TRINIDAD AND TOBAGO

A DIAGNOSTIC STUDY OF THE FINANCIAL SYSTEM

MAY, 1999

This report was prepared for the Inter-American Development Bank by consultants Ms. Mary G. Zephirin, in 1997, and updated by Ms. Patsy Russell in 1998. Mr. Hunt Howell of the Finance and Basic Infrastructure Division (RE3/FI3), coordinated the study with the assistance of Ms. Susana Enger. On the basis of the consultant's findings FI3 has identified several areas for possible future Bank operations in the sector. These are indicated at the end of the executive summary.

The consultants' views and opinions expressed in this study do not necessarily represent those of the Bank's Management or its member countries.

Regional Operations Department 3
Social Program Division 3

TABLE OF CONTENTS

ABBREVIATIONS

ADB	Agriculture Development Bank
BA	banker's acceptance
BOLT	build, own, lease, transfer
BOOT	build, own, operate, transfer
BOT	build, own, transfer
CARICOM	Caribbean Community
CBTT	Central Bank of Trinidad and Tobago
CCULTT	Cooperative Credit Union League of Trinidad and Tobago Limited
CEO	chief executive officer
CET	common external tariff of Caricom
CLICO	Colonial Life Insurance Company Limited
CU	credit union
DFC	Development Finance Corporation
DIC	Deposit Insurance Corporation
DVP	delivery-versus-payment
ESOP	employee share ownership plan
FCB	First Citizens Bank
FI	financial institution
FIA	Financial Institutions Act, 1993
FINCOR	Republic Finance and Merchant Bank Limited
FUNDAID	Trinidad and Tobago Development Foundation
FY	financial year
G30	Group of Thirty
GOTT	Government of Trinidad and Tobago
HMB	Trinidad and Tobago Home Mortgage Bank
ICATT	Institute of Chartered Accountants of Trinidad and Tobago
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
IOS	International Organization for Standardization
ISRP	Investment Sector Reform Program
LNG	liquefied natural gas
MIF	Multilateral Investment Fund
MPC	mortgage participation certificate (see Housing Finance)
NBFI	non-bank financial institution
NGO	non-governmental organization
NIB	National Insurance Board
NIS	National Insurance System
OSI	Office of the Supervisor of Insurance
POSB	Post Office Savings Bank
QIC	qualifying investment company

SBDC	Small Business Development Company Limited
SDF	same day funds
SEC	Securities Exchange Commission
SIA	Securities Industry Act, 1995
SME	small and micro-enterprise
SRO	self-regulatory organization
T&T	Trinidad and Tobago
TRINRE	Reinsurance Company of Trinidad and Tobago
TTMFC	Trinidad and Tobago Mortgage Finance Corporation
TTSE	Trinidad and Tobago Stock Exchange
UTC	Unit Trust Corporation
VCC	venture capital company
VCIP	Venture Capital Incentive Programme

GENERAL NOTES

Unless otherwise indicated, all values are in Trinidad and Tobago (TT) dollars. During the first three months of 1997, the exchange rate averaged about TT$6.25 per US dollar.

Tables are numbered according to both content and order.

LIST OF TABLES

EXECUTIVE SUMMARY

A. Macroeconomic and Sectoral Environment

After the oil price and production declines of the early 1980s, the petroleum-dependent Trinidad and Tobago economy experienced large external payments and fiscal deficits. Following a period of quantitative restrictive policy responses, including foreign exchange budgeting and credit controls, the exchange rate was devalued in 1988 and two stand-by agreements were made with the IMF in 1989-1991. A structural adjustment loan was also obtained from the World Bank. As a result of the conditions of these loans, credit controls were ended. In 1993, the exchange rate was floated and the currency depreciated.

The financial sector has responded to these changes by becoming more competitive, introducing new instruments to meet the needs of both the private and public sectors and seeking new business abroad in order to diversify their revenue sources and manage the increased risks of a more open system. Competition from both foreign-owned local banks and the entry of foreign instruments following the removal of exchange controls has induced consolidation among locally-owned banks and liaisons between insurance companies and banks. Government initiatives to diversify the financial sector also created new institutions in the 1980s - the Trinidad and Tobago Unit Trust (1981) and the Trinidad and Tobago Home Mortgage Bank (1985) – which have increased competitive forces.

The high cost of funds induced by tight monetary policy during the early part of the 1990s induced financial institutions to channel funds to borrowers through banks by discounting bankers' acceptances until the Central Bank restricted their use to trade transactions.

High reserve requirements raised the price of domestic relative to foreign loans, and preferential treatment given to foreign exchange deposits whose liquidity requirement can be held in earning form, whereas the reserve requirement on domestic currency deposits are largely cash reserves. In part as a result, there is substitution of foreign for domestic currency, despite a low inflation rate. The introduction of open market operations heralded a policy of phased reductions in reserve requirements, which was abruptly reversed at the end of 1997 as a result of a build up in liquidity which put pressure on the exchange rate.

B. Legal Framework

The 1993 Financial Institutions Act (FIA) provides for the regulation of institutions in banking or financial business **(commercial banks, finance companies, merchant banks, and trust companies).** The Act specifies paid-up capital, the establishment of a statutory reserve fund, qualifications for banking and financial institution licenses, director and management criteria, restrictions on credit to connected persons etc. The 1994 regulations to the Act set (i) the Basle-risk weighted capital adequacy requirements, (ii) requirements for the recording of loans, investments and the accruing of interest income, and (iii) the treatment of loans to directors or controllers. Amendments to the FIA are being proposed in order to bring the regulations in line with the recommendations of the CARICOM Bank Supervision Harmonization Project. A new Companies Act (Act No. 35 of 1995), based on Canadian and Barbadian laws, was passed in 1995 with an amendment which came into effect in 1997. New concerns include the duties of directors, and management committees and disclosure requirements for audited statements for the public.

The **judicial system** is impartial but the costs of small legal transactions are sufficiently great to deter recovery of small amounts. Banks do not pursue sums below TT$15,000 (approximately US$2,500 at the current exchange rate) in the Petty Civil Court but try to use their own recovery units. Mortgage deeds pose problems in that the process of modifying them is long and tedious and the original documentation contains even mundane details. The process of confirming title is manual and costly. The Bank-supported Investment Sector Reform Program (Loans 758, 759/OC-TT), addresses (through institutional strengthening of the relevant departments) the problem of land tenure insecurity which could constitute a major constraint on access to credit.

C. Industry Structure

Commercial Banks. A holding company structure and product diversification is becoming common in the financial sector in Trinidad and Tobago. Among the commercial banks affected are Republic Bank, First Citizens Bank, the amalgamation formed by three poorly performing government banks, and Royal Bank. A similar move towards conglomeration and diversification, both geographically and in business lines, was observed earlier in at least one insurance company, CLICO. This may reflect CLICO's earlier realization that the insurance market in the Caribbean is saturated and that the infrastructure in places has created fixed costs which are to high for the market. CLICO explicitly views its expansion as risk management.

As at December 1997, there were five commercial banks operating in the financial sector, with the acquisition of Bank of Commerce by Republic Bank Limited. Until mid 1998 only one wholly-owned foreign bank, Citibank, was part of the banking landscape. Inter-Commercial bank which commenced operations in Trinidad and Tobago during mid 1998 is the other foreign-owned bank which is associated with one of the larger industrial enterprise in the country After commercial banks, the largest groups of financial institutions in terms of assets are, available data suggests, self-administered pension funds, life insurance companies and trust and mortgage finance companies. In 1997 there were six trust and mortgage finance companies all of which are mortgage arms of commercial banks. Similarly, several of the finance companies and merchant banks are the long-term lending subsidiaries of commercial banks. The development finance institutions now include only the Agricultural Development Bank (ADB) and the Trinidad and Tobago Mortgage Finance Company, following Development Finance Limited's licensing as a merchant bank in 1994. The thrift institutions encompass only three building societies and the Post Office Savings Bank. This segment of the system is small and shrinking.

There are over 300 registered credit unions (CUs) in the country with only about 163 of them being active and 99 of them reporting to the Co-operative Credit Union League of Trinidad and Tobago Limited in 1997. Their bonds are based on residence or employment in a particular location or employment in a given industry, business or public sector department. With the same customer base as commercial banks, they see themselves as competitive with commercial banks. However, their tied customer base also buys services from commercial banks. CUs are governed by the Cooperatives Society Act of 1971. Under the Act the Commissioner of Cooperative Development (head of the Cooperative Division in the Ministry of Labor and Cooperatives) is to register, cancel, regulate, supervise, audit, and arbitrate disputes. Only half the CUs comply with the existing reporting requirements. There are initiatives in place to reform the credit union movement. A 1994 Task Force appointed by Government has recommended that their regulation be transferred to the Ministry of Finance. A three-year Multilateral Investment Fund project is also providing training and envisages reform of the legal framework governing credit unions.

Finance companies and merchant banks provide long-term credit and also a range of services including project financing, letters of credit, equipment leasing, advisory services and foreign exchange dealing. In addition they underwrite bond issues for government and private corporations, as well as arranging loans in other Caribbean territories and among territories. With the closure of Fleming Ansa Merchant Bank in 1998 there are nine finance companies and merchant banks. While the merchant banks' assets are less than 5% of financial system assets, nearly 75% of their loan portfolio is allocated to business, with about 30% going to manufacturing. The assertive presence of Citicorp Merchant Bank has probably stimulated a more competitive stance in the industry with innovative instruments. In this way, the merchant banks are probably playing a valuable role in developing the capital market.

Mortgage lending has usually been done by **trust companies or mortgage subsidiaries** of commercial banks; by insurance companies; the Trinidad and Tobago Mortgage Finance Company (TTMFC) and some by commercial banks. Insurance companies are now extending only corporate mortgages. The T&T **Home Mortgage Bank** (HMB), established in 1985 by official initiative and owned by financial institutions, the Central Bank of Trinidad and Tobago, the National Insurance Board and the International Finance Corporation of the World Bank, supplies the secondary market. The HMB mortgage rate is 11% and it allows an origination fee of up to 2% - the usual fee is 1% or 1.25% - if the originator retains the risk. The 11% rate may have to be examined against funding cost constraints which may affect the Bank's ability to sustain this attractive rate. HMB has made the mortgage market more competitive because potential borrowers know of their rate and request that banks use the facility. HMB is also developing the capacity to assume the credit risk. Until recently HMB funded its mortgage purchases through tax-exempt bonds but has reached the ceiling for these bond issues and will now be funding through securitizing the mortgages and issuing Mortgage Participation Certificates (MPCs). Two structural problems were highlighted in the housing market: the cost of bridging finance and the lack of standardization in mortgage agreements. The two problems are related since the lack of standardization increases the transactions cost of mortgage lending.

Studies of the micro enterprise and small business in Trinidad and Tobago indicate that the sector is being served by the existing institutions such as FUNDAID and that these enterprises have little difficulty in obtaining credit from the formal financial system. Lack of information on the characteristics of successful micro-enterprises and informal sector users of finance appear to one of the problems confronting this sector. Previous studies have recommended that the development of the small business and micro-enterprise sector would benefit from a three-pronged technical assistance effort, viz (1) strengthening NGOs (2) improving market access, and (3) stabilising credit unions. A critical need also is for institutional strengthening. Part of government's plans for this sector include expanding the volume and quality of financial services to small business and micro-enterprises and reforming the legal, regulatory and supervisory framework for credit unions.

Development finance institutions. In addition to banks there are several specialized institutions providing finance to this sector. They include the Government-owned Agricultural Development

Bank, the non-governmental organization (NGO), FUNDAID and the Small Business Development Company which is a quasi-governmental organization 37.5% owned by the private sector. FUNDAID (the Trinidad and Tobago Development Foundation) began operations in 1973 as a loan guarantee organization which received donations, matched by grants. In 1991 it began to lend directly to micro-enterprises with funding of US$0.5 million (loan with 10-year grace period and 1% interest rate) from the IDB's Small Projects Program. FUNDAID appears to continue to require official funding and its operating revenue has been low or negative. Although it has been the principal provider of finance to the micro-enterprise sector, FUNDAID has been relatively unsuccessful in attracting resources ideally necessary to effectively carry out its mandate. Over the years, the institution had collaborated in a number of projects with the government of Trinidad and Tobago. The operations of FUNDAID show that it appears to depend more on sources other than its primary credit function for revenue. It however, has the potential though for sustained operations once a number of constraints are removed. The Small Business Development Company Limited (SBDC) guarantees up to 85% of loans to small business and micro-enterprise from commercial banks, and Fund Aid. In addition to its loan guarantee services, SBDC provides business support services and an export program. The IDB's Enterprise Development Strategy study judged the guarantee program financially unsustainable because of the underpricing of risk and a high default rate and to have minor impact. The Agricultural Development Bank (ADB) benefited from an institutional strengthening exercise during 1994-1996 in the context of the Investment Sector Reform Program. This was aimed at increasing its autonomy, improving its capital, achieving full cost pricing and removing nonperforming assets. It is clearly early to learn the results of that exercise. Operating losses continue but have decreased since 1993.

Trinidad and Tobago appear to benefit from a number of purpose-built or adapted means of **infrastructure financing,** originated by large, assertive players such as CLICO (though the latter has mainly been in the context of very large scale arrangements with foreign banks) and by the exigencies of the economy. Variations of sale and leaseback arrangements appear to have started as a result of the 1989 IMF program. The usual requirement for reduced monetary deficit financing necessitated a substitution of private sector for Central Bank financing of government, and commercial bank involvement provided private lenders with some assurance of good project management. Banks evaluate proposed government projects with bank-hired consultants, iron out initial conceptual flaws, and issue interim participation certificates to financing institutions for each disbursement of funds to contractors, the contractor certifying that the expenditure has been carried out. The participation certificates are called in every six months and replaced by interim bonds which show principal and capitalized interest on the certificates. At the end of the project the interim bonds are rolled over into a long-term bond. Similar arrangements are used for industrial companies.

D. Capital Markets

Institutions and legal structure. The actors/institutions in the capital market include the Stock Exchange, the recently created Securities and Exchange Commission (SEC), mutual funds, including the first, the Trinidad and Tobago Unit Trust Corporation, and the venture capital program. The stock market is governed by the 1981 Stock Exchange Act and the 1995 Securities Industry Act (SIA), the latter having established the Securities and Exchange Commission agreed in the context of the 1993 Investment Sector Reform Program loans. The Venture Capital Act, 1994, has created a fiscal framework to encourage equity financing for small and medium business. The Trinidad and Tobago Unit Trust Corporation has its own Act but other mutual funds are currently governed by guidelines issued by the Central Bank, to ensure their prudent management and adherence to certain disclosure requirements. A technical committee has been established to examine the existing regulatory environment. pending full functioning of the SEC.

Securities traded. **Both private bonds and equity are traded on the Exchange. The six member firms are all stockbroking firms. While there are no exchange controls, the Foreign Investment Act (1991) requires that foreign investors obtain a license to hold 30% or more of the total issued share of a public company. Foreign investors are defined to be neither CARICOM nor Trinidad and Tobago residents, nor firms controlled by either of these groups. While a very small part of the flow, regional investors are active in the Trinidad market – from 1992 to 1994 they represent about 2% of total transactions. Clearing and settlement are now done manually and take place five days after trade. The software and depository system to be introduced under the MIF Capital Market Harmonization Project is expected to change the trading rules and improve clearing and settlement. Jamaica already has the depository system in place, and Trinidad and Tobago is expected to operationalize it in the near future.**

When the SEC has been well-established, disclosure capacity would be strengthened if the provisions of the Act, the SEC's own requirements and the TTSE rules were simplified, summarized and published in a form accessible to the public, with annual updates, if necessary. Market surveillance will be necessary to ensure that rules are being observed and the public, who has a direct interest, can help. Further, some activities may be undetectable if not reported on. The SEC directors and management will be challenged by the need to evolve rules appropriate to the instruments and institutions of the T&T market. It would, however, be premature to consider training and the adaptation or evolution of such rules until the Commission has put in place its operational framework.

Venture capital. **The basic notion of the Venture Capital Incentive Programme is to provide a tax incentive for equity investment in small and medium-sized business with an administrative arrangement to ensure that the tax credits are earned by the means intended. The 1994 Venture Capital Act and its regulations set out the program and its criteria. Investors who form or create venture capital companies (VCCs) registered with the Venture Capital Incentive Programme (VCIP) (a statutory corporation) which issues a tax credit certificate for 35% (currently the highest marginal income tax rate) of the investment in the VCC. The tax credit can be used as a set-off against current tax or may be carried forward. The VCIP verifies that the VCC has fulfilled the required conditions, for example, the investor must be a resident of Trinidad and Tobago or incorporated under the Companies Act. The qualifying investee companies (QICs) must be small or medium-sized (defined as having less than 75 employees and less than $3 million in paid-up capital). Certain sectors (those for which financing is already usually available, it appears) are excluded.**

Mutual funds. **The Trinidad and Tobago Unit Trust Corporation was established by statute in 1981. It operates two domestic unit trusts (or mutual funds): the First Unit Scheme which is an income scheme invested in equity and corporate bonds and the Second Unit Scheme, a money market fund. In addition, it sponsors a US-registered income and growth fund, Chaconia, started in 1993, which invests in foreign securities and the two unit schemes of the Unit Trust Corporation. The Act was changed effective January 01, 1997 to allow the Trust to carry financial, although not banking, business. It may therefore do merchant banking, offer trust,**

foreign exchange and other services. The Unit Trust Corporation continues to feel itself disadvantaged by the presence of competitors on its board (the board has four members representing the banks, non-bank financial intermediaries and insurance companies who supplied its original capital) and proposes that it be privatized and restructured as a financial institution under the Companies Act. Up until 1996, the Unit Trust enjoyed special tax status under the law, both in respect of its own income and the accruing to unit holders. This has all been changed, however, due to the dismantling of tax incentives in addition to which a 15% tax is imposed at source on the gross interest income earned by unit holders' funds.

E. Insurance

In 1997, there were 15 life insurance companies, **31 general insurance companies and 233-registered pension funds, 82 of which are self-administered. Insurance and privately administered pension funds are regulated by the 1980 Insurance Act and a series of regulations. Private pension plans are of two kinds - those on the books of the insurance companies and self-administered plans. The former have a deposit insurance contract with the insurance company which gives a guarantee on the returns. Pension fund plans may only be established if registered under the Act. Both public sector pensions and the National Insurance System (NIS) pensions are funded on a pay-as-you-go basis and both are experiencing problems as payments outstrip contributions. In addition to the legally-mandated actuarial review of the National Insurance Board in 1996 (an increase in the earnings limit subject to national insurance contributions has already been recommended), a Task Force has been constituted in the Ministry of Finance to examine pension reform. The task force is currently reviewing existing conditions with presentations by the National Insurance Board, insurance companies and other concerned parties.**

Supervision. The Office of the Supervisor of Insurance (OSI) regulates the insurance industry and pension funds. All insurance intermediaries are registered by the OSI. A draft amendment to the Act strengthens the regulations. Proposals include a decrease to four from six months of the period of time between the close of the financial year and the submission of accounts, enhancement of the disclosure requirements to allow any member of the public to examine the accounts of insurance companies as reported on a standard form, and the requirement that companies submit, in addition, a copy of the shareholders' accounts to the Supervisor. The amendment also seeks to strengthen registration requirements, increasing the minimum capital requirement and increasing the solvency margin for general insurance companies and the Introduction of solvency margins for insurance brokers. Increased powers for the supervisor of Insurance to intervene into the affairs of a company is also being recommended. Registration, rather than being permanent, is to be done annually in order to deal with a defaulting company without a long-winded court procedure. Correction of a weak area in the law, which currently allows an insurer to continue an activity to which the Supervisor has objected, is also included.

One issue was raised by both supervisor and insurance company: the sale of US$-denominated products and the possible dangers of this. As with other financial products foreign insurance is being sold locally by well-known firms. It is proposed that local companies be permitted to write foreign currency policies in order to discourage individuals from buying from foreign insurance directly. Such policies would have to be shown separately in the insurance company accounts. The entry of these offshore' contracts can pose a problem for an industry that already lacks the mass required for most efficient operation. Large overseas companies are able to offer lower premiums because of economies of scale; by offering annuities, for example, to the lower risk individual on the market, they change the pool of risks available to local companies, altering, in a possibly poorly-appreciated manner, their reserve needs. Both banking and insurance supervisors commented on 'bancassurance'.

F. Conclusions

Challenges facing the financial sector include the need to manage foreign exchange and liquidity in the system and the dollarization of the economy. The systemic effects of dollarization and the threat of entry from foreign banks may simply be benign - offering disciplinary competition to the local system - but the entry of large banks (or insurance company/mutual fund salesmen) may also threaten the viability of domestic firms if they lose too much business and, apart from contagion effects, it may be that domestic firms' knowledge of the market is not easily transferred and is necessary to efficient allocation of financial resources. Simple sales (one-way intermediation) of foreign products are also likely to reduce domestic savings.

Given that the environment and private sector in Trinidad (aided indirectly by Government initiatives) are producing financial firms with a range of functions, the questions to be addressed are risk management (from the point of view of the firms), regulation to optimize risk management and reduce systemic risk, and the extent to which the degree of competition may be eroded and whether such erosion improves (or not) intermediation services. Note that some of T&T's most lucrative investments in the petrochemical industry require capital that exceeds the capacity of any one local institution (a methanol plant costs over US$200 million). Mergers or alliances may permit a higher degree of domestic financing and allow the economy to retain a larger proportion of the earnings, while greatly concentrating risk. A possible solution to this problem might be the development of an international project financing capability within the financial sector outsourcing funds on the international and regional capital markets thereby spreading or diversifying risk.

With the growing emphasis on financial and mixed conglomerates in Trinidad and Tobago in recent years, greater emphasis has been placed on consolidated supervision while issues of contagion and contamination have been brought into sharper focus. The Central Bank Inspection Department has developed guidelines for the establishment of appropriate firewalls to minimize the potential for contagion and to provide greater co-operation and consultation among supervisory bodies. Nevertheless, attention to the oversight and regulation of institutional conglomeration seems warranted although, in view of the existing regional approach and similarities among the countries, a regional initiative may be more appropriate and cost-effective.

G. Recommendations

Based on the issues summarized in this executive summary and the analysis contained in the body of the report, the following aspects of the T&T financial system have been identified as warranting further attention:

1. While regulations, derived from the CARICOM Bank Supervision Harmonization Project, are planned to strengthen the hand of the regulator, the oversight and regulation of conglomerates could benefit from further study in several countries of the Caribbean. In addition, ongoing

2. The issue of dollarisation and its possible effects on the Economy and Caribbean habit and risk-averse behavior which already create a strong tendency to hold "precautionary" foreign currency balances. The insurance Industry, in particular, is being affected by both conglomeration and foreign currency substitution.

3. The authorities have begun the task of reviewing the Government pension schemes and their interaction with private pensions.

4. Following its opening and completion of start-up activities, the Securities and Exchange Commission will need to evolve information generation and dissemination arrangements, monitoring and other systems appropriate to the Trinidad and Tobago market.

5. Improved information and access to markets could also be among key components of improved and expanded lending to small businesses by the formal sector. Of importance also is the specific nature and institutional form of the entities providing financing to this sector. Development of automated project discrimination techniques such as discriminate analysis would assist banks. Similarly, credit rating systems which provide information on individuals could assist with loans for start-up business.

6. Long-term lending arrangements and the possible scope. For improving them through the use of guarantees.

The Caribbean Group for Co-operation in Economic Development (CGCED) in its 1998 Caribbean Financial Sector Review identified key areas in the region's financial sector in which government action should be directed:

1. Creating a conducive environment for financial development to set the scene for reforms in the financial sector.

2. Institutional consolidation and integration of regulatory policies to optimize financial sector benefits.

3. The removal of obstacles to long-term finance.

4. The establishment of contractual savings institutions.

5. The promotion of sustained capital market development.

A tradition of supervisory cooperation and similar legislation could be exploited to enhance the cost effectiveness of Program initiatives and facilitate cross-fertilization.

H. Potential Areas of Bank Support for the Financial Sector

Several areas have been identified by FI3 as deserving particular attention for possible Bank interventions either in the form of technical assistance or lending operations.

1. Financial/Capital Market Oversight

Guidelines for a TC in non-bank supervision. In light of recent financial sector events, an overall review should be carried out on the capacity of the non-bank supervisory system and how it could be made more robust in the face of planned changes in the financial system. This would build on the MIF TC to strengthen the Inspectorate of Banks approved in mid 1998. Specific areas identified are:

a. A need to adapt regulations recommended in the CARICOM Bank Supervision Harmonization Project to T&T context and implement them.

b. Further study of oversight and regulation of conglomerates, looking particularly at other Caribbean countries.

c. Risk management training for supervisors.

d. Review the recommendations in the 1998 wider Caribbean financial sector study by the Caribbean Group for co-operation and Development (CGCED) with a view to adopting any that suit the Trinidad and Tobago environment.

e. Analysis should also review changing status of Credit Unions, which are becoming more like banks, and determine how the regulatory framework within which they operate can be strengthened and adjusted to take into account the appropriate bank oversight principles.

f. Establish linkages to the MIF project to strengthen Credit Unions which is currently in execution.

Securities markets. Rules appropriate to the instruments and institutions of the T&T capital market should be developed. An evaluation of these requirements would be appropriate. However the new Securities and Exchange Commission should put its operational framework in place (as contemplated in the ISRP) before carrying out any major new modifications to the regulations and/or providing substantial additional training.

2. Investment Banking/ Infrastructure Finance

The suppliers of long-term credit, including merchant banks and finance companies, are both relatively numerous and sophisticated in the breadth and depth of products and services they have to offer. Interest rate spreads are less than half the commercial banks due largely to lower reserve requirements. However the domestic banks are relatively small in comparison to the financing requirements of major new infrastructure or manufacturing projects. Even when acting in consortium, the amount of project finance they can provide is limited. Bank provision of partial credit guarantees could expand their lending capacity and contribute to the further growth of the domestic financial system.

3. Micro and Small Business Finance

Improvements of the information about potential borrowers and a reduction in the cost of utilizing this information would reduce transaction costs for potential lenders to this segment. The Bank could support (a) the creation and/or expansion of credit bureaus to collect and provide information on small and micro businesses; (b) the adaptation of automated loan appraisal tools, such as discriminate analysis packages, to this strata of the T&T economy; (c) upgrading of technical assistance to micro-enterprises; (d) facilitation and exposure of FUNDAID's staff to some of the more successful programs in developing countries; and (e) increased institutional strengthening.

4. Insurance and Pensions

Private pensions are provided by (a) insurance companies and (b) self-administered plans of certain private companies. The Office of the Supervisor of Insurance (OSI) regulates the insurance industry and pension funds. There are several ideas for reform and strengthening the OSI which were incorporated into a Bill published three years ago. Three areas deserving attention are: (i) more rapid and adaptable insurance regulation, (ii) strengthening of the OSI, and (iii) regulation of the holding companies or joint activities of associated financial institutions.

Public sector pensions and the National Insurance System (NIS) pensions are funded on a pay-as-you-go basis and both are experiencing problems as payments outstrip contributions. A task force has been constituted in the Ministry of Finance to examine pension reform. Assistance to this task force could be provided in the areas of the changes needed in the public sector and NIS pension schemes, possible interaction between these two and the private pensions schemes, and the amendments which may be required to the relevant legislation. This assistance should be based on an analysis of the arrangements most appropriate to the T&T social and financial environment.