

**MULTILATERAL INVESTMENT FUND
PROJECT ABSTRACT**

BARBADOS

I. BASIC PROJECT DATA

Country	Barbados
Program Name/Number	Institutional Strengthening of the Savings and Loan Cooperative Sector of Barbados – BA-M1001
Team Leader/Members:	Alejandro Escobar (SDS/MSM), team leader; Maria Victoria Saenz-Samper (MIF/OPS); pending (COF/CBA); pending (LEG), Carla Bueso (MIF/DEU).
Date of Request:	
Beneficiaries:	Credit unions and their low to mid-income clients
Executing Agency:	Barbados Cooperative & Credit Union League Ltd. (BCCULL)
Financing Plan:	MIF (IIIA) US\$ 1.000.000
	BCCULL <u>US\$ 400.000</u>
	Total US\$ 1.400.000
Tentative Dates:	POC January 2005
	Donors April 2005

II. BACKGROUND AND PROBLEM STATEMENT

A. Background

- 2.1 With over 50% of its economically active population registered as a member of a credit union, only 3 countries out of 80, surpass Barbados in terms of membership penetration. Between 1998 and 2002, the cooperative system saw its total deposits grow by 225% and its total outstanding loans by 165%, outpacing banks in both categories. By June 2003, the total assets of the credit union system amounted to close to US\$300 million¹. While most of the 39 credit unions have restricted membership, representing private companies, public entities, and churches, currently close to 14% of this membership is made up of microenterprises and self-employed professionals. Among other things, the system's impressive growth has come as a result of Barbadian's good habit of regularly channeling a portion of their salaries and income into savings, and a strong sense of trust in the cooperative system, over the regular banking system.

B. The Problem

- 2.2 Rapid growth and competition have also had a negative impact on the system. A deeper analysis of credit unions reveals major threats and challenges. While the overall credit portfolio had arrears in excess of 30 days of 10.7% as of June 30, 2003, fully 22 of the 39 credit unions posted arrears of over 15%. Provisions for bad loans are inadequate. A number of these are technically insolvent, especially the small church-based credit unions. As credit union deposits increase, additional pressures in asset management are being applied to the system. In addition, the growth of the sector has not been properly accompanied by more rigorous supervision. While at present, the regulatory agency is

¹ Central Bank of Barbados 2003 Annual Report.

aware of the need for stronger monitoring mechanisms, there is a lack of technical expertise for the supervision of non-banking financial entities.

- 2.3 Finally, despite impressive membership and savings, Barbadian credit unions are becoming increasingly less competitive with banks as rapid change in technology is reshaping the character of financial services. A recent informal survey of credit union members revealed that nearly all of the credit union members are also accessing banks for additional financial services.

C. Program Rationale & Additionality

- 2.4 The MIF has significant experience in financing projects that are aimed at strengthening credit union systems. 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. An example of similar projects in the region include 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), MIF/AT-156 Strengthening the Savings and Credit Cooperative System in Ecuador (1998), MIF/AT-401 Support of Credit Unions and Workers' Banks System in El Salvador (2001), and MIF/AT-32 Strengthening of the Savings and Loan Cooperative System in Jamaica (1994), among others. A review of the reports of these projects stresses the importance of regulatory and supervisory institutional capacity and support to the idea of a more rigorous control over non-banking financial entities, an issue which is closely being monitored presently by the Barbados Country Office (COF).
- 2.5 The latest Bank strategy with Barbados is dated 1999. An updated strategy currently being developed, calls for supporting Barbados in its efforts to become more competitive in its manufacturing and services sectors. This project will complement the proposed strategy by enhancing the quality and effectiveness of financial services provided by the credit union system, to a large percentage of the population. An improved performance in the cooperative system will provide Barbadians of low to mid income levels, and microenterprises, with more robust savings and loan services.

III. PROGRAM OBJECTIVES AND DESCRIPTION

A. Objectives

- 3.1 The main objective of this project is to enhance and strengthen the access to secure and sustainable financial services by the low to mid income population of Barbados, which includes a growing number of microenterprises. The specific objective of the project is to improve the financial management capacity of individual cooperatives, and the overall strength of the credit union system.

B. Description

- 3.2 This project seeks to provide expert technical assistance and training to the members of the Barbados Cooperative and Credit Union League Ltd. (BCCULL), in order to help them build stronger management systems and controls, enhance monitoring and supervision mechanisms and develop new products. While training activities will be made available to all the members, only a select group of the cooperatives will receive technical assistance and consulting support. The selection of these cooperatives will be based on a set of

criteria, which includes, (i) their potential for growth and expansion of services; (ii) the commitment of the leadership of the credit unions to the outcomes proposed in this project; (iii) the extent to which their strategic priorities are aligned with the objectives of the project; and (iv) their ability to pay in cash the counterpart resources for the project. It is expected that the potential participating credit unions of the project will be identified during project design, and that these will provide a written expression of support for the project. Past experience in training and the provision of technical assistance to League members, reveals that there is an expressed interest in this kind of program, but also that only the ones that are better equipped to implement the outcomes of the training, tend to participate. The fact that close to 35% of total revenues of the League of US\$300.000 comes from membership dues, demonstrates the willingness and commitment to participate in these types of programs.

- 3.3 Before the project starts execution, a baseline will be established with the participating credit unions, which will enable the appropriate monitoring and performance tracking while the project is in execution. A baseline will also be done at the end user level, which will ensure that beneficiaries do in fact belong to the target groups described before.
- 3.4 The project will consist of two components, each of which is aimed at strengthening the capacity of the participating credit unions, but also the system as a whole.

Component I: Institutional Strengthening of Credit Unions. (Total: US\$1.000.000; MIF: US\$700.000; BCCULL: US\$300.000)

- 3.5 **Financial Management and Strategic Planning.** In order to address the weaknesses in financial management and planning, cooperatives will receive training and technical assistance in the implementation a financial management and monitoring system. This system of controls will provide managers and directors with timely and accurate information required to assessing the performance and to recommend and implement actions as deemed necessary. The value of the system will go beyond the identification of problems, as it will also suggest likely causes and help identify effective solutions.
- 3.6 **Business Planning and Product Pricing.** In order to address the lack of competitiveness with the banking system, the project will implement business planning training and technical assistance modules, that will enable managers and branch managers to better price their products. Historically, a combination of “market” rates and “traditional” practices has been employed to set the rates of interest for both savings and loan products. It is expected that with the project, deeper analysis of market forces, competition, and costs, will assist credit unions in setting their various interest rates.
- 3.7 **Policies and Procedures.** One of the major threats to the credit union system is the lack of sound administrative and financial policies and procedures. Furthermore, the continued growth and diversification of the sector will depend on institutions’ ability to develop and implement these policies and procedures. This project will provide technical assistance and training to selected credit unions, in the development of appropriate policies and procedures in areas such as, personnel management, lending and loan management, collections, savings, pricing of products, and internal controls.
- 3.8 **Governance.** It is not uncommon that in many of the credit unions, the line of responsibility between the credit union management and boards is often blurred. This ambiguity slows the decision making process, again leaving the credit unions behind their

competition. The project will provide technical assistance and training in clarifying the roles and responsibilities between management and boards. It will conduct constructive, participatory workshops designed to identify the most effective and practical approaches to strategic decision making at different levels of the organization. The project will assist in the adaptation or modification of bylaws and internal policies. Greater transparency will be achieved by more clearly articulating the specific job responsibilities of all management staff and directors.

- 3.9 **New Product Development.** While banks and other financial entities have diversified and modernized their services in the past recent years, credit unions have fallen behind, limiting their innovation to replicating what others are doing, with little or no customization or analysis. This project will provide technical assistance to qualifying credit unions in the development of improved, diversified products and services, some of which will be targeted at microenterprises and self employed members. With the results of a market study, to be implemented with the project, technical assistance will be directed at improving existing products and developing new ones. Assistance will also be provided in interest rate and spread management, ensuring that savings and other new products are priced appropriately.
- 3.10 **Credit Union System Consolidation.** A review of the smaller end of the market in terms of size within the credit union sector in Barbados reveals that many of these smaller ones are indeed technically insolvent. In order to strengthen the overall system and to protect it from future threats, it will be important to ensure that all credit union institutions are solvent and adequately governed and managed. The project will assist the League in its assessment of potential consolidation within the system. Support will be provided under the project to facilitate the understanding and management of the political and financial sensitivities and risks associated with this process. The project will assist the BCCULL in defining a strategy to address this consolidation process and review if there exists a role for the League in this process.

Component II: Improving the Regulatory Environment. (Total: US\$400.000; MIF: US\$300.000; BCCULL: US\$100.000)

- 3.11 **Strengthen and enhance dialogue with Government Entities.** Until now, the credit union system has placed only minor importance on policy dialogue with Government institutions. This project will be instrumental in developing a strengthened lobbying capacity within the Barbados Cooperative & Credit Union League. This process will begin with a series of workshops for League management and Directors in which a strategy for industry development will be elaborated. This strategy will include critical initiatives in the area of policies and regulations for the sector. It is expected that a strategy will emerge from the diverse nature of the credit union sector, arguing for differentiated treatment of the respective levels of credit unions. The League will also initiate an ongoing dialogue with the Central Bank in order to demonstrate how Level 1 credit unions (those with assets ranging from US\$5 to US\$100 million) will require more specialized regulation and supervision. It will be argued that credit unions are capable and should be authorized to provide services such as checking accounts, debit cards, ATMs and credit cards.
- 3.12 **Strengthen the Regulatory and Supervisory Oversight of the CU System.** A fundamental aspect of the consolidation of the cooperative sector is the overall regulatory

environment. To address this important aspect, the project will provide specialized technical assistance and training to the Registrar and, if appropriate, the Central Bank in improving the supervision of credit unions. This activity will begin by providing the supervising institutions with a fuller understanding of credit unions and of recent best practices in supervision, through a series of specialized training seminars and workshops, targeted to the management and staff of the supervising bodies. The project will also facilitate the exchange between key managers and supervisors so that they can visit credit unions and supervising agencies in other countries, such as the United States, Panama and Bolivia. Adequate and practical tools for supervision will also be developed and improved on through technical assistance. Supervisors will be encouraged to utilize newly emerging risk based techniques for supervision, based on a greater conceptual understanding of the particular risks faced by the credit union system and the individual institutions operating within this system.

- 3.13 Preliminary communications with the financial regulatory entities, suggest that there is a strong support for this project and that legislation, although not drafted yet, will in time seek to strengthen the cooperative sector, given the breadth of its reach in the population. To ensure the adequate implementation of this component, the BCCULL will engage specialized consulting services, with demonstrated experience in the regulatory aspects of cooperative supervision.

IV. COST AND FINANCING

- 4.1 The total cost of the project and its structure is estimated to be US\$1.400.000, of which the MIF will contribute with US\$1.000.000 and the BCCULL and its members will contribute with US\$400.000, 50% of which will be in cash.
- 4.2 The project will have a total duration of 48 months and disbursements of 54 months. The activities of the project will take place over a 48-month period.

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 The Barbados Cooperative and Credit Union League Ltd. (BCCULL) is a service organization for credit unions and other cooperatives in Barbados. It was established in 1957 when three leading credit unions of the day, submitted an application for its registration. The BCCULL is the representative body of the Barbadian cooperative credit union movement, and currently all 39 credit unions in Barbados are members of the League. The League has three levels or categories of membership based on the size of the cooperatives assets. Level 1 category includes members with assets between US\$5 million and \$130 million; Level 2 category includes members with assets between US\$320.000 and US\$4 million; and Level 3 category, which includes smaller cooperatives with less than US\$250.000. Close to 94% of the total system belong to the Level 1 category. In addition, arrears levels are the lowest in this category, which on average stand at 7%.
- 5.2 The objectives of the BCCULL are to: (i) provide financial services, development and technical assistance, and educational opportunities to cooperatives; (ii) promote the development of people through economic and social change; and (iii) utilize dynamic, innovative and efficient methods along established cooperative principles to further develop credit unions and other cooperatives in Barbados. The BCCULL is committed to sound leadership through effective management and democratic control at all levels of cooperative organization.

- 5.3 The key activities of the League are to provide: (i) representation and lobbying for the credit union system; (ii) training through a Program for credit union volunteers and employees, providing a wide array of courses in management, finance and cooperative culture; (iii) liquidity management services for member credit unions, through the Central Fund Facility; (iv) medical and life insurance programs to member cooperatives; and (v) discounts and access to products and services, including consumer goods, transportation and internet access.
- 5.4 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 2003 amounted to over US\$300.000, and the League has assets of US\$1.4 million. Both indicators have shown signs of growth for the past three years.

VI. ENVIRONMENT AND SOCIAL IMPACT

- 6.1 It is not expected that the project have any negative impact on the environment as the majority of the members, are themselves savings and credit cooperatives not directly involved in production activities. However, given the track record of the League in training to its membership in diverse areas such as management, small business and ethics, a training track on environmental standards and issues concerning financial entities, will be designed and delivered not only to the participating credit unions, but to all of the membership.
- 6.2 While the board of the League may not present adequate representation of women at the time, it does have a number of women on key leadership positions. The project will ensure that mechanisms are in place to promote and facilitate greater participation of women in key decision making processes and that they are adequately represented in the various spheres of operation.

VII. MAJOR ISSUES

- 7.1 The key following aspects should be taken into consideration during the analysis of the project proposal: (i) the criteria for selecting the participating credit unions will be finalized so that the technical assistance and training can be adequately transferred and replicated; (ii) the scope and cost of the key areas of technical assistance and training will be further assessed, specially the level and extent of support to the regulatory system, particularly the potential conflict of interest of BCCULL managing it; (iii) a deeper analysis of the League will be performed, so that the project can effectively strengthen its capacity to deliver on expected outcomes and overall management; (iv) written commitments will be drawn up to ensure adequate financial and human resource participation from member credit unions and the League itself; and (v) the regulatory agencies will be interviewed to understand the level of their commitment to this project and to the cooperative system as a whole.

VIII. ACTION PLAN

The following is a preliminary schedule for the project's approval process:

CESI	January 2005
CRG	March 2005
Donors Committee	April 2005

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