000 members and almost B\$700 million in total assets.² In the early 1980s, the total assets of credit unions were well under 1% of the total assets of Barbados' banking system, but are currently just under 10%. Nonetheless, this notable growth has not been spread evenly throughout the system as 17 credit unions still have less than B\$1 million in total assets and fewer than 600 members, while two have well over B\$100 million in total assets and 30,000 members.
- 2.3 ***Financial and Risk Management:*** Traditionally, credit unions have been affinity-based (closed bond), meaning that most of the members belong to a single employer, or belong to a unique institution, either public or private. Such is the case of the City of Bridgetown credit union, with over 40,000 members, and B\$137 million in assets, or the Telecommunications Cooperative (BARTEL) with about 1,000 members and B\$8 million in assets. However, in recent years many of the credit unions have started to provide services to family members, self-employed, microenterprises, or in the case of those based on a common employer, to include members from other employers with whom specific arrangements have been made. The lack of more appropriate systems and procedures to manage risk of a growing loan portfolio and a more diverse membership has limited efficiency in providing these services. An apparently severe problem is the relatively high delinquency rates (over thirty days) exhibited by many credit unions. While in the case of employer-based credit unions this can often be explained by procedural delays in payroll deductions, many mid sized credit unions are lacking standardized mechanisms and procedures to prevent growing levels of delinquency.
- 2.4 Another weakness in the area of financial management, is the fact that in many credit unions, member shares are treated as if they were deposits, with immediate and partial withdrawals of shares being a distinct possibility. Members thus typically decide on the division of their holdings between shares and deposits based on expected returns on shares as compared to the fixed interest rates on

¹ The Barbados dollar is pegged to the US\$ dollar at 2 for 1. B\$2 is equivalent to US\$1.

² The peak number, fifty, was reached in 1996, since which time there has been some consolidation.

deposits. This complicates credit union liquidity management, and new practices and methods are necessary to maintain good levels of credit union solvency.

- 2.5 ***No new product offering:*** Many of Barbados' large and mid sized credit unions began operations by offering traditional savings account services and a first time option to access a loan for a vehicle or a house. Today, many credit unions are looking to offer a wider range of services to its members, with distinct loan product categories, and more timely and opportune financial services, such as transfers, quick consumer loans and payment of utilities and bills. Members are demanding higher quality of service delivery, and therefore new marketing and product development skills are being required from their leadership.
- 2.6 ***The BCCULL,*** like the credit unions themselves faces a number of specific challenges, not the least of which is managing the growth of the sector and the diverse nature of its membership. Moreover, this growth has also meant that the League has not been able to adequately provide training and technical assistance in the areas highlighted above, i.e. financial and risk management, loan delinquency, and new product development. The League also faces internal challenges, such as the use of their Central Facility Fund and the Insurance Company owned by the League and several of its member credit unions. During the analysis mission, the Project Team assessed the relevance of these two entities, and made recommendations to improve risk management practices for the two entities.³
- 2.7 ***The Registrar.*** Housed within the Ministry of Commerce, the Registrar of Cooperatives plays an important role as the key governmental unit responsible for credit union supervision. While most people interviewed revealed a favorable opinion regarding the function of the Registrar and its performance, the Central Bank would like to see its capacity strengthened. To date, the Registrar has focused primarily on compliance with PEARLS system⁴, as opposed to a more active risk based supervision approach to the credit unions.
- 2.8 ***Problem.*** The growth of the credit union sector has meant a larger number of Barbadians are being served with financial services, especially those of the low to mid income groups. While this trend has overall been a positive one, the growth of the sector has posed increasing strains and challenges on the institutional capacity of the credit unions and the regulatory framework under which they operate. In particular, the credit unions seem to be facing the following problems: (i) limited capacity to manage financial risks (pricing and liquidity); (ii) limited

³ The Fund is a centralized temporary liquidity account for member credit unions to make deposits, earn some interest, and on-lend to other cooperatives who may have short term liquidity needs. In order to follow good practice, the Project Team recommended that this Fund be separated from the League's balance sheet, and incorporated this as a pre condition for disbursement. With regards to the Insurance Funds, it was suggested that as part of the project, an external analysis of the Insurance Company be carried out and specific recommendations be made to ensure that the League does not take unduly risk.

⁴ Credit Union Financial Monitoring System (Protection, Effective Financial Structure, Asset Quality, Rates of Return and Costs, Liquidity and Signs of Growth.)

understanding of the increased credit risk; (iii) limited capacity by credit union staff to manage the growth of operations, and therefore increasing the operational risk of a sector in transition; and (iv) the inadequate response to client demand for new product development and enhanced service delivery. At the same time, the BCCULL has its own challenges, among the most important of which are: (i) limited capacity to provide appropriate training and technical assistance services to its members in the areas of financial and credit risk management; (ii) limited capacity to respond to the market and sector information needs of the mid and small sized credit unions; (iii) and the inability to provide more demand driven services to its members, given the growth in the sector and the changes taking place within the credit unions themselves.⁵

- 2.9 In addition, the office of the Registrar of Cooperatives is recognized not to be fully capable of carrying out its responsibilities for credit union regulation and supervision. This is evidenced, at present, by the need for the Central Bank to assist in examinations of the largest credit unions. A study of the regulation and supervision of non-bank financial institutions has recently been carried out⁶, and while the study gives high remarks to the Registrar for the work they perform, there is still significant gaps in their financial analysis capabilities and their knowledge of technology, especially as it relates to risk based supervision.

- 2.10 **Project Rationale.** The MIF has significant experience in financing projects that are aimed at strengthening credit union systems⁷. Given the similarity of the conditions of the credit union sector in Barbados, this project will implement activities and components which are consistent with prior Bank experience and which also follow good practice. For example, past MIF experience stresses the importance of regulatory and supervisory institutional capacity and support to the idea of a more rigorous control over non-banking financial entities. The analysis mission confirmed that this capacity, albeit with some deficiencies which the project expects to correct, has the backing of the Central Bank and is appropriately monitoring the credit union sector. Past experience also warns of the conflict of interest experienced at federation type organizations, who often take the dual task of promoting the credit union sector and supervising it. While this conflict of interest does not exist in Barbados, the project keeps this in mind, by having the technical assistance and training aspects be implemented by the BCCULL and the regulatory aspect delivered directly to the Registrar.

⁵ Interviews with 10 credit unions during the analysis mission - see Document 1 for summary results of survey - revealed an unequivocal demand for a more focused and standardized level of training and technical assistance, and a strong indication that the League should be the entity in charge of channeling this effort.

⁶ See Lawrie Savage & Associates Inc., "Financial Sector Reform Project," Draft Report Submitted to the Ministry of Finance, January 2005.

⁷ MIF/AT-570, Institutional Strengthening of Credit Unions in Honduras (2003), MIF/AT-201 Strengthening of the Savings and Loan Cooperative System of Bahamas (1998), (2001), and MIF/AT-32 Strengthening of the Savings and Loan Cooperative System in Jamaica (1994).

- 2.11 **Additionality.** MIF is the most appropriate source of funding given the project's focus on private sector development and the financial cooperative sector, an area in which MIF has much experience in the region. To date, the cooperative sector in Barbados has received very little support from donor agencies, primarily due to its own capacity and support from government. However, as the cooperative sector grows and over a third of the population becomes involved in a credit union, the need for strengthening becomes imperative. The project will also be implemented at a time when government officials are open to guidance and good practice in managing the non-banking financial sector.

III. PROGRAM DESCRIPTION

- 3.1 The goal of the project is to enhance access to financial services through strengthening the credit union sector of Barbados. The purpose of the project is to strengthen the capacity and sustainability of the credit unions and the ability of the regulatory entity for credit unions to implement risk-based supervision. This will be done through two components:

Component I: Institutional Strengthening of Credit Unions and BCCULL (MIF: US\$526,200 and Counterpart: US\$459,200). This component will consist of four sub-components described below.

- 3.2 **I.1 Design and implementation of risk management tools.** In order to improve the credit union's capacity to manage a more diverse set of risks, and a growing membership base, this subcomponent will focus on designing adequate tools to manage financial and pricing risks, operational risks and credit risks. Policies and procedures will be designed and implemented to assist the cooperatives in better analyzing and measuring their liquidity gaps, the pricing of their products, setting of interest rates, decisions on investments, and use of technology.
- 3.3 The first major undertaking under this sub-component would be the selection of at least twenty credit unions wishing to receive training and technical assistance under the project. While the precise parameters for the selection of the credit unions is outlined in the Operations Manual (Document 2), the basic requirement for participation will be the willingness to pay for a percentage of the services and commit resources to the participation⁸. This mechanism will apply for participation in all of the project's subcomponents.
- 3.4 Specifically, the following activities will be implemented under this subcomponent: (i) finalizing of the framework and requirement setting for the participation in the project by the different cooperatives; (ii) diagnostic and needs assessment of the participating cooperatives to assess their current risk management technologies and instruments; (iii) design, development and

⁸ To assure serious interest at all levels of cooperatives, receiving the technical assistance and training would require payment of a fee priced according to cost, but which would be more heavily subsidized the smaller the credit union (and also noting that the level of effort required would undoubtedly be much greater for the larger credit unions).

upgrading of tools for risk management and control; (iv) on-site technical assistance in the individual cooperatives for the deployment of these risk management and control tools; and (v) development and delivery of training courses in risk management and control.

- 3.5 The results of this sub-component would be that at least 20 credit unions receive training and at least 15 of them receive direct technical assistance in the areas of risk management, allowing them to implement policies and procedures that reduce their levels of arrears, strengthen their level of capitalization and increase their profitability. Specifically, as a result of this sub-component, it is expected that the cooperatives have more frequent and adequate portfolio reports, enhanced repayment schedules and policies, tighter arrears controls, improved pricing controls, adequate provisioning and write off policies, staff capable of performing more rigorous credit risk analysis and more prudent client selection mechanisms. The indicators in Annex I (b) provide detail of the expected outcomes.
- 3.6 **I.2 New product development and marketing.** This sub-component is aimed at assisting the cooperatives in their process of developing financial products that are more in tune with the demands of their membership. Many of its members are clients of local banks and other financial service providers, and are expecting their credit unions to be able to meet the same kind of standards in service and quality. One of the largest credit unions in Barbados has deployed a number of ATM machines in some branch offices, and other credit unions are considering the same, in a cooperative manner. Foreign and regional remittances services are also being considered as well as loans for the self-employed and microenterprises.
- 3.7 Specifically, the following activities will be implemented under this sub-component: (i) a diagnostic analysis of the existing financial services offered by the cooperatives, with specific recommendations as to how these can be enhanced or improved on; (ii) a market analysis of other potential products such as remittances, differentiated savings, small and microenterprise loans, cooperative ATMs, and others; (iii) development and implementation of at least two new products within the cooperatives along with its corresponding manuals, policies and procedures, and software and hardware adjustments; (iv) development of a marketing strategy to promote cooperative products and services, specially among the smaller members of the League; and (v) training to the cooperative leadership and staff on the management and marketing of the new products.
- 3.8 The expected results from the implementation of this sub-component are a more competitive cooperative sector with credit unions offering a more diverse set of products. In particular, the expected results are: (i) at least 10 cooperatives have incorporated at least one differentiated savings product; (ii) at least 10 cooperatives have implemented small and microenterprise loans as part of their credit offering; and (iii) at least one additional new product has been developed and implemented in 10 of the smaller range of cooperatives.

- 3.9 **I.3 Strengthening of the BCCULL.** BCCULL is the central body representing the interests of and providing services to the credit union sector; as such, any effort to provide effective and efficient training and technical assistance to the credit unions must include the capacity building of the League.
- 3.10 The key activities of this sub-component would be: (i) formally establishing the BCCULL's Training and Education Department as the project's executing unit; (ii) developing and implementing, in coordination with the Registrar, a strategic plan for the execution of the project; (iii) organizing a formal project launching conference to include all potentially interested credit unions and relevant participants from the private sector and the government; (iv) finalizing the terms of reference for the project's consulting services and carry out the procurement; (v) implementing an environmental policy and procedure to guide its members in reducing the environmental risks of investments and to ensure that the credit unions apply environmental management procedures; and (vi) designing and developing a plan to transfer the knowledge, methodologies, tools and procedures gained from the project, over to the League.
- 3.11 The expected results of this sub-component will be: (i) a sustainable Training Education Department housed within the League; (ii) a timely and adequate execution of all activities; (iii) an adequate supervision of the training and consulting services provided by the specialized firm; and (iv) an environmental policy which the BCCULL will include as part of its official training curricula.

Component II: Improving the Capacity of the Regulatory Entity (MIF: US\$270,000 and Counterpart: US\$15,000)

- 3.12 The Registrar is currently housed within the Ministry of Commerce, supervises Barbados' credit unions⁹. In order to assure the safety and soundness of Barbados' credit unions after a period of rapid growth and in the context of growing diversity in the sector and growing competition with commercial banks for the largest ones, training and technical assistance for the Registrar is not only called for but is also likely to provide sustainable, not transitory, benefits.
- 3.13 This component of the project will provide resources to contract specialized training and technical assistance for the Registrar. It is expected that both, the Registrar as well as members and leaders from the individual credit unions, participate in this training, so that both entities understand and agree on the basic parameters for risk based supervision and what it implies for the sector as a whole. The Bank will be responsible for the selection of an international consulting firm to implement this component of the project with the Registrar.

⁹ A recent study of non-bank regulation in Barbados (Lawrie Savage & Associates Inc., "Financial Sector Reform Project," Draft Report Submitted to the Ministry of Finance, January 2005), suggests that the Registrar could face institutional relocation to another government ministry such as the Central Bank or the Ministry of Finance. However, regardless of where it may be housed, the Registrar will continue to exist with current staff largely in place, as the study suggests. Meetings with high-level government officials in the Ministry of Finance, the Central Bank and the Ministry of Commerce, support this view.

- 3.14 The key activities of this component include: (i) managing the contracting of a specialized consulting firm to provide technical assistance to the Registrar; (ii) developing a set of tools and procedures that will allow the Registrar to implement risk-based supervision; (iii) training and providing key technical assistance to Registrar staff in the areas of risk-based supervision; (iv) financing the exchange visits of key staff to other regional agencies which currently supervise the sector using this approach; and (v) specific recommendations on the proposed changes in the Cooperative Law and in the placement of the Registrar within the government's regulatory structure.
- 3.15 The expected results of this component include: (i) a Registrar which is aligned to the worldwide movement within the financial services industry to risk based supervision (e.g., the so-called Basel Standards for banks)¹⁰; (ii) a more rigorous policy and procedures for credit union inspections, which includes an adequate number of days and frequency for on-site inspections; (iii) in-house capacity to assess technological aspects relating to credit and financial risks; and (iv) a more rigorous inspection procedure for investments and other liquid cash management.

IV. PROJECT COST AND FINANCING

- 4.1 Based on the level of effort required to implement the project, the total cost has been estimated at US\$1.3 million, out of which approximately US\$840,000 will be provided from MIF resources on a non-reimbursable basis. The amount of US\$460,000 will be provided by BCCULL and its members, half in cash and half in kind. The MIF contribution will finance: (i) consultant fees and travel; (ii) training; (iii) internships; and (iv) the project's administrative costs such as the project coordinator (on a diminishing scale), audits and evaluations. The detailed budget for the project is included in Annex II, a summary is presented below.

BUDGET (in U.S. dollars)

	IDB-MIF	Total Counterpart	Total
Component 1. Institutional strengthening of CU and the League	526,200	459,200	985,400
Financial and Risk Management Capacity	216,500	71,000	287,500
New Product Development	202,500	80,000	282,500
Strengthening of BCCULL	46,000	19,000	65,000
Executing Unit	61,200	289,200	350,400
Component 2. Improving the capacity of the regulatory entity	270,000	0	270,000
Evaluation & Audit	43,800	800	44,600
TOTAL	840,000	460,000	1,300,000
	65%	35%	100%

- 4.2 Project sustainability will be obtained at three levels. At the individual cooperative level, participating cooperatives will reap tangible benefits from

¹⁰ The Registrar currently tends to focus on compliance with PEARLS ratios taken from WOCCU's approach.

training and technical assistance, in the form of new products, enhanced risk assessment instruments and overall improved financial management. At the BCCULL level, the League will enhance its capacity to deliver high quality training and other services to its members. The institution will also be in a better position to serve its constituents and represent their interest as it has done in the past. Finally, at the regulatory level, regardless of its future location, the Registrar will be better equipped to monitor and supervise the credit unions so that the sector can become financially stronger.

V. EXECUTING AGENCY AND MECHANISM

- 5.1 **Executing Agency.** The Barbados Cooperative and Credit Union League Ltd. (BCCULL) will be the Executing Agency for Component I. The League is the representative body of the credit union sector in Barbados, created in 1957, and currently with 38 credit unions as members. The League has a number of services it provides, among them, the offering of training through its Training and Education Department, in which close to 1,000 people from cooperatives of all levels have participated over the past five years. The League has a staff of three professionals, among which are the General Manager, the Finance Officer and the Training Officer. The League has a Board of Directors constituted by nine voting members, who represent the cooperatives. It also has a Supervisory and Credit Committees. Strategic representation, decision-making and policies are dealt within the quarterly board meetings, during which the General Manager works closely with the Board in the development of the organization.
- 5.2 The League has a healthy financial situation, with most of its revenues generated from the services it provides to its members and the membership fees. Revenues for 2004 amounted to over US\$350,000, and the League has assets of US\$1.8 million. Both indicators have shown signs of growth for the past three years.
- 5.3 **Executing Mechanism.** The project's two components will be executed in a closely coordinated manner. For the credit union component, BCCULL and specifically its Training and Education Department will be the Executing Unit and would contract, through international competitive bidding, a consulting firm recognized for its expertise in finance and cooperative financial management. The Training Officer, responsible for the Education Department of the League, will act as the Project Coordinator, who along with the General Manager, will supervise and coordinate with the selected firm, the component's implementation.
- 5.4 For the component of the project aimed at strengthening the Office of the Registrar of Cooperatives, IDB/MIF, acting on behalf of and in consultation with the Registrar, would procure the services of an international consulting firm to implement the required training and technical assistance. Specifically, COF/CBA would be responsible for the selection of an international consulting firm with best practice capabilities in risk-based supervision, as well as for subsequent monitoring of the firm's performance.

- 5.5 The recommendation that Component II be contracted by the IDB is based on the fact that the Registrar needs to maintain its independent stance from the cooperatives and their representative organization, given that it regulates the latter. The Registrar also lacks the required expertise to assure the selection of an appropriate training and technical assistance provider.
- 5.6 To ensure proper coordination between the two components of the project (i) the BCCULL and the Registrar will sign an Agreement outlining the responsibilities and obligations for each one as well as their commitments to the results of the project (signing of this Agreement has been set as a precondition for first disbursement); (ii) the League and the Bank will coordinate activities and progress in the project through a Project Committee, formed by a representative from each, and the responsibilities of which are outlined in the Operations Manual; and (iii) the Project Coordinator will ensure activities in both components are being executed as planned, reporting on this aspect in the semester monitoring reports.

VI. MONITORING AND EVALUATION

- 6.1 **Monitoring.** Within 60 days of the completion of each six-month period, BCCULL will submit reports to COF/CBA, which will include at minimum: (i) information on progress toward project objectives; (ii) a description on the various levels of coordination between the League and the Registrar; (iii) a description of technical assistance and training received and its quality and outcomes; (iv) a summary of budget execution and counterpart contributions; (v) statistical and financial information on performance, indicating the situation and trends and on whether the annual targets set for the indicators established in Annex I have been met; and (vi) information on BCCULL's financial situation. The project will also track, through the reporting mechanism, advances made towards the implementation of environmental policies and procedures at the League and individual cooperative level, tracking the number of cooperatives that have integrated these policies into their lending operations. The policies designed by the environmental consultancy will be delivered no later than in the second semiannual progress report.
- 6.2 BCCULL will also track a set of the PEARLS indicators that the Registrar already uses to monitor the "safety and soundness" of credit unions. The project will track indicators that measure institutional capacity, delinquency levels, profitability and growth. A selection of the most relevant indicators is presented in Annex I.
- 6.3 **Evaluations:** A mid term evaluation will be conducted after 50% of the project budget has been disbursed. With funds provided for in the project budget, IDB, through COF/CBA, will select and hire an external consultant specializing in financial cooperatives to carry out the evaluation, which will look at the progress achieved in meeting project intended objectives, results and performance targets by credit unions, and will use the logical framework (Annex I). It will consider at least the following: (i) appropriate use of MIF funds; (ii) beneficiary credit union

selection process; (iii) performance with respect to the indicators specified in the logical framework; (iv) progress with the execution of each component, based on indicators in the logical framework as well as the qualitative and quantitative indicators established under this project; (v) a decision on the Insurance Company, based on the external study; (vi) degree of sustainability of the activities as measured by the amount of revenues generated by the League from training and participation fees; (vii) effectiveness of the BCCULL in the delivery of its services, as measured by repeat users and course evaluation forms; (viii) effectiveness of the coordination between the League and the Registrar as measured by project execution milestones and project monitoring reports; and (ix) adherence to environmental policies. The mid term evaluation will provide the necessary input for the Bank and the MIF to take corrective actions or suspend further disbursements, in case project execution is not resulting in effective and positive impact.

- 6.4 A final evaluation will also be performed, when at least 95% of IDB/MIF funds have been disbursed, and the contents of which must include: (i) measurement of the impact of the project on the individual cooperative's financial performance; (ii) measurement of the impact of the project on the BCCULL and the Registrar; (iii) measurement of the impact of the project on the quality and quantity of service delivery by the cooperatives to its members; and (iv) the identification of best practice and lessons learned from the project.
- 6.5 COF/CBA will have the basic responsibility for the supervision of the operation and ensure that both components are coordinating activities and agreeing on key issues regarding training, supervision and quality of service delivery. In addition, COF/CBA will arrange on the exact terms of reference for the specialized consulting firm that will provide training and technical assistance to the Registrar. As a minimum, the consulting firm should report on a quarterly basis on the indicators outlined in Annex I for Component II. Semiannually, BCCULL and COF/CBA will conduct project-monitoring meetings to discuss the six-month report, the progress achieved in reaching performance indicators and the work plan. Results from the meetings and reports should determine future disbursements for the project.

VII. PROJECT BENEFITS AND RISKS

- 7.1. The main project benefit would be improved financial services for credit union members, which would be accomplished through strengthening individual credit unions, BCCULL and the Registrar. Larger credit unions and their members would benefit in particular through the enhanced ability of these credit unions to compete with banks and, for their members, from a wider range of products and services offered more efficiently. Smaller credit unions and their members would benefit especially from the enhanced stability of these credit unions and thus better protection of member shares and deposits, and, in addition, from increased efficiency of operations through overcoming lack of economies of scale.

- 7.2. The main risk of the project is that the laws and regulations governing the credit union sector change and this could affect the development of the two components of the project. In case the activities of the Registrar should be transferred to another entity, as a result of the current studies and proposals relating to the regulation and supervision of non-bank financial institutions, the Bank will seek to execute Component II through the corresponding remaining authority, namely the Central Bank. However, a careful review of the relevant documents and meetings with the pertinent government officials (Commerce, Finance Ministry, and Central Bank) have given assurances that even if the Registrar were moved to a different “location” in the governmental structure its current functions and staff would largely be retained. These same authorities, see no major changes in the next few years, and see the project as complementary to their efforts at better supervise the growing sector of credit unions.
- 7.3. While BCCULL’s financial statements appear quite strong, showing profitability in recent years and substantial net worth, there are two items that could be troublesome: (1) the Central Fund Facility, which largely represents deposits of individual credit unions, has its assets and liabilities co-mingled with those of BCCULL itself, rather than being established separately as a trust, and (2) the Mutual Benefits Plan, which is similar to the death and disability programs offered successfully by credit union leagues around the world, and which in Barbados is owned by the BCCULL and the credit unions. It is unclear if risk management of this Plan is adequate.
- 7.4. The project team recommended that the Central Fund Facility be separated from the League’s assets prior to first disbursements, and the BCCULL representatives agreed to this in writing. With regards to the Mutual Benefits Plan, it was suggested that, as part of the project, an external analysis of the insurance company be carried out and specific recommendations be made to ensure that the League does not take undue risk. Prior to the disbursement of 30% or more of the Bank’s funds, the League will show evidence of compliance with the actions proposed by the study to reduce or eliminate any of this risk.

VIII. ENVIRONMENTAL AND SOCIAL ASPECTS

- 8.1 With funds from the project, BCCULL will develop an environmental policy for its members, which will include environmental orientation of credit unions, awareness raising at General Assembly meetings, and appraising credit applications for environmental impact. The project includes funds for contracting a consultant specialized in environmental issues to guide the BCCULL and the credit unions in developing these guidelines, as well as training the Registrar in environmental related risks of investments. The project will track the performance in this area by measuring how many of the credit unions are applying these environmental policies. As a precondition for disbursing 50% or more of the Bank’s funds, there will be evidence of the above-mentioned compliance.

Annex I
Indicators and Logical Framework
INSTITUTIONAL STRENGTHENING OF THE SAVINGS AND LOAN COOPERATIVES SECTOR OF
BARBADOS (BA- M1001)

Four-Year Project Indicators

After examining the available information and taking account of the expected impact of the project, five indicators were identified. The process of arriving at the indicators involved calculating the average for the three tiers of credit unions which was used as the baseline, and then determining a target level based on the expected impact of the project over the four-year period.

The indicators chosen and the explanation are as outlined below.

Institutional Capital / Total Assets

From a safety and soundness viewpoint, it is essential that credit unions build adequate institutional capital since this determines the credit union's capacity to absorb losses and finance non-earning assets. The selection of this ratio as one of the indicators was therefore more or less automatic. The components of institutional capital used are statutory reserves and accumulated retained earnings.

Delinquency / Total Assets

Maintaining a quality loan portfolio is essential to the financial health of any credit union. It is also apparent that this is one of the areas that requires a lot of focus and attention to bring Barbados credit unions to an acceptable standard. This was therefore an obvious selection as one of the five indicators.

Net Income / Average Total Assets

Credit unions can only attain financial health and build capital through generating adequate earnings. Therefore this ration was chosen since it determines the credit union's capacity to build institutional capital. It is also apparent that the current performance is below par.

Growth in Assets

One of the key result areas (KRAs) of the project must be growth. Primarily one will expect to see growth in shares and deposits which in turn will fuel growth in assets. Therefore this was selected as one of the indicators.

Growth in Loan Portfolio

A credit union can only generate adequate earnings through corresponding growth in its loan portfolio. Therefore this is also seen as an appropriate indicator.

Indicators in Tabular Format

Indicators	Baseline Numbers (current averages)	Target at End of Project (averages)
Level 1		
Institutional capital / Total assets	12%	15%
Total loan delinquency / gross loan portfolio	5.6%	3.5%
Net income / average total assets	2.7%	3.5%
Growth in loans to members	16.8%	25%
Growth in total assets	12.2%	25%
Level 2		
Institutional capital / Total assets	14.6%	16%
Total loan delinquency / gross loan portfolio	20.6%	10%
Net income / average total assets	3.1%	5%
Growth in loans to members	11.6%	30%
Growth in total assets	11.6%	25%
Level 3		
Institutional capital / Total assets	21.4%	23%
Total loan delinquency / gross loan portfolio	45.1%	15%
Net income / average total assets	2.2%	3%
Growth in loans to members	95.2%	10%
Growth in total assets	.7%	10%

**Logical Framework
BA-M1001**

Objectives	Indicators	Verification Methods	Assumptions/Observations																				
Goal																							
Enhance access to financial services through strengthening the Credit Union sector of Barbados.	<p>Three years after completion: Increase the membership at the three levels of credit unions, as well as share capital, and loans in both number and value.</p> <table> <tr> <td></td><td>Level 1</td><td>Level 2</td><td>Level 3</td></tr> <tr> <td>Members</td><td>118.000</td><td>7.000</td><td>3.000</td></tr> <tr> <td>Share Capital</td><td></td><td></td><td></td></tr> <tr> <td>as % of Assets</td><td>15%</td><td>17%</td><td>23%</td></tr> <tr> <td>Growth in Loans</td><td>60%</td><td>60%</td><td>40%</td></tr> </table>		Level 1	Level 2	Level 3	Members	118.000	7.000	3.000	Share Capital				as % of Assets	15%	17%	23%	Growth in Loans	60%	60%	40%	<ul style="list-style-type: none"> Monitoring system of the BCCUL Records of the Office of the Registrar 	<ul style="list-style-type: none"> Macro economic situation remains stable. Financial sector is stable.
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as % of Assets	15%	17%	23%																				
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Purpose																							
Strengthen the capacity and sustainability of the Credit Unions and the ability of the supervisory agency to implement risk-based supervision.	<p>By the end of the project:</p> <ul style="list-style-type: none"> Stronger financial indicators of the credit unions supervised <table> <tr> <td></td><td>Level 1</td><td>Level 2</td><td>Level 3</td></tr> <tr> <td>Loan delinq/ Loan portfolio</td><td>3.5%</td><td>8%</td><td>15%</td></tr> <tr> <td>Net income/ Assets</td><td>5%</td><td>5%</td><td>4%</td></tr> <tr> <td>Growth in Loans</td><td>60%</td><td>60%</td><td>40%</td></tr> </table>		Level 1	Level 2	Level 3	Loan delinq/ Loan portfolio	3.5%	8%	15%	Net income/ Assets	5%	5%	4%	Growth in Loans	60%	60%	40%	<ul style="list-style-type: none"> Selected PEARLS indicators: <ol style="list-style-type: none"> Institutional Capital / Total Assets Delinquency / Total Assets Net Income / Average Total Assets Growth in Assets Growth in Loan Portfolio Progress and Final Reports. PPMR Mid and Final Evaluation Report Project Completion Report (PCR) Sustainability and Completion workshops between the Bank and the Executing Agency. Base line 	<ul style="list-style-type: none"> Cooperative law and norms do not change drastically. Sufficient institutional capacity and coordination of BCCUL and the Registrar. Training and Education Department of the BCCUL is capable to manage project activities. Continued support from all key participating stakeholders including Central Bank, Ministry of Finance. 				
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Objectives	Indicators	Verification Methods	Assumptions/Observations																								
Components																											
Component 1: Institutional Strengthening of credit unions and the League.	<ul style="list-style-type: none"> League provides technical assistance to all levels of credit unions. Percentage of members who utilize BCCUL services is up. League has a sustainable educational department in house. Quality and quantity of credit union services has increased Two new products developed Performance Indicators: <table> <tr> <td></td><td>Level 1</td><td>Level 2</td><td>Level 3</td></tr> <tr> <td>Members</td><td>118.000</td><td>7.000</td><td>3.000</td></tr> <tr> <td>Share Capital as % of Assets</td><td>15%</td><td>17%</td><td>23%</td></tr> <tr> <td>Loan delinq/ Loan portfolio</td><td>3.5%</td><td>8%</td><td>15%</td></tr> <tr> <td>Net income/ Assets</td><td>5%</td><td>5%</td><td>4%</td></tr> <tr> <td>Growth in Loans</td><td>60%</td><td>60%</td><td>40%</td></tr> </table>		Level 1	Level 2	Level 3	Members	118.000	7.000	3.000	Share Capital as % of Assets	15%	17%	23%	Loan delinq/ Loan portfolio	3.5%	8%	15%	Net income/ Assets	5%	5%	4%	Growth in Loans	60%	60%	40%	<ul style="list-style-type: none"> League's income statement (at activity level) and revenues versus costs of the educational activities. Progress and Final Reports. PPMR Program mid and final evaluation reports PCR Event participation lists Surveys 	<ul style="list-style-type: none"> Individual cooperatives are willing to participate in project training and technical assistance and pay for a percentage of these services. Availability of technical experts to provide training at costs within budget proposed.
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Component 2: Improving the regulatory environment	<ul style="list-style-type: none"> Improvement in the indicators relating to safety and soundness of supervised credit unions <table> <tr> <td></td><td>Level 1</td><td>Level 2</td><td>Level 3</td></tr> <tr> <td>Share Capital as % of Assets</td><td>15%</td><td>17%</td><td>23%</td></tr> <tr> <td>Loan delinq/ Loan portfolio</td><td>3.5%</td><td>8%</td><td>15%</td></tr> <tr> <td>Net income/ Assets</td><td>5%</td><td>5%</td><td>4%</td></tr> </table>		Level 1	Level 2	Level 3	Share Capital as % of Assets	15%	17%	23%	Loan delinq/ Loan portfolio	3.5%	8%	15%	Net income/ Assets	5%	5%	4%	<ul style="list-style-type: none"> Progress and Final Reports. PPMR Program mid and final evaluation reports PCR 	<ul style="list-style-type: none"> Good communication channels with the Registrar, the Central Bank, the Finance Ministry. Registrar cooperates with and is open to receive training and recommendations from expert firm. Specialized service provider is identified to train and provide technical support at price and quality within budget. 								
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Activities Component 1:																											
1.1 Training and Education Department (TED)	<ul style="list-style-type: none"> TED established within the League and its support staff hired by the end of month 2 	<ul style="list-style-type: none"> Income statement at TED level. List of participant to the formal 	<ul style="list-style-type: none"> The TED is able to implement the large number of activities 																								

Objectives	Indicators	Verification Methods	Assumptions/Observations
<p>formally established and adequately staffed.</p> <p>1.2 Project launching conference</p> <p>1.3 Needs assessment for credit unions that choose to participate</p> <p>1.4 Design of training and technical assistance program</p> <p>1.5 Cost benefit evaluation of a services center within the League for smaller credit unions</p> <p>1.6 Training modules in financial management, new product development, marketing, and environmental standards developed and implemented</p> <p>1.7 Terms of reference agreed to and individualized technical assistance delivered</p>	<ul style="list-style-type: none"> • A strategic plan for the launching of the Project is developed by the League in coordination with the Registrar by end of month 2 • Needs assessment finished and results analyzed by the end of month 8 (with 20 credit unions) • Program is designed with special attention to needs at different levels and appropriate fee structure by the end of year 1. • If evaluation is positive service center is established by the end of year 1 and is providing services to at least 10 credit unions by the end of the second year • 4 training modules developed and implemented each year • A minimum of 15 number of CUs participating from level 2 and level 3 • A minimum of 20 number of technical assistance consultancies delivered in Years 2 and 3 across all levels. 	<p>project launching conference</p> <ul style="list-style-type: none"> • Letters of commitment and income statement with training activities detailed. • selection of at least twenty credit unions wishing to receive training and technical assistance under the project • List of participants to the training on environmental policy/procedure and environmental related risks. • Needs assessment document • Progress and Final Reports. • PPMR • Program mid and final evaluation reports • PCR • Time allocation of the League director as project coordinator • BCCUL reports • Results from training surveys and evaluations of participants 	<p>contemplated under appropriate leadership from the BCCUL management.</p> <ul style="list-style-type: none"> • At least twenty credit unions demonstrate interest in participating in the project. • For establishment of service center, enough common needs are identified among small credit unions to justify cost of service center.
Activities Component 2:			
<p>2.1 Firm identified and contracted to implement component</p> <p>2.2 Needs assessment for the supervisory agency and</p>	<ul style="list-style-type: none"> • Within the first six month – MIF COF/CBA and SDS will select consulting firm to execute this component • Needs assessment completed by end of year 1 	<ul style="list-style-type: none"> • Procedure to select the firm is documented and selection is justified. • Needs assessment agreed upon with Registrar. 	<ul style="list-style-type: none"> • Good communication channels with the Registrar, the Central Bank, the Finance Ministry. • Registrar cooperates with and is open to receive training and recommendations from expert

Objectives	Indicators	Verification Methods	Assumptions/Observations
<p>staff</p> <p>2.3 Design of the training and technical assistance program to implement improvements in risk based supervision</p> <p>2.4 Implementation of training program.</p> <p>2.5 Visits/internships to supervisory agencies implementing risk based supervision</p>	<ul style="list-style-type: none"> • Program in RBS designed and agreed upon with Registrar by month 15 • All Registrar technical staff trained in risk based supervision (RBS) by month 36 • Three key technical staff visit/internships with supervisory agencies using risk-based supervision by month 36 	<ul style="list-style-type: none"> • Quality control mechanisms are in place to document feedback from training and exchange visits. • Progress and Final Reports. • PPMR • Program mid and final evaluation reports • PCR 	<p>firm.</p> <ul style="list-style-type: none"> • Specialized service provider is identified to train and provide technical support at price and quality within budget.

SELECTED QUALITATIVE INDICATORS

Indicator	Situation prior to the project	Situation at the end of the project
Component I: Institutional Strengthening of Credit Unions and BCCULL		
Financial and Risk Management Capacity	<ul style="list-style-type: none"> Individual credit unions, specially of the mid size category, have limited capacity to manage financial risks. Individual credit unions, specially of the mid size category, do not have a complete understanding of the various risks posed by their credit products. Individual credit unions, specially of the mid size and small category, lack operational tools and strategies to manage their growth and expansion into new membership base. 	<ul style="list-style-type: none"> Beneficiary cooperatives have a more adequate system to price their products reflecting actual costs and good risk analysis. Beneficiary cooperatives have implemented tools for enhanced liquidity gap analysis, as well as decision making on short term investments. Beneficiary cooperatives have implemented tools for enhanced portfolio reporting and analysis and have enhanced their existing policies and procedures for repayment mechanisms and arrears control. Adequate provisioning and write-off policies are implemented in the selected credit unions. Beneficiary cooperatives staff are adequately trained in the areas of credit risk and analysis. Personnel and staff management and policies are in line with growth of the credit unions. Beneficiary cooperatives implement more prudent client selection mechanisms and have also upgraded their existing technology for information and portfolio management.
New product development and marketing	<ul style="list-style-type: none"> Individual credit unions at all levels lack market knowledge and expertise to develop new products for their membership. 	<ul style="list-style-type: none"> Beneficiary cooperatives offer a more diverse set of savings products. Selected beneficiary cooperatives offer specially designed credit products for the self employed and small and microenterprises. The beneficiary cooperatives have policies and procedures approved by their boards for these products. Operational staff is trained in the management of these new products.
Strengthening of BCCULL	<ul style="list-style-type: none"> The League has a limited capacity to train and provide assistance to its members in the areas of risk management. The League has limited capacity to provide other services to its membership based on demand. 	<ul style="list-style-type: none"> The League has incorporated a sustainable Training and Education Department into its operations. The League provides timely and high quality service to its members, including the provision of up-to-date market and information services. The League has incorporated in its training curricula environmental considerations and has an environmental policy approved by its board. Individual cooperatives also have incorporated an environmental policy.
Component II: Improving the Regulatory Environment		
Situation of the Registrar	<ul style="list-style-type: none"> Limited supervision based on compliance with PEARLS. Inadequate parameters and procedures for on-site inspections. Limited capacity to assess technology issues around financial and risk management. 	<ul style="list-style-type: none"> The Registrar implements a risk based supervision approach to its work. A more rigorous policy and procedure is implemented for on-site inspections and analysis of cash and investments. The Registrar has adequate capacity to measure and assess risks within the information technology systems of credit unions. The Registrar is trained in environmental risks of investments.

Annex II
Institutional Strengthening of the Savings and Loan Cooperative Sector of Barbados
BA-M1001

	IDB/MIF	Total Counterpart	Total
Component 1. Institutional strengthening of CU and the League	526,200	459,200	985,400
Financial and Risk Management Capacity	216,500	71,000	287,500
New Product Development	202,500	80,000	282,500
Strengthening of BCCULL	46,000	19,000	65,000
Executing Unit	61,200	289,200	350,400
Component 2. Improving the capacity of the regulatory entity	270,000	0	270,000
Evaluation & Audit	43,800	800	44,600
TOTAL	840,000	460,000	1,300,000
	65%	35%	100%

ANNEX III
Institutional Strengthening of the Savings and Loan Cooperatives Sector of Barbados
BA-M1001
Overview of Related Projects

A. Similar or Related MIF Projects

None.

B. Similar or Related Bank Projects

None.

C. Related MIF Projects in the same Sector or with the same Beneficiary

Project No. / Approval Date	Project Title, Sector, Executing Agency, Amount	Effective Date [sig. or leg. ratification], Disbursement Period	Percent Disbursed	Comments: Satisfactory or problematic execution, including delays, extensions, reformulations, changes in execution, etc.
ATN/MT – 7091-BA 08/09/00	Strengthening the Capital Markets Ministry of Finance and Economic Affairs; Securities Exchange of Barbados \$650,000 (MIF: \$390,000) Fortalecimiento del mercado de valores	12/15/2000 24 months (extended for 18 months)	3%	Project terminated after initial disbursement with U/HP ratings. Used balance canceled as the EA was unable to contract consultant within disbursement deadline.

D. Projects in cluster or same sector

None.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-___/05

Barbados. Nonreimbursable Technical Cooperation ATN/ME-____-BA
Institutional Strengthening of the Savings and
Loan Cooperatives Sector of Barbados

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Barbados Cooperatives Credit Union League Ltd. (BCCULL), and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-____ with respect to technical cooperation for the institutional strengthening of the savings and loan cooperatives sector of Barbados.

2. That up to the amount of US\$840,000, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the technical cooperation resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

LEGIII/BA-590250-05
BA-M1001