Financial Access and Inclusion: A Diagnostic for Barbados

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Abstract

This paper presents an assessment of financial market development, access, and inclusion for Barbados. Based on a review of indicators, survey data, and other metrics, our analysis suggests that recent fiscal and macroeconomic stability concerns, as well as increasingly stringent administrative requirements, have negatively affected financial access and inclusion—particularly for smaller firms. For some firms, high collateral requirements, administrative and documentation-related hurdles, and shortcomings in the institutional and regulatory framework are key impediments to greater financial access. Policy recommendations that flow from this analysis include the importance of durably addressing macroeconomic imbalances, reinforcing the regulatory and institutional frameworks, supporting the availability of information regarding credit and related counterparty risks, and developing a coordinated approach to institutional and policy reform aimed at promoting financial inclusion (e.g., via development of a national financial inclusion strategy).

JEL Codes: G1, G21, H6, O1, E5, E6

Key Words: financial access, financial deepening, financial inclusion, financial sector development, FinTech, economic policy, Barbados, private sector development.

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Acronyms

ATM	Automatic teller machine
BBD	Barbados Dollar
BERT	Barbados Economic Recovery and Transformation
BIS	Bank for International Settlements
BSLC	Barbados Survey of Living Conditions
C-6	IDB Caribbean Countries
CBB	Central Bank of Barbados
EFF	Extended Fund Facility
FSC	Financial Services Commission
GDP	Gross domestic product
GNI	Gross national income
HDI	Human Development Index
IDB	Inter-American Development Bank
IMF	International Monetary Fund
KYC	Know your customer
LAC	Latin America and the Caribbean
MDG	Millennium Development Goal
NPL	Non-performing loan
NPV	Net present value
OECD	Organisation for Economic Co-operation and Development
ROA	Return on assets
ROE	Return on equity
SDG	Sustainable Development Goal
UNDP	United Nations Development Programme

Overview[1]

This paper presents an assessment of key challenges and impediments for financial market development, access, and inclusion in Barbados.[2] Section A introduces key concepts related to financial market development, access, and inclusion, as well as reasons why related issues are increasingly considered crucial focal areas for development. Section B considers Barbados' socio-economic circumstances, the history of macroeconomic and financial policies, and their implications for the development of Barbados' financial sector. Section C reviews the structure of Barbados' domestic financial sector, as well as various indicators of access and inclusion. Sections D and E consider country-specific barriers to financial access and inclusion for individuals and firms, linked to cross-country evidence. Finally, Section F concludes and offers policy recommendations.[3]

A. Introduction

Emerging research suggests strong positive linkages between financial sector depth, access to financial services, and economic development outcomes. For example, the World Bank's 2014 Global Financial Development Report found that financial inclusion—typically defined as the proportion of individuals and firms that use financial services (see Box 1 for definitions of terms)[4]—is important for development and poverty reduction, and that the poor stand to benefit considerably from the use of basic payments, savings, and insurance services. Similarly, for firms, particularly small and newly established enterprises, access to financial services is associated with stronger innovation, job creation, and growth performance. In this context, policies that promote financial inclusion are increasingly recognized as key pillars of effective strategies aimed at accelerating inclusive economic development.

[1] The opinions expressed in this work are those of the authors and do not necessarily reflect the views of the IDB, its Board of Directors, or the countries they represent.
[2] This paper builds on diagnostic methods and data developed for previous publications, particularly Mooney (2015; 2016; 2018).
[3] The authors would like to thank the following institutions for their support and cooperation in the elaboration of this report: The Central Bank of Barbados, The Barbados Bankers Association, CIBC First Caribbean, Republic Bank, City of Bridgetown Co-operative Credit Union, Public Workers' Co-operative Credit Union Limited and the Financial Services Commission.
[4] Financial services can include any form of transaction, payment, savings, credit, or insurance.

Box 1. Defining Terms

What do we mean by financial development and inclusion?

Financial depth and development, access, and inclusion are distinct but related concepts, particularly for developing countries (Mooney, Schmid, and Zegarra, 2019).

- **Financial depth** generally refers to the degree to which financial markets—particularly credit markets—are sufficient to meet the needs of domestic agents, including the public and private sectors.
- The concept of **financial development** extends beyond the sufficiency of markets to include a broader set of financial instruments and services, including securitized assets (e.g., debt and equity), synthetic instruments (e.g., futures, forwards, options, etc.), and other financial services (e.g., pensions, insurance, etc.).
- **Financial access** centers on the degree to which actors are able to make use of financial products and services, regardless of the degree to which the market is developed—for example, where public entities have ready access to financial products and services, while private agents have difficulty doing so.
- **Financial inclusion** focuses on the ability of vulnerable and marginalized groups within a country (e.g., small and micro enterprises, those in the informal sector, poor and/or rural communities, minorities, etc.) to participate in the financial system or to make use of related services such as deposit accounts, borrowing, insurance, pensions, etc.

Financial inclusion has also been identified as a key enabler for the achievement of the United Nations Sustainable Development Goals (SDGs). Access to financial services for both people and businesses is considered to be among the most important building blocks for achieving the 2030 SDGs, and related issues are featured as targets in 8 of the 17 goals (see Box 2).[5] These include SDG 1 on eradicating poverty; SDG 2 on ending hunger, achieving food security, and promoting sustainable agriculture; SDG 3 on promoting health and well-being; SDG 5 on achieving gender equality and economic empowerment of women; SDG 8 on promoting economic growth and jobs; SDG 9 on supporting industry, innovation, and infrastructure; and SDG 10 on reducing inequality. Additionally, in SDG 17 on strengthening the means of implementation, there is an implicit role for greater financial inclusion through improved savings mobilization for investment and consumption, that can ultimately accelerate growth.

[5] See the following for additional information: http://www.uncdf.org/financial-inclusion-and-the-sdgs

Box 2. United Nations Sustainable Development Goals

The SDGs were developed as a successor initiative to the Millennium Development Goals (MDGs). The SDGs focus on 169 targets linked to the 17 high-level goals. Each target has between one and three indicators designed to measure progress toward reaching the targets. In total, there are 304 indicators that measure compliance.

The 17 SDGs are listed below, and those with a direct link to financial inclusion are highlighted (blue, bold text). For a discussion of the specific targets related to each goal that link to financial inclusion, refer to the United Nations Sustainable Development Knowledge Platform (link below).

Goal 1. End poverty in all its forms everywhere.
Goal 2. End hunger and achieve food security and improved nutrition and promote sustainable agriculture.
Goal 3. Ensure healthy lives and promote well-being for all at all ages.
Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
Goal 5. Achieve gender equality and empower all women and girls.
Goal 6. Ensure availability and sustainable management of water and sanitation for all.
Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all.
Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
Goal 10. Reduce inequality within and among countries.
Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable.
Goal 12. Ensure sustainable consumption and production patterns.
Goal 13. Take urgent action to combat climate change and its impacts.
Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.
Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.
Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

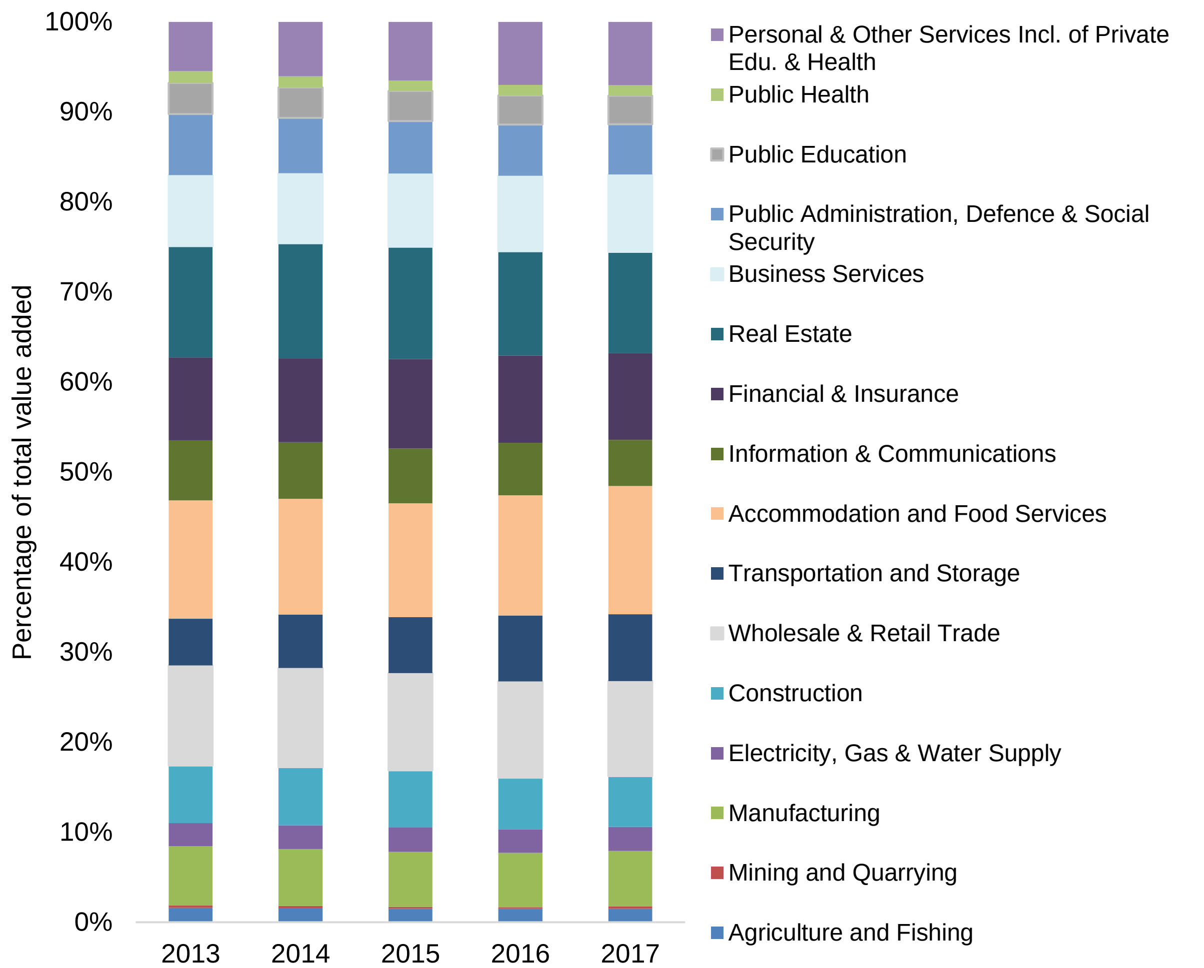
Source: UN Sustainable Development Knowledge Platform.

B. Economic Context

Barbados is a small, services-based economy, with a population of approximately 280,000. Tourism is the main driver of growth, as well as the key source of foreign exchange. It directly

accounts for about 12 percent of gross domestic product (GDP), or about 40 percent of GDP when indirect spillovers to other sectors are also reflected (see Figure 1). This high level of dependence on tourism leaves the economy vulnerable to external shocks from countries that are home to most visitors—i.e., the United States, the United Kingdom, and Canada.[6] These markets are also critical for the financial services sector, which accounts for over half of the government's corporate tax revenue.[7]

Figure 1. GDP Composition by Industry (% of total value added)



Source: Barbados Statistical Services.

While classified as a high-income country on the basis of per capita income, Barbados has experienced weak growth in recent years.[8] Per capita gross national income (GNI) was about

[6] World Travel and Tourism Council Report, 2018. https://www.wttc.org/-/media/files/reports/economic-impactresearch/countries-2018/barbados2018.pdf
[7] Prior to the corporate tax reform in 2019.
[8] The World Bank defines high-income countries as those with per capita GNI of US$12,056 or more.

US$15,270 in 2017, with a growth rate of about 2 percent per year between 2000 and 2017. Comparatively, the six countries that are members of the Inter-American Development Bank's (IDB) Caribbean Country Department (referred to from here on as 'C-6' countries)—namely Barbados, the Bahamas, Guyana, Jamaica, Suriname, and Trinidad and Tobago—displayed per capita GNI growth of approximately 3 percent per year, on average, over the same period (from US$8,085 in 2000 to US$12,360 in 2017). More broadly, per capita GNI growth for countries in Latin America and the Caribbean (LAC) was about 5 percent per year, on average, over the same period (from US$4,118 in 2000 to US$8,251 in 2017), while high-income countries grew by about 3 percent per year (from US$25,177 in 2000 to US$40,143 in 2017).

Barbados' macroeconomic context deteriorated in recent years, creating significant challenges for growth, as well as financial market development and inclusion. Since 2000, the combination of weak economic growth and recurring fiscal deficits resulted in a rapid build-up of public debt[9], from approximately 80 percent of GDP in 2008, to 156 percent of GDP in 2018.[10] This was accompanied by a considerable loss of international reserves—with gross international reserves falling from over 16 weeks of prospective imports in 2008, to below 6 weeks in the first semester of 2018. As a consequence, in August 2018, the Government of Barbados launched the Barbados Economic Recovery and Transformation plan (BERT), which underpins a four-year IMF-supported program under the Extended Fund Facility program (EFF) that was approved in October 2018. Related reforms include a comprehensive fiscal consolidation strategy, debt restructuring, and growth-enhancing measures. The program also sets a public debt target of 60 percent of GDP by 2033.

Key fiscal and macroeconomic indicators are improving. For example, the primary fiscal balance increased from 3.5 percent of GDP in FY2018/19[11] to 4 percent at end-September 2019, and public debt has been reduced to 121 percent of GDP in September 2019, after a domestic debt restructuring (see below). Gross international reserves increased to the equivalent of 15.6 weeks of prospective imports during the third quarter of 2019. Further reforms will also be implemented over the course of the program (CBB, 2018).

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[9] A decomposition of debt growth suggests that inflation and real GDP growth have been insufficient to offset the rising trend in interest payments and recurring primary fiscal deficits. See Caribbean Region Quarterly Bulletin 6(3). September 2017.
[10] This figure includes central government debt, contingent liabilities and arrears and excludes special drawing rights.
[11] The fiscal year (FY) runs from April 1 until March 31.

Successive sovereign credit rating downgrades throughout the past decade also had negative impacts on the financial sector and its ability to provide credit to the private sector. Barbados' sovereign credit rating was downgraded more than 20 times between 2008 and 2018, reaching the lowest possible rating for a sovereign of "default" in 2018 following the suspension of payments to international creditors (BIS, 2011).[12] Sovereign downgrades generally result in lower ratings for domestic banks, which can increase bank wholesale funding costs, and potentially impair their market access (BIS, 2011). In the case of Barbados, they also increased debt servicing costs.[13] Although the current economic reform program supported by the IMF is helping to improve economic prospects, it is also taking a toll on the financial sector, particularly in the context of the domestic debt exchange completed in November 2018. While the face value of government securities held by commercial creditors has been preserved, the adjustments to maturities and interest rates led to an average net present value (NPV) loss of approximately 30 percent (IMF, 2019).[14] These losses and related uncertainties regarding the broader sovereign debt restructuring process (e.g., with external creditors) have affected banks' ability to extend credit to both the sovereign and the private sector.

C. Socio-Economic Indicators: Links to Financial Development

Strong social and human development indicators reflect the country's generous system of public social services.[15] Barbados ranked 58th out of 189 countries on the 2017 Human Development Index (HDI)[16], reflecting strong education and health outcomes. For example, the country's 15.3 expected years of schooling and secondary education gross enrolment ratio of 107 are both higher than the average for C-6 countries—of 13 years and a ratio of 90.7, respectively (UNDP, 2018). Unemployment has remained in the range of 9 to 12 percent for the past five years, and reached 10.8 percent at end-September 2019 (CBB, 2019).

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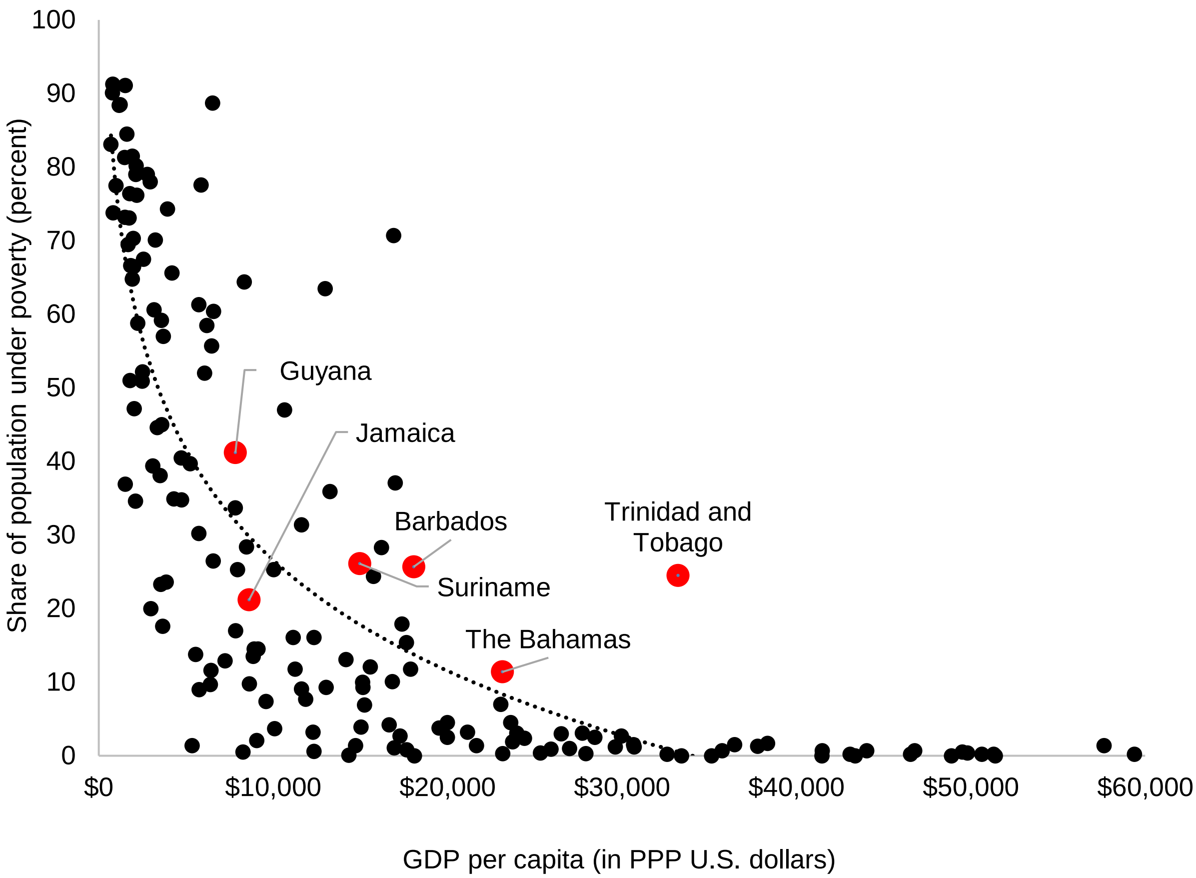
[12] In 2018, S&P downgraded Barbados to 'SD/SD' on long- and short-term foreign currency credit ratings and 'D' (default) on Barbados' foreign-currency issues.
[13] For the example, the controversial US$450 million 2013 Credit Suisse loan included a clause establishing an increase in the interest rate for every downgrade by international rating agencies.
[14] Effective interest rates are expected to fall from 5.7 in 2017 to 3.2 in 2018 and 2.9 in 2019, as a result of the debt exchange agreement with the CBB (IMF, 2018).
[15] Public social services, such as education and health, are free at the point of delivery in Barbados. Spending on public health and education, as a percent of GDP, is comparable to the level of spending in OECD countries.
[16] With an HDI value of 0.8 in 2017, Barbados is the best-performing country of the C-6 countries and scores above the average of 0.758 for countries in LAC. Between 2000 and 2017, Barbados' HDI value increased from 0.752 to 0.8. See UNDP (2018). http://hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf

Although poverty rates remain high for a country at Barbados' income level, income inequality fell between 2010 and 2016. Between 2010 and 2016, income inequality declined, as measured by a reduction of the Gini coefficient—which ranges from 0 (full equality) to 100 (total inequality)—from 43 to 32.[17] Individual poverty rates stood at 25.7 percent in 2016. Although overall household poverty levels rose from 15.1 to 17.2 percent between 2010 and 2016, extreme poverty levels fell from 6.8 percent in 2010 to 3.6 percent in 2016.[18]

Figure 2. Poverty versus GDP (per capita, 2015)



Sources: The Bahamas: 2013 Household Expenditure Survey; Barbados: 2016 Survey of Living Conditions; Guyana: 2017 Labour Force Survey; Jamaica: 2015 Survey of Living Conditions; Suriname: 2017 Survey of Living Conditions; and Trinidad and Tobago: 2014 Survey of Living Conditions. For the rest of the world, data were obtained from the World Bank.

[17] Barbados Survey of Living Conditions. 2010, 2016.

[18] Poverty measures are computed based on the cost of the minimum daily caloric consumption requirement, using the World Health Organization's caloric requirements for a person with moderate physical activity (2,104 kilocalories per day). The poverty line also includes additional non-food spending, based on an analysis of total household consumption for households close to the extreme poverty line. The extreme poverty line is valued at BBD$297.28, the non-extreme poverty line is valued at BBD$642.52. Vulnerable populations are estimated to have a monthly per capita consumption 1.25 times above the non-extreme poverty line.

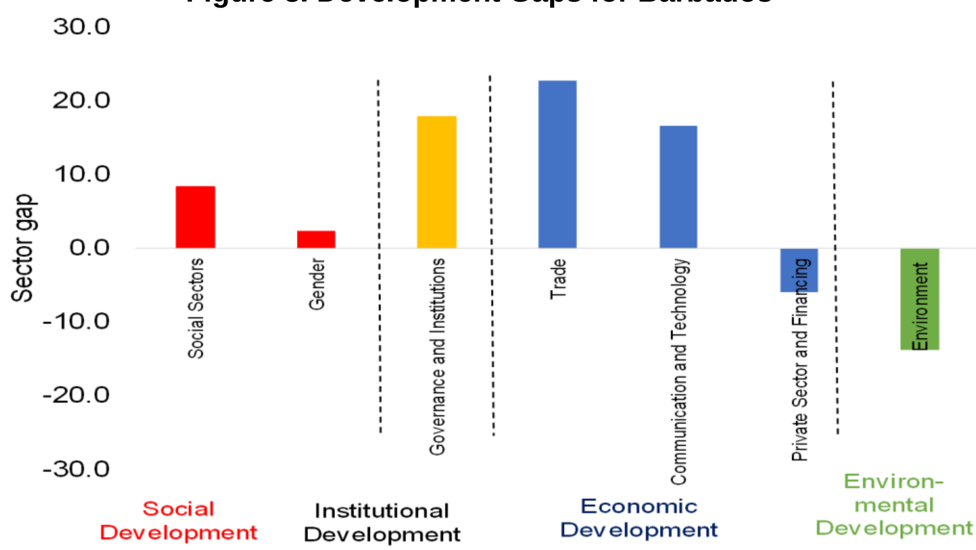
Despite a relatively high level of per capita income and strong social outcomes, private sector development and access to finance remain key challenges. Schmid, Giles Álvarez, and Waithe (2018), using Borenzstein et al.'s (2014) methodology, find development gaps—defined as structural deficiencies in particular sectors when measured against a country-specific benchmark—related to the private sector, the costs and availability of financing, and environmental issues (see Box 3 for details).[19] Gaps in these sectors reflect major structural constraints affecting development and long-term growth.

Box 3. Barbados: Key Development Constraints

Schmid, Giles Alvarez, and Waithe (2018) analyze key structural constraints inherent to the Barbadian economy by calculating development gaps in key sectors based on Borensztein, et al. (2014).

Development gaps are defined as the distance between the observed and the expected value of a given output indicator. They measure the distance between the output indicator for Barbados and the fitted value resulting from a linear (or quadratic) fit from a cross-country regression of this indicator on GDP per capita for 35 indicators, across 7 sectors. Based on this methodology, the largest negative development gaps in Barbados appear to relate to the private sector, financial sector, and the environmental sector.

Figure 3. Development Gaps for Barbados

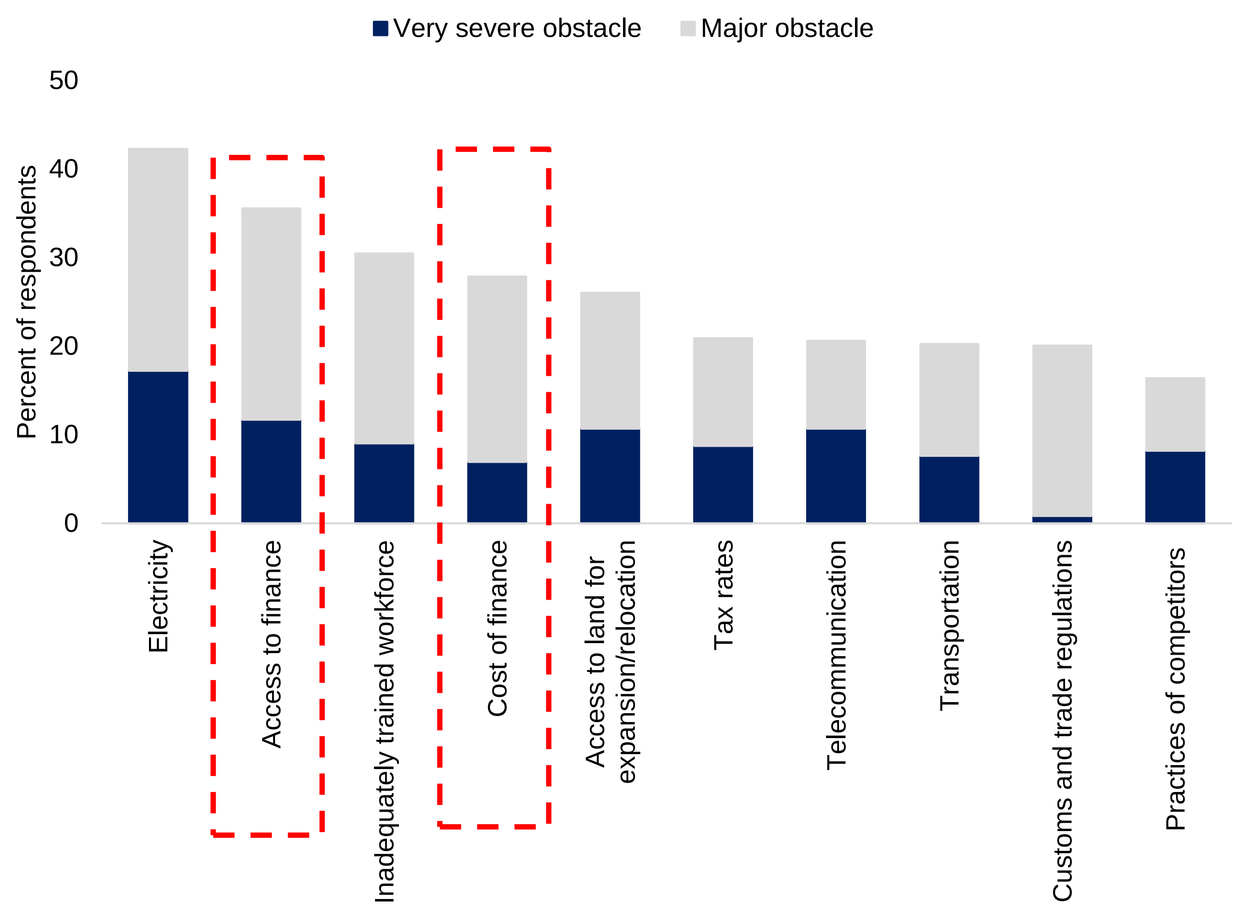


Note: A full list of the indicators used in this analysis can be found in the annex.
Source: Schmid, Giles Alvarez, and Waithe (2018), based on Borensztein et al. (2014).

[19] These gaps are calculated following Borenzstein et al. (2014). A more detailed discussion on development gaps for Barbados can be found at: https://publications.iadb.org/en/caribbean-region-quarterly-bulletin-volume-7-issue-3-september-2018

Survey-based assessments of development constraints facing the private sector reach similar conclusions. As an example, Barbadian firms participating in the 2014 PROTEqIN Caribbean enterprise survey reported both the costs of finance and access to financial services as among the most significant constraints that they face in terms of productivity and performance (see Figure 4).[20] Other major constraints reported by firms as part of this exercise include access to and the costs of electricity, workforce skills and training, access to land, tax rates, and tax administration.

Figure 4. Constraints on Firm Productivity and Performance in Barbados



Note: Population results based on number of firms sampled in each country.
Source: PROTEqIN (2014).

Other indicators also suggest broader challenges to private sector development related to financial access and inclusion. For example, Barbados ranked 129th out of 190 countries in the 2019 World Bank Doing Business Report. Its lowest scores on this assessment relate to the 'getting

[20] PROTEqIN is a Caribbean enterprise and indicator survey, first undertaken as part of the World Bank's 2010 Latin American and Caribbean Enterprise Surveys.

credit' sub-indicator, where Barbados ranked 144th out of 186 countries—scoring well below the average for the LAC region.[21] Low scores on indicators related to the lack of a credit bureau or credit registry are consistent with these results. Barbados also scored poorly on the Global Competitiveness Index for 2016-2017 indicators related to financial sector development, including ease of access to loans (ranking 113th out of 138 countries), venture capital availability (112th out of 138 countries), financing through the local equity market (98th out of 138 countries), and affordability of financial services (77th out of 138 countries).[22]

In sum, despite relatively high-income levels and strong socio-economic outcomes, Barbados continues to face challenges in terms of financial development and access. The forthcoming sections of this paper consider data regarding the structure of the domestic financial system and potential impediments to financial development and access related to structural and socio-cultural factors, with a particular focus on issues that have been identified as common challenges across regions and countries from various income groups.

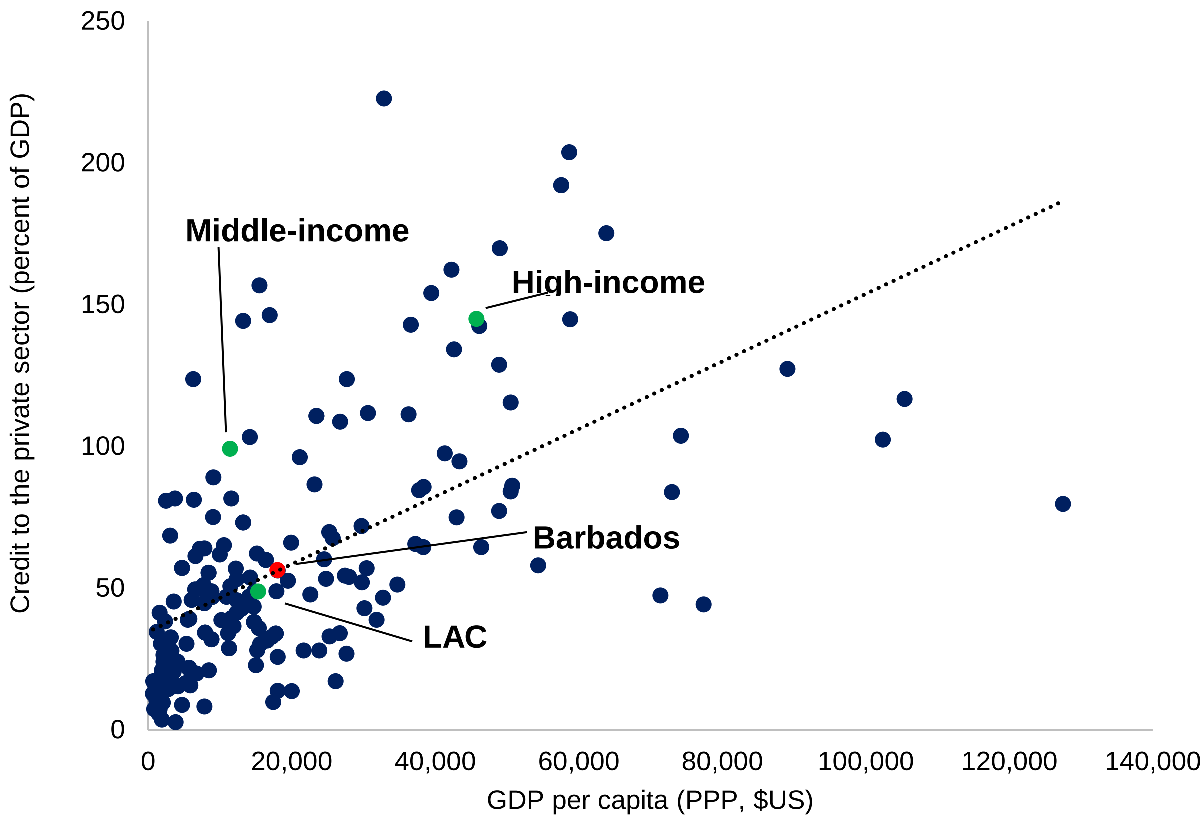
D. Domestic Credit Markets: Challenges to Financial Deepening and Inclusion

Barbados' ratio of private sector credit to GDP is higher than many of its regional peers but remains low for a country at its income level. While any assessment of financial sector development will depend on the metrics selected, the ratio of domestic private credit to GDP is generally considered to be a key indicator of sector depth and development.[23] Domestic credit to the private sector in Barbados stood at about 56 percent of GDP in 2016.[24] This was the highest ratio among the C-6 countries that year, and ranked 5th in the Latin American and Caribbean (LAC) region, behind only Chile, St. Lucia, Panama, and The Bahamas. Although the level of credit to the private sector was higher than the 49 percent average for all LAC countries, and the 44 percent average for all C-6 countries in 2016, it was far below the 145 percent average displayed by high-income countries (Figure 5).[25] Private credit-to-GDP ratios in Barbados also grew by about 2 percent per

[21] Getting credit indicator explores two sets of issues: the strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws in facilitating lending.
[22] Further information of the indicators and rankings is available at http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf
[23] Private credit includes funds provided to the private sector by financial corporations—e.g., loans, purchases of non-equity securities, trade credit, and other accounts receivable establishing a claim.
[24] Based on the latest available data from the IMF.
[25] Income groups are defined as per the World Bank's definition, with middle-income countries defined as those with a 2015 GNI per capita between $1,026 and $12,475, and low-income countries as those with a GNI per capita below $1,026 in the same year.

year between 2000 and 2016.[26] This was faster than the pace of financial deepening for all C-6 countries (about 1 percent per year), but slower than the average pace of growth for LAC countries (3.4 percent during the same period).

Figure 5. Financial Sector Depth vs. Economic Development (2016)



Source: World Bank World Development Indicators, CBB, and authors' calculations.

Over the past decade, subdued economic growth fueled lower demand for private sector credit in Barbados. The real interest rate fell from an average of 12 percent in 2011 and 2012, to 5.8 percent in 2016. Despite this compression of funding costs, private credit growth has slowed in recent years, from an average 3.2 percent per year between 2000 and 2009, to an average of about 0.2 percent between 2010 and 2016. This coincides with a broader deceleration of the economy (Figure 6).

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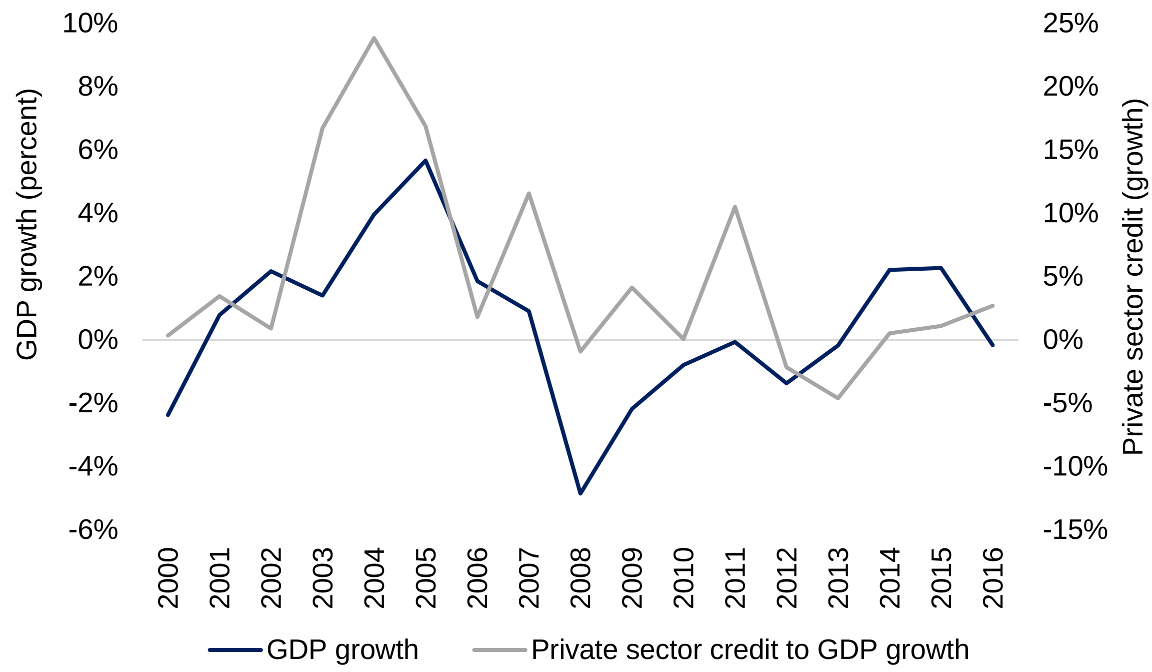
[26] Note that due to a lack of comparable data for the whole period, private sector credit as percent of GDP for Barbados is calculated as the credit to the non-financial private sector as percent of GDP, as stated in the latest IMF figures. For all other countries, World Bank World Development Indicators are used.

Figure 6. Real GDP Growth Rate and Financial Deepening



Source: IMF World Economic Outlook and CBB.

Slower credit growth likely contributed to higher liquidity in the domestic financial market. The ratio of liquid to total assets has been increasing.[27] For commercial banks, the ratio of liquid to total assets reached 27 in 2017, compared to 18 in 2013, and 12 in 2010. This ratio also rose for credit unions—from 14.7 in 2015, to 17.2 in 2017. The loan-to-deposit ratio decreased during the same period.[28] Taken together, this suggests that banks have been lending less than in the past, at least to the private sector. This change in bank behavior and balance sheet preferences could reflect: (i) fewer viable lending opportunities in the domestic market, (ii) regulatory changes, (iii) requirements by parent banks to increase liquidity, and/or (iv) a conscious decision by banks to increase liquid buffers in the face of emerging risks.

Changes in correspondent relationships between external and domestic banks also led to reduced risk appetite. Correspondent banking relationships have become more complex over the past 10 years, stemming largely from international trade sanctions compliance, as well as concerns over anti-money laundering and counter-terrorism financing regulations, with consequences for

[27] This indicator is measured as a percentage of total assets.

[28] For commercial banks, loan-to-deposit ratios fell from 67.2 in 2010 to 62.9 in 2017 and for credit unions they fell from 97.8 in 2010 to 87.1 in 2017. This indicator measures financial actors' total loans to total deposits for a given period of time.

banks and international companies in Barbados (Box 4). The fact that all commercial banks in Barbados are subsidiaries of foreign entities has led local institutions to take a more cautious approach toward credit and financing, resulting in less access to finance, particularly for smaller firms and riskier borrowers (Beecher, Bissessar, and Julien, 2018). This also translated to greater bank demand for government securities, as discussed below.

Box 4. Withdrawal of Correspondent Banking Relationships in Barbados

Correspondent banking services are a requirement for cross-border payments and international financial transactions. Over the past decade, banks in advanced economies that provide these services for institutions located in the Caribbean have been paring back their activities with smaller institutions around the world. This trend relates in part to increasingly onerous international regulatory requirements and other efforts to reduce exposures to risks, particularly related to Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) efforts (World Bank, 2015).

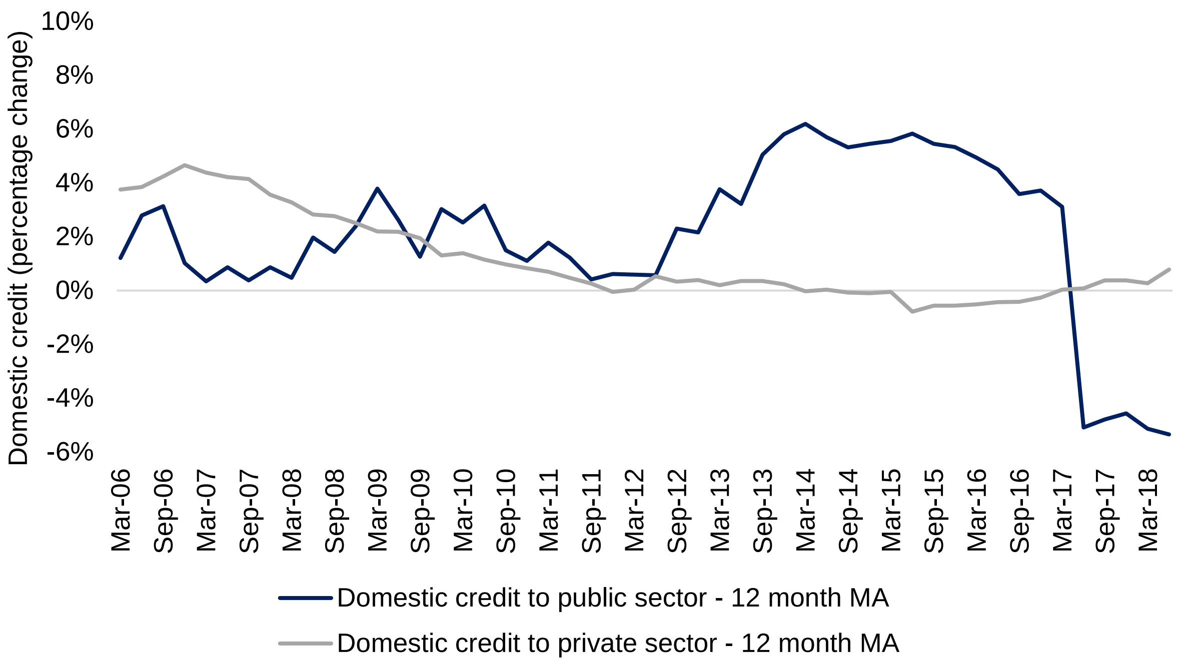
Although the overall effect of this trend has been less dramatic in Barbados than for other countries in the region, concerns over correspondent banking have adversely affected new activity in the sector and increased operating costs (Impavido and Okwuokei, 2018). Between 2013 and 2016, eight financial institutions in Barbados reported a loss of corresponding banking relationships, mainly with U.S. and Canadian banks. Banks in Barbados closed 60 client accounts over the same period. Transactions such as opening new accounts for international businesses with Canadian banks or carrying out transactions such as wire transfers are also becoming more complex and time consuming. In some cases, international companies reported having to wait several weeks beyond the normal verification period before an account could be opened. Some offshore banks also reported increases in anti-money laundering and 'know-your-customer' (KYC) requirements, often with short response deadlines. In some cases when responses were slow or inadequate, correspondent banks suspended or closed accounts involving international clients (Impavido and Okwuokei, 2018).

In this context, affected banks and international companies in Barbados are seeking alternative arrangements. Some institutions found replacements with second- and third-tier correspondent banks in the United States and Europe. However, some institutions have yet to find suitable alternatives. This can pose further challenges to the international business and financial sector going forward, and potentially create negative externalities with implications for growth prospects (Impavido and Okwuokei, 2018).

Increase in risk aversion and the shift in preferences towards more liquid bank assets has led to a sharp increase in bank investments in short-term government securities. As seen in Figure 7, over the past decade, the growth of domestic credit to the private sector decreased from 2.4 percent per year between 2006 and 2011, to -0.1 percent per year between 2012 and 2016. In

contrast, the growth of domestic credit to the public sector more than doubled, from an average 1.7 percent per year from 2006 to 2011, to 4.3 percent per year between 2012 and 2016.

Figure 7. Domestic Credit to the Public and Private Sectors (percent change)

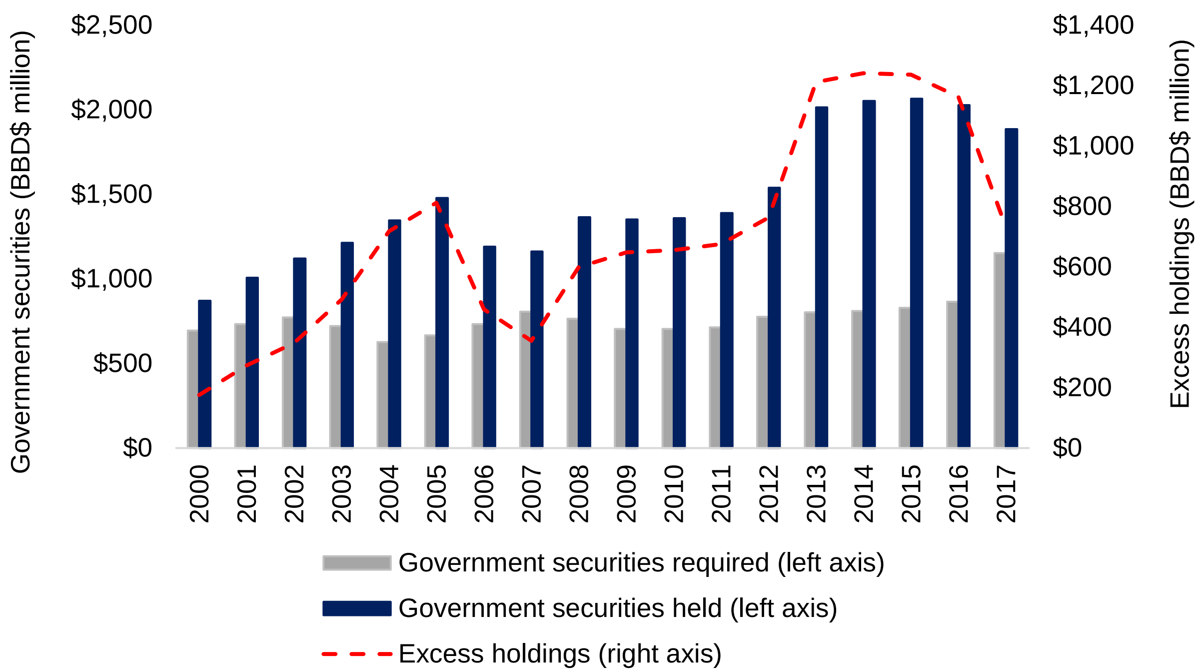


Source: Authors' calculations based on data available from the Central Bank of Barbados.

Commercial bank holdings of government securities reached their highest level in over two decades between 2013 and 2016 (Figure 8). Commercial bank investments in short-term domestic debt also increased, from 46 percent to 91 percent of total invested assets between 2009 and 2017.[29] These trends further exposed commercial banks to sovereign credit risk, as debt-to-GDP ratios continued to rise towards unsustainable levels.

[29] Measured as the ratio of commercial banks' stock of assets invested in government treasury bills relative to the total stock of government investments. Available from http://data.centralbank.org.bb/

Figure 8. Commercial Banks' Holdings of Government Securities



Source: Central Bank of Barbados.

In summary, a number of domestic and external factors contributed to a shift in bank preferences toward shorter-term liquid assets, and from private to public funding. High levels of foreign bank ownership, increasingly complex cross-border regulations and relationships, and deteriorating domestic macroeconomic conditions caused local subsidiaries of international banks to shift toward liquid assets and government financing. Negative implications for private funding were amplified when bank balance sheets were weakened by the domestic debt exchange of November 2018. Going forward, the ongoing economic reform program with the IMF should help to stabilize the economy, restore fiscal sustainability, and support stronger growth. This will ultimately benefit banks and help them to repair their balance sheets, and as a consequence, provide some additional scope for private financing. However, other reforms of the financial sector's institutional architecture will also be needed to ensure that it is better insulated from external shifts in parent-bank risk appetite, regulatory pressures (e.g., related to AML/CFT actions and regulations), and to increase incentives for banks to lend to private enterprises—particularly small and medium-sized enterprises,

as well as underserved and populations in need of greater access. These and related challenges and options are discussed in subsequent sections.

E. Financial Access: An Overview

The development of the financial system depends on both the size and structure of the credit market, as well as the ability of the population and firms to access financial services. Data on access to finance and financial inclusion are now more readily available, thanks in part to growing awareness of the importance of these issues for development and poverty reduction. This section makes use of the IMF Financial Access Survey, the Barbados Survey of Living Conditions 2016-2017 (BSLC), and the PROTEqIN 2014 survey to analyze key factors relating to financial access, both for individuals and for firms.

In Barbados, the domestic financial sector is dominated by large, regionally active commercial banks and credit unions. Commercial banks held 53 percent of total financial assets in 2017, compared to 15 percent held by insurance companies, and less than 10 percent (each) held by credit unions, trusts companies, mutual funds, and private pension schemes. Three of the five banks hold 75 percent of total bank assets, while the largest seven of 33 credit unions hold 92 percent of the segment's asset base. Oversight of the financial system is shared between the Central Bank of Barbados (CBB), the Financial Services Commission (FSC), and the Barbados Deposit Insurance Corporation, which are all members of the Financial Oversight Management Committee.

The number of commercial banks and credit unions has fallen, with a corresponding reduction in the number of branches and automatic teller machines (ATMs). Between 2006 and 2016, the number of commercial banks fell from six to five[30], with a corresponding fall in the number of branches. Although Barbados has the lowest number of bank branches amongst the C-6 countries, it displays high branch density, with both the highest number of branches per 1000 km^2, and a more commercial banks per 100,000 adults than the C-6 average. The number of credit unions and cooperatives also fell from 37 to 35 from 2006 to 2016.[31] In addition, the number of ATMs fell substantially between 2010 and 2016—from 193 to 128, in total.

[30] All five banks in Barbados are foreign-owned, with three Canadian banks (Bank of Nova Scotia, Royal Bank of Canada and CIBC First Caribbean, rated at AAA) comprising 75 percent of total bank assets. The two Trinidadian banks (Republic Bank Barbados and First Citizens, both rated BBB+) account for the remaining share of the market.

[31] The reduction in the number of credit unions is partly explained by mergers in the sector.

Table 1. Retail Banking Sector Overview

	2010	2015	2016
Commercial Banks	6	5	5
Number of branches	36	32	33
Branches per 100,000 adults	18.8	16.1	17.5
Branches per 1,000 km^2	97.7	86	88.4
Credit Unions and Cooperatives	35	35	34*
Number of branches	35	34	33
Branches per 100,000 adults	18.7	18.1	16.5
Branches per 1,000 km^2	97.7	95.0	91.4
Other Depository Corporations	NA	8	8
ATMs	83	85	55
ATMs per 100,000 adults	37.1	37.1	23.9
ATMs per 1,000 km^2	193.0	197.7	127.9

*Financial Services Commission Annual Report 2016-2017.
Source: IMF Financial Access Survey Database and author's calculations.

Barbados performs well on other indicators related to financial access. Barbados has not undertaken a comprehensive assessment of financial inclusion, but based on available data, the country compares well to other C-6 and LAC countries regarding deposits as a percent of GDP (see Table 2). Deposits in commercial banks (as percent of GDP) stood at 98.5 percent, compared to the C-6 average of 57.9 percent. The ratio of commercial bank loans to GDP is also higher in Barbados (64.6 percent) than the average for all C-6 countries (40.6 percent).[32]

[32] Data is for 2015.

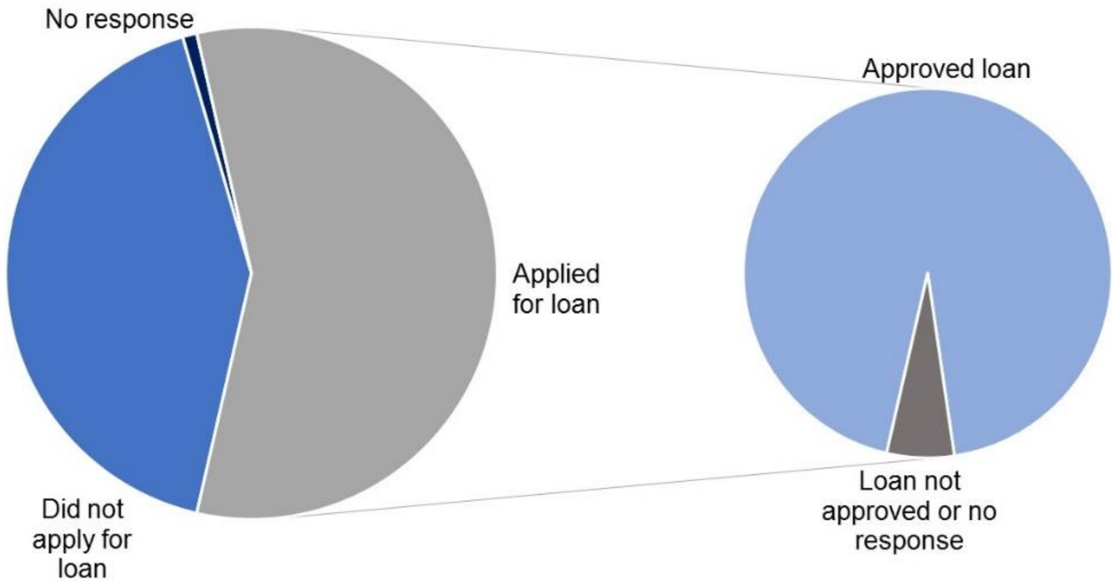
Table 2. Financial Access Indicators					
	Barbados			Middle-income	LAC*
	2005	2010	2015	2015	2015
Savings (deposits)					
Commercial banks (deposits as % GDP)	86.0	90.0	98.5	42.5	42.9
Credit unions and cooperatives (deposit accounts per 1,000 adults)	624	662	794	N.A.	N.A.
Credit unions and cooperatives (deposits as % GDP)	3.1	11.1	14.7	N.A.	N.A.
Credit (loans)					
Commercial banks (loans as % GDP)	52.4	63.9	64.6	N.A.	N.A.
Credit unions and cooperatives (loan accounts per 1,000 adults)	341	323	323	N.A.	N.A.
Credit unions and cooperatives (loans as % GDP)	8.9	12.7	15.7	N.A.	N.A.

*Latin America and Caribbean includes only developing countries.
Source: IMF Financial Access Survey and World Bank Global Financial Inclusion databases.

The BSLC 2016-2017 provides further insight into the use of financial services.[33] Almost 100 percent of the surveyed population have a savings or a checking account, which suggests widespread use of basic banking services. As seen in the figures below, 57.2 percent of the sampled population had applied for a personal loan from a formal financial institution,[34] and of these, 94 percent had had a personal loan approved.[35] Those who were repaying loans paid an average BBD$ 618.1 per month. Women's monthly borrowing costs (BBD$ 585.4) were on average lower than men's (BBD$ 662.1). The BSLC 2016-2017 also measures participation in meetings of rotating savings and credit associations regarding financial issues, which is considered to be a proxy for financial literacy and consumer knowledge regarding financial products. In this context, 41 percent of the sampled population had participated in such meetings, with more women (44 percent) than men (37 percent) reporting participation. Based on the sampled survey, having participated in these meetings appears to be positively correlated with both having applied for a personal loan, and having had a personal loan approved.

[33] Based on the design of the survey, the main questions of interest for this study sample only individuals above 18 years of age for which there is data.
[34] There are no significant differences in rates of applications for loans for women (56 percent) vs men (58.5 percent).
[35] As with loan applications, we find no major difference in the percentage of females who applied for loans and who received them (94 percent) versus males (94 percent).

Figure 9. Personal Loan Application / Approval Rates



Source: BSLC 2016-2017.

Surveys suggest that firms make use of formal financial services, but that collateral and other requirements are particularly burdensome. As highlighted in Figure 10, 62 percent of the PROTEqIN 2014 surveyed firms had a line of credit or a loan, which is higher than the 43 percent average for all C-6 countries. Of these, 57 percent reported that the lender required collateral—mainly land and buildings, machinery, equipment, and personal assets. The average value of this collateral was approximately 180 percent of the loan value—this was the highest of all the C-6 countries. Likewise, the second most commonly reported reason for firms not applying for a loan was high collateral requirements (35 percent of firms). In this context, inadequate collateral was reported as the main reason for loan rejections by almost half of firms that had had a loan rejected. One driver of these high collateral requirements is the lack of a centralized credit bureau (World Bank, 2019), which compels would-be lenders to moderate risks via credit enhancements like collateral.

Figure 10. Percent of Respondents with a Line of Credit or Loan

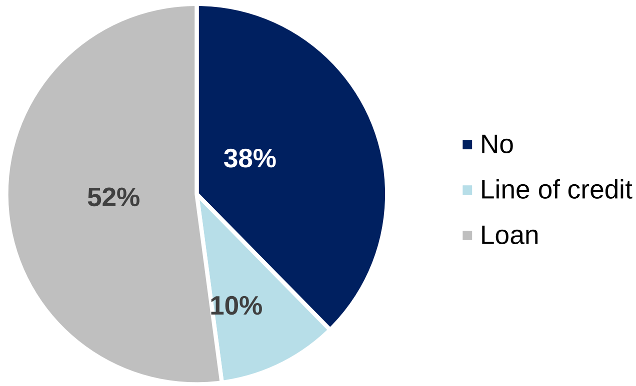


Figure 11. Most Common Reason for Not Taking Out a Loan

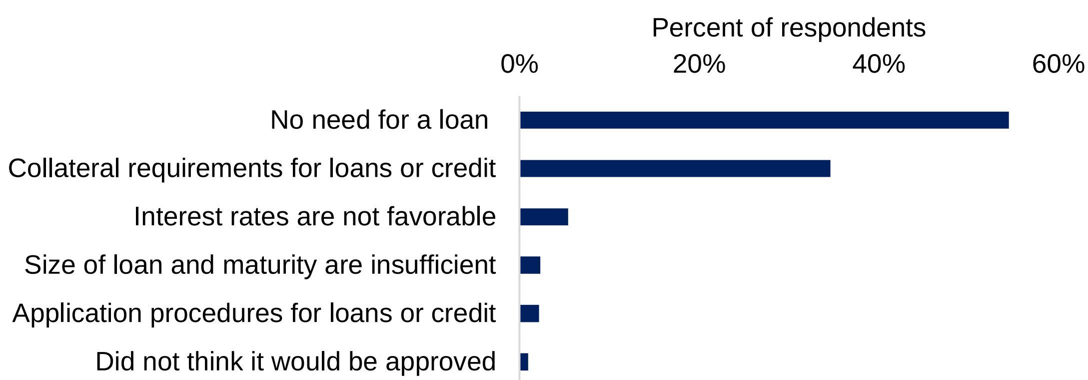
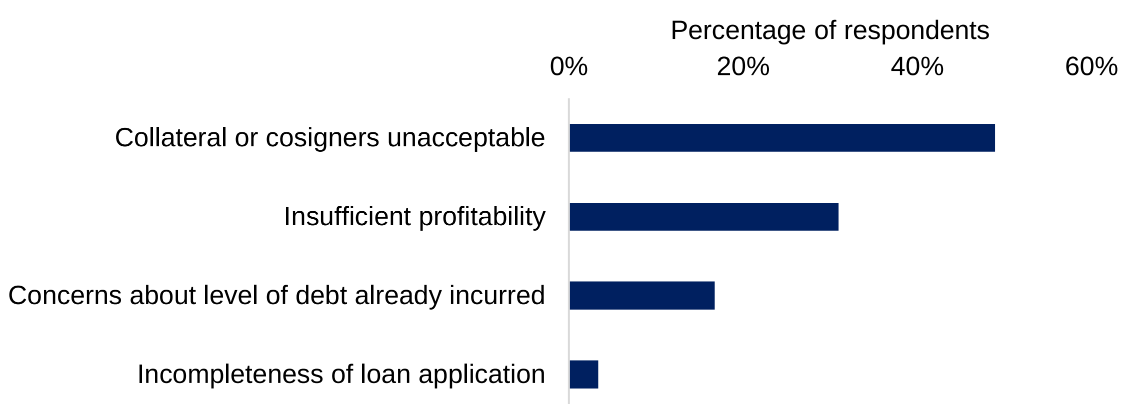


Figure 12. Most Common Reason for Rejecting a Loan

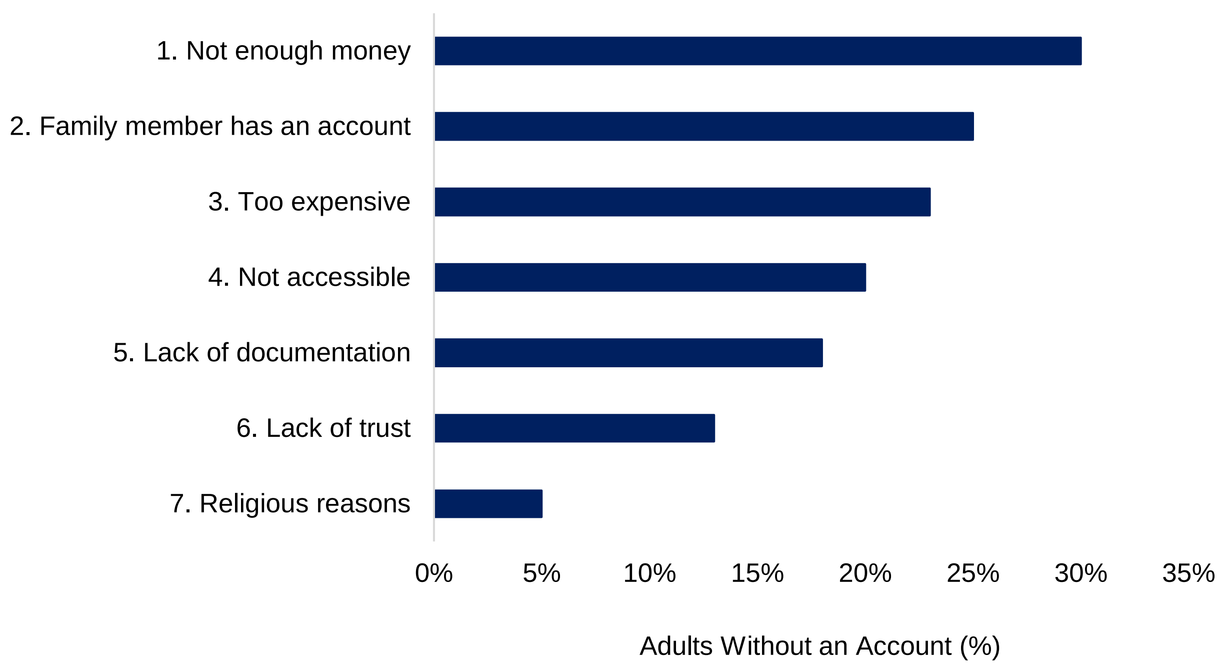


Source: PROTEqIN Survey, 2014.

F. Barriers to Financial Inclusion: Individuals

While many of the barriers to financial access described above are driven by the structure of Barbados' financial sector, other challenges are common across many countries. The World Bank's 2014 Financial Development Report provided an extensive analysis of financial access and inclusion issues, identifying seven major reasons why people from both developed and developing countries do not own or use formal bank accounts, based on a cross-country survey of 70,000 unbanked individuals across regions. In the case of Barbados we explore the potential significance of the following issues: a lack of financial resources (no. 1), high costs of opening and maintaining accounts (no. 3), a lack of accessibility of financial service providers (no. 4), a lack of required documentation (no. 5), and insufficient trust in financial institutions (no. 6). The relevance of these and related challenges for Barbados are discussed in detail below.[36]

Figure 13. Reasons for Not Having a Bank Account



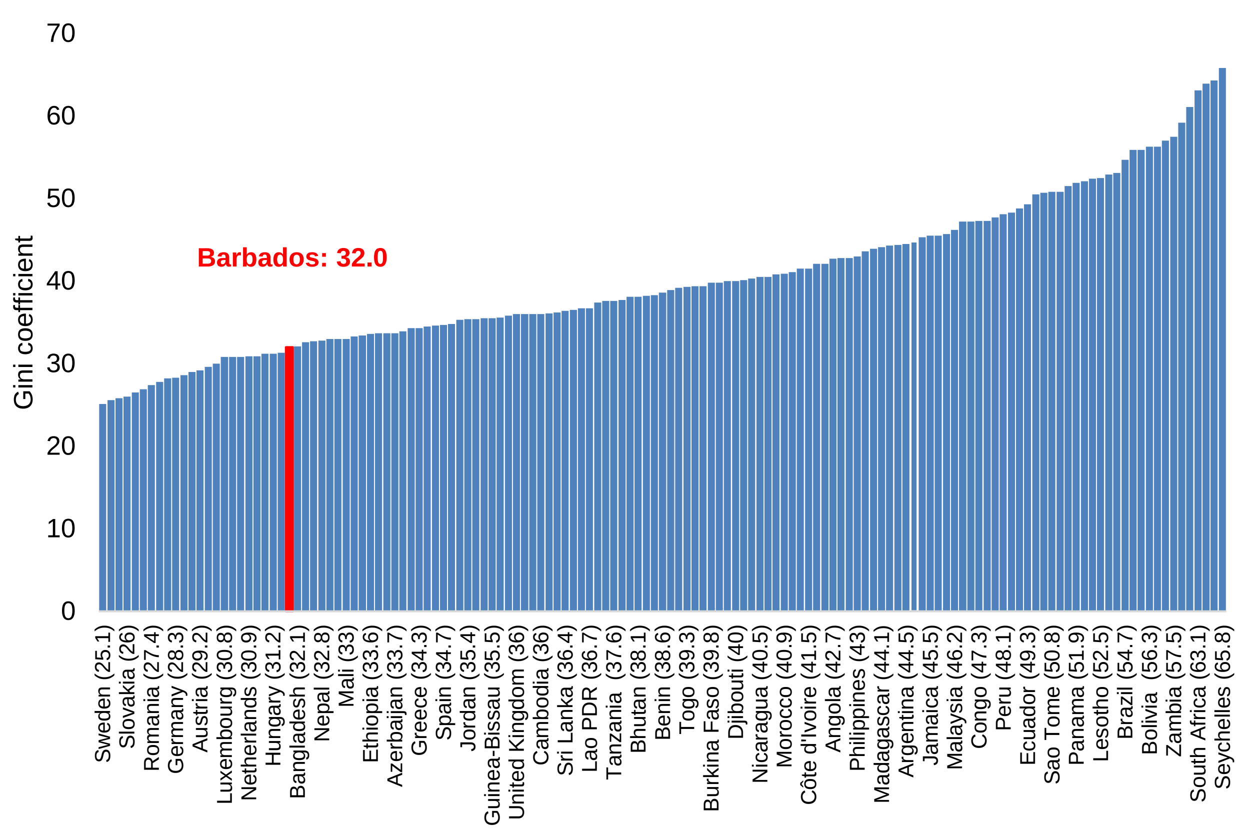
Note: Respondents could choose more than one reason.
Source: World Bank Financial Development Report 2014.

The most common impediment to access and inclusion—a lack of resources (no. 1)—does not seem to be a predominant barrier in Barbados. As noted above, Barbados is a high-income

[36] Reasons relating to family members having accounts and religious reasons were not further explored as they were deemed less applicable to the case of Barbados during interviews with key stakeholders.

country. With a GDP per capita of US$18,526 in 2017, its income level is higher than the LAC average of US$16,602. Barbados also ranks third in terms of per capita income amongst C-6 countries, behind only The Bahamas and Trinidad and Tobago, with per capita GDP of US$31,581 and US$31,429, respectively. Income inequality in Barbados is also relatively low and has been improving, with a reduction of the Gini index coefficient from 47 in 2010 to 32 in 2016.[37] Based on the Gini index, Barbados displays lower income inequality than the LAC regional average (at 48), and other C-6 countries (with coefficients ranging from 36 to 43).[38]

Figure 14. Income Inequality (2013)



Sources: Gini coefficient. World Bank, World Development Indicators. The value for Barbados is for 2016 from the BSLC 2016/2017.
Note: A Gini index coefficient of zero implies perfect income equality, and a coefficient of 100 implies perfect inequality.

High costs of financial services (no. 3) and lack of competition for at least some categories of lending also do not seem to be major barriers to financial access in Barbados. The World

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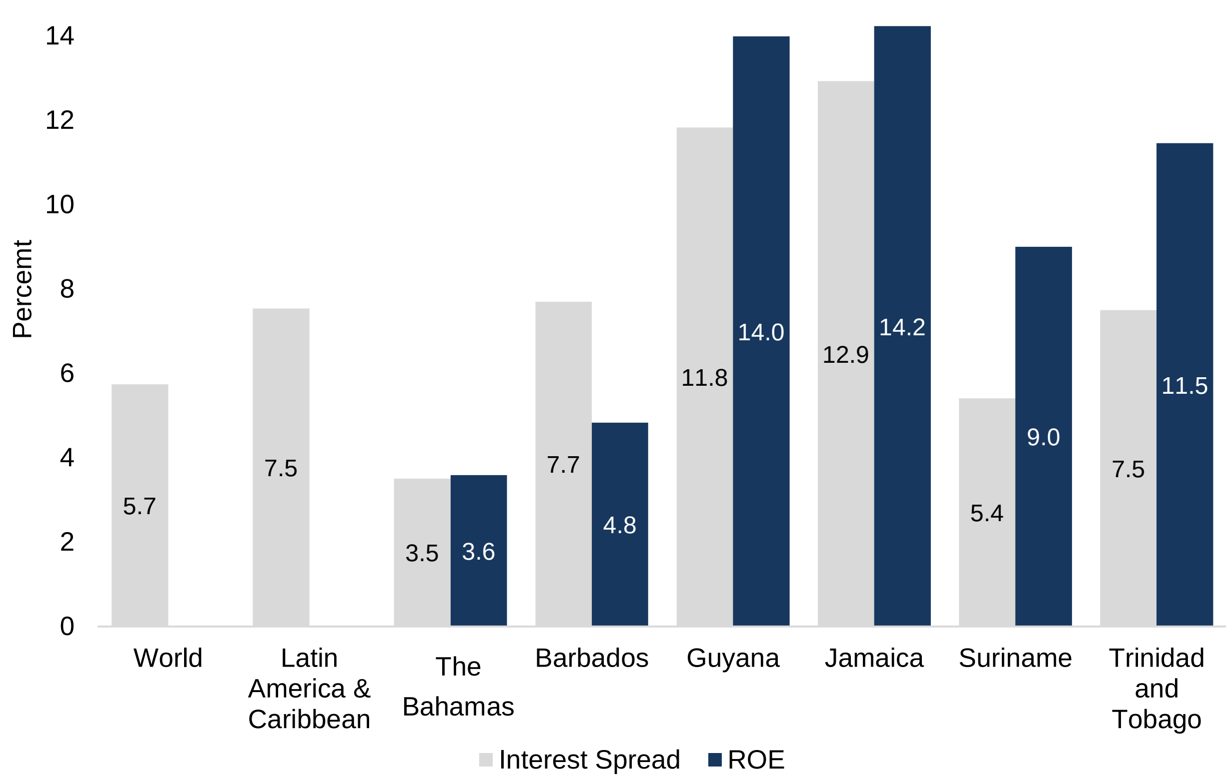
[37] The Gini coefficient ranges from 0 (complete equality) to 100 (complete inequality).
[38] World Bank's 2016 World Development Indicators database.

Bank 2014 Financial Development Report found high cost of services to be the third most significant barrier to financial access and inclusion across the world. In this context, one important indicator regarding the cost of accessing credit is the spread between deposit and lending rates. High spreads make borrowing less attractive and/or feasible for consumers and businesses alike, which tends to dampen incentives to save and invest. In 2016, banks in Barbados displayed an average interest rate spread of 7.7 percent, ranking Barbados 72nd out of 121 countries for which information is available (Figure 15). Spreads in Barbados are similar to those found in other LAC countries, on average (8 percent), but higher than the global average (6 percent).

Figure 15. Cost of Credit: Interest Rate Spreads and Return on Equity (2016, percent)



Source: World Bank Development Indicators and Financial Development and Structure databases.

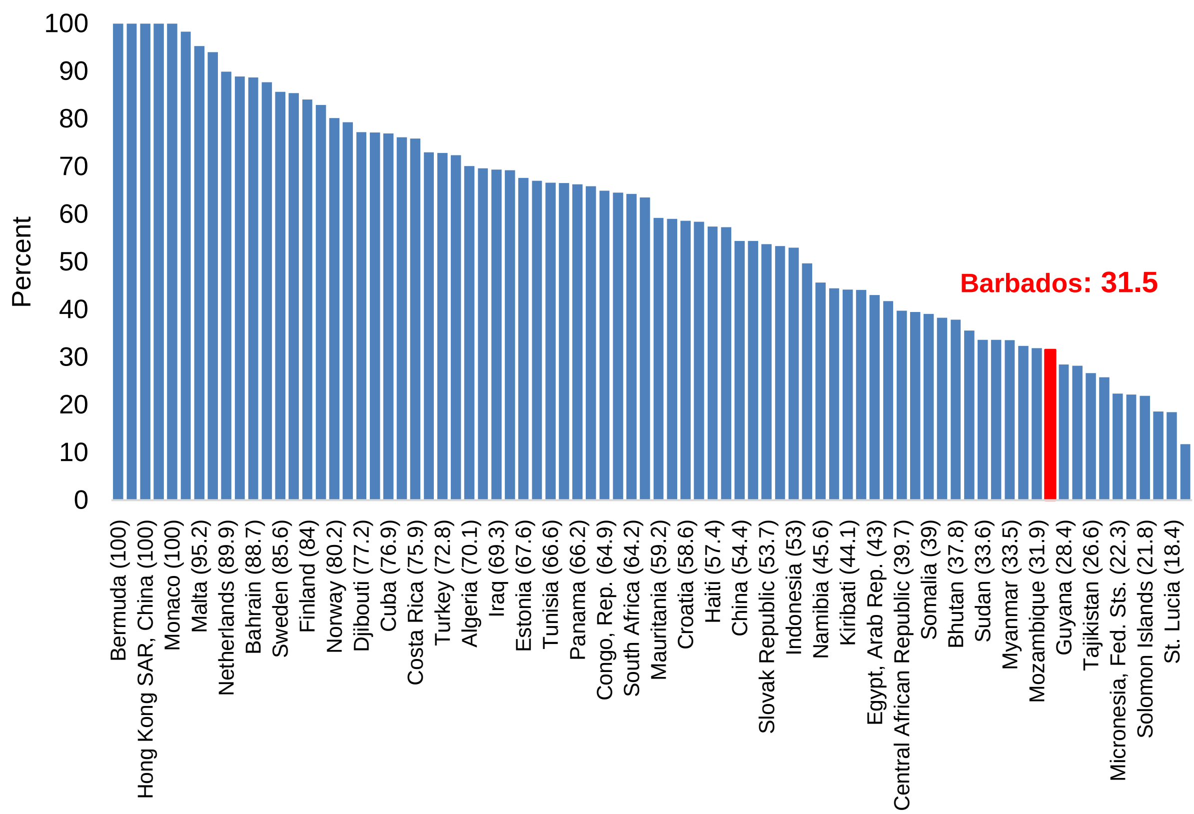
Another useful indicator related to the costs of credit relates to profit margins and returns on equity (ROE)[39] for commercial banks. One might expect returns to equity to be higher for countries with insufficient competition within the banking sector, than might be observed in countries where

[39] Defined as the average return on assets (net income/total equity).

competition (or other factors) incentivize institutions to compete on price. By this measure, Barbados' banks displayed a ROE of about 4.8 percent in 2016, which was well below that observed in several other C-6 countries (Figure 15). In this context, neither interest rates spreads nor indicators of bank profitability suggest that high cost of financial services or a lack of competition represent major impediments to financial access or inclusion in Barbados, at least when compared to other countries in the region.

Physical access to financial services (no. 4) does not appear to be a major challenge for financial inclusion in Barbados. Despite only 31.6 percent of the population living in urban areas (Figure 16), the small size of the country (431 km^2), high density of access points (e.g. 127.9 in Barbados ATMs per 1,000 Km^2 in 2016, compared to 53.9 for all C-6 countries on average), and a well-developed transport network suggest that most Barbadians are able to physically access banks and other financial institutions with relative ease.

Figure 16. Urbanization rates (2014)



Source: World Bank Development Indicators data.

However, burdensome documentation requirements and other bureaucratic processes (no. 5) do seem to create challenges for financial access. Onerous documentation and other administrative requirements for opening accounts and accessing financial services—for example, due to KYC and other disclosure requirements—are reported to be hampering access.[40] As highlighted by Beecher, Bissessar, and Julien (2018), KYC guidelines have rigorous documentary requirements, including presenting an official identity card with photo, a proof of address, contact details, and knowledge of the customer's financial history. This requirement cannot always be fulfilled, especially by certain sectors of the population (e.g., lower-income individuals and informal workers).

A lack of trust in banks (no. 6) and related institutions does not seem to be a major impediment to financial access in Barbados, even after the 2018 domestic debt restructuring. The degree to which people have confidence in the financial system has been identified as a key factor impeding financial access and inclusion across countries. There are a number of underlying issues relevant to this finding, including assessments of a country's financial stability, the quality of regulation and/or supervision, and bank-specific risk characteristics.

Barbados fares well on most common indicators on financial sector soundness, both before and after the 2018 domestic debt restructuring (IMF, 2019). While somewhat high when compared to other countries around the world, the proportion of commercial bank non-performing loans (NPLs) to total loans has been declining in recent years—from 11.7 percent in 2013, to 7.9 percent in 2017 (Table 3). This improvement in loan portfolios has also coincided with efforts to strengthen provisions, with the ratio of provisions for loan losses relative to NPLs increasing from 44.9 percent in 2013, to 69.6 percent in 2017. Strong liquidity and capital buffers supported the financial sector through the 2018 debt restructuring, despite the 30 percent NPV loss on the restructured debt assets incurred by private sector creditors, including banks. In this context, commercial banks remain adequately capitalized, with a capital adequacy ratio of 13.9 percent in 2018 relative, despite a decline from about 17 percent registered a year earlier.[41] Commercial banks also remain sufficiently liquid, with a liquid-to-total-assets ratio of 26.7 at end-2017.

[40] The issue of hurdles to access financial services due to more stringent requirements was voiced at various interviews conducted with two commercial banks and a credit union during the elaboration of this study.
[41] These levels remain above the prescribed minimum benchmark of 8 percent.

Table 3. Financial Soundness Indicators

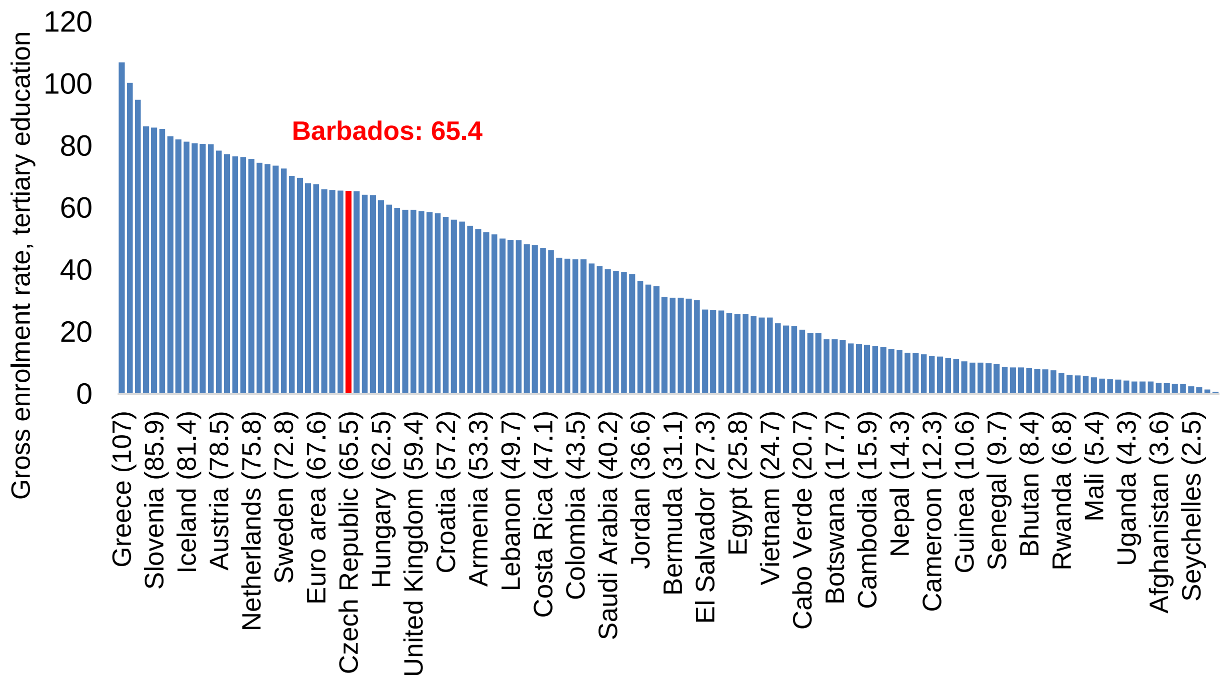
		2013	2014	2015	2016	2017
Credit risk	**Commercial Banks**					
	Total assets, annual growth	2.8	-1.3	4	3.7	1.8
	Loans and advances, annual growth	-2.6	-0.4	-0.8	-0.5	2
	NPL ratio	11.7	11.5	10.6	8.9	7.9
	Credit Unions					
	Total assets, annual growth	4.2	6.2	7.2	8.3	8.7
	Loans and advances, annual growth	3.7	7.3	7.2	6.9	6.3
	NPL ratio	8.4	9.4	9	7.6	7.8
	DTI, Finance and Trust Companies					
	Total assets, annual growth	3.9	2.6	3	-6.7	-4.2
	Loans and advances, annual growth	0.5	2.1	-1.9	-1.9	-2.4
	NPL ratio	8.2	8.3	9.5	9.3	9.3
Liquidity	**Commercial Banks**					
	Liquid assets to total assets/deposits & shares	18	20.3	25.3	27.4	26.7
	Loan to deposit ratio, indicator	70	70.3	65.5	62.3	63.3
	Credit Unions					
	Liquid assets to total assets/deposits & shares	NA	NA	14.7	14.3	17.2
	Loan to deposit ratio, indicator	92.3	92.8	90.8	89.3	86.7
	DTI, Finance and Trust Companies					
	Liquid assets to total assets	19.8	16	22.4	17.7	20.5
	Loan to deposit ratio, indicator	99	105.5	98.8	109.2	109.7
Asset Quality	**Provisions for loan losses / NPLs**					
	Commercial Banks	44.9	47.7	55.5	63.2	69.6
	Credit Unions	36.4	29.1	29.2	32.6	30.3
	DTI, Finance and Trust Companies	35.1	40.2	43.8	39.6	43.4
Profitability	**Commercial Banks**					
	Return on assets	0.8	0.7	0.9	1.0	1.3
	Interest rate spread	6.5	6.5	7.1	7.5	7.5
	Credit Unions					
	Return on assets	1.4	0.6	0.9	1.1	1.3
	DTI, Finance and Trust Companies					
	Return on assets	1.9	0.9	1.0	1.3	1.2
	Interest rate spread	4	3.8	4.1	4	4.5

Sources: IMF (2018), IMF (2019), and CBB (2018).

Another factor closely associated with the issue of trust in financial institutions is the level of financial literacy. Financial literacy refers to the level of knowledge and understanding that individuals have regarding the nature of the banking system, the advantages of using the formal financial system for savings and credit, and how these issues relate to their day-to-day budgeting.

Some countries have undertaken detailed surveys on financial literacy.[42] To date, no such study has been undertaken in Barbados, but proxies such as the level of educational achievement—particularly higher education—have been found to display strong positive correlations with financial literacy in other countries (Luksander et al., 2014). In this regard, Barbados displays relatively strong outcomes. For example, the country's gross enrolment rate in tertiary education of 65.4 percent is among the best in the region, and on par with many advanced economies (Figure 17). In addition, the expected average number of years of schooling stood at 15.4 percent in 2013, which is similar to the average for many Organisation for Economic Co-operation and Development (OECD) countries.[43] Despite these relatively strong outcomes, anecdotal evidence from representatives of some banks in Barbados suggest that financial literacy remains a challenge in terms of individuals' awareness and/or willingness to take full advantage of financial (both savings and credit) products available from banks.[44]

Figure 17. Gross Enrolment Ratio, Tertiary Education (2011)



Source: World Bank World Development Indicators.

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[42] For or a discussion of financial literacy surveys and related methodologies, see: http://www.oecd.org/finance/financial-education/2015finlitmeasurementexercise.htm

[43] By this measure, Barbados ranks 41st/191 countries for expected years of schooling (of children) in 2013. http://hdr.undp.org/en/content/expected-years-schooling-children-years

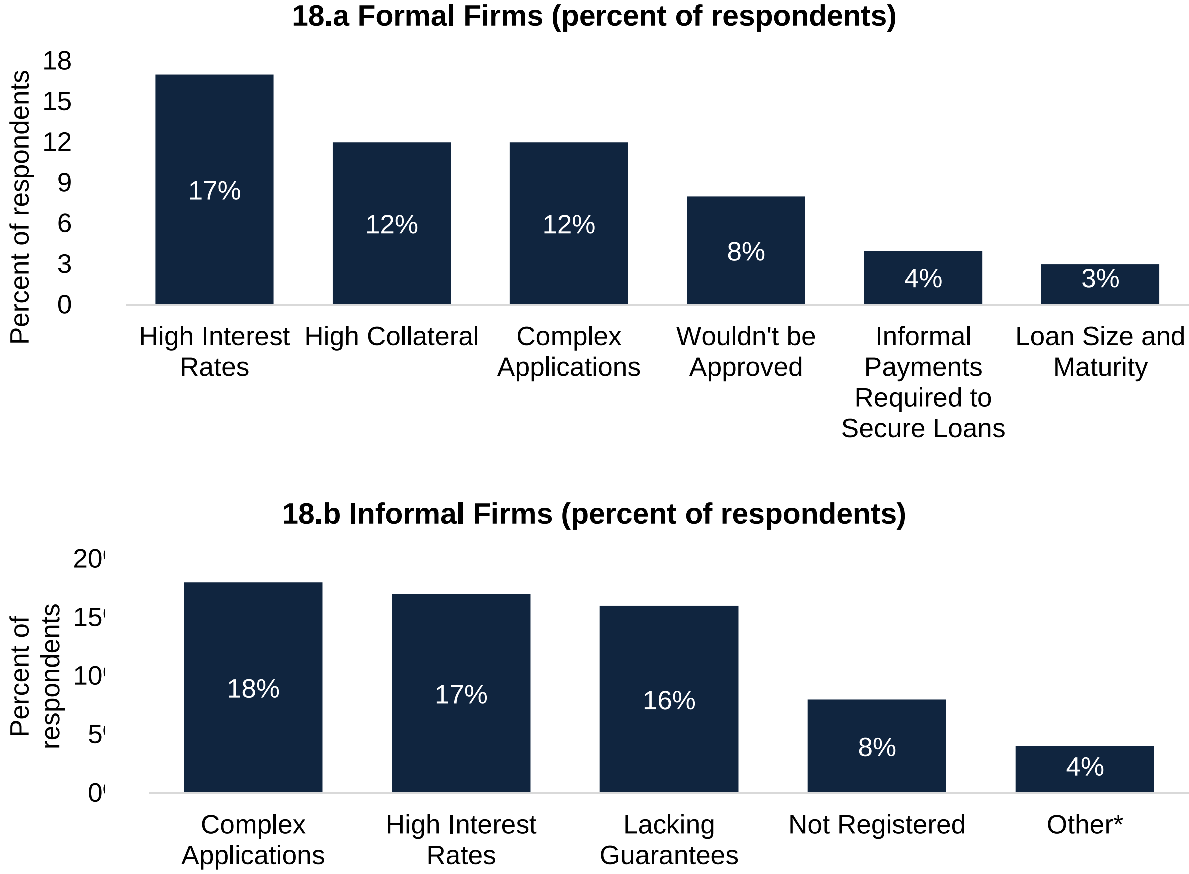
[44] Representatives of commercial banks and credit unions in Barbados reported a lack of knowledge on the part of individuals regarding financial products available from credit providers as a challenge in terms of their ability to offer services to local clients during bilateral meetings with key stakeholders.

In summary, individuals' access to financial services in Barbados seems uninhibited by many impediments common to other countries, while stringent documentation requirements and levels of financial literacy may continue to pose challenges. As previously stated, the BSLC 2016-2017 reports that almost 100 percent of the population bank with formal financial institutions. Furthermore, common factors that restrict individuals' access to finance in other countries, namely: (i) low income levels; (ii) prohibitively high costs of services; (iii) concerns over physical access to banking services; and, (iv) a lack of trust in financial institutions do not seem to be major impediments. However, increasingly stringent documentation requirements, as well as a lack of knowledge regarding financial products appear to remain challenges. In this context, further investigation into issues such as levels of financial literacy (e.g., a financial literacy survey) would help in identifying barriers to inclusion and for developing evidence-based policies and interventions in related areas.

G. Barriers to Financial Inclusion: Firms

In addition to results presented above regarding barriers faced by individuals, the World Bank's 2014 Financial Development Report also includes survey results regarding challenges to financial access on the part of firms. These surveys were undertaken in 13 countries between 2008 and 2011 and involved approximately 2,500 firms. As outlined in Figure 18, the World Bank's cross-country analysis and related survey responses suggest that for formal firms, (no. 1) high costs (i.e., interest rates), (no. 2) access to finance (i.e., the need for credit enhancements such as collateral), and, (no. 3) complex application procedures are among the most common challenges facing firms seeking to borrow. Results were similar for informal firms. In this context, some of these findings are also relevant to Barbados.

Figure 18. Firms' Reasons for Not Applying for a Loan

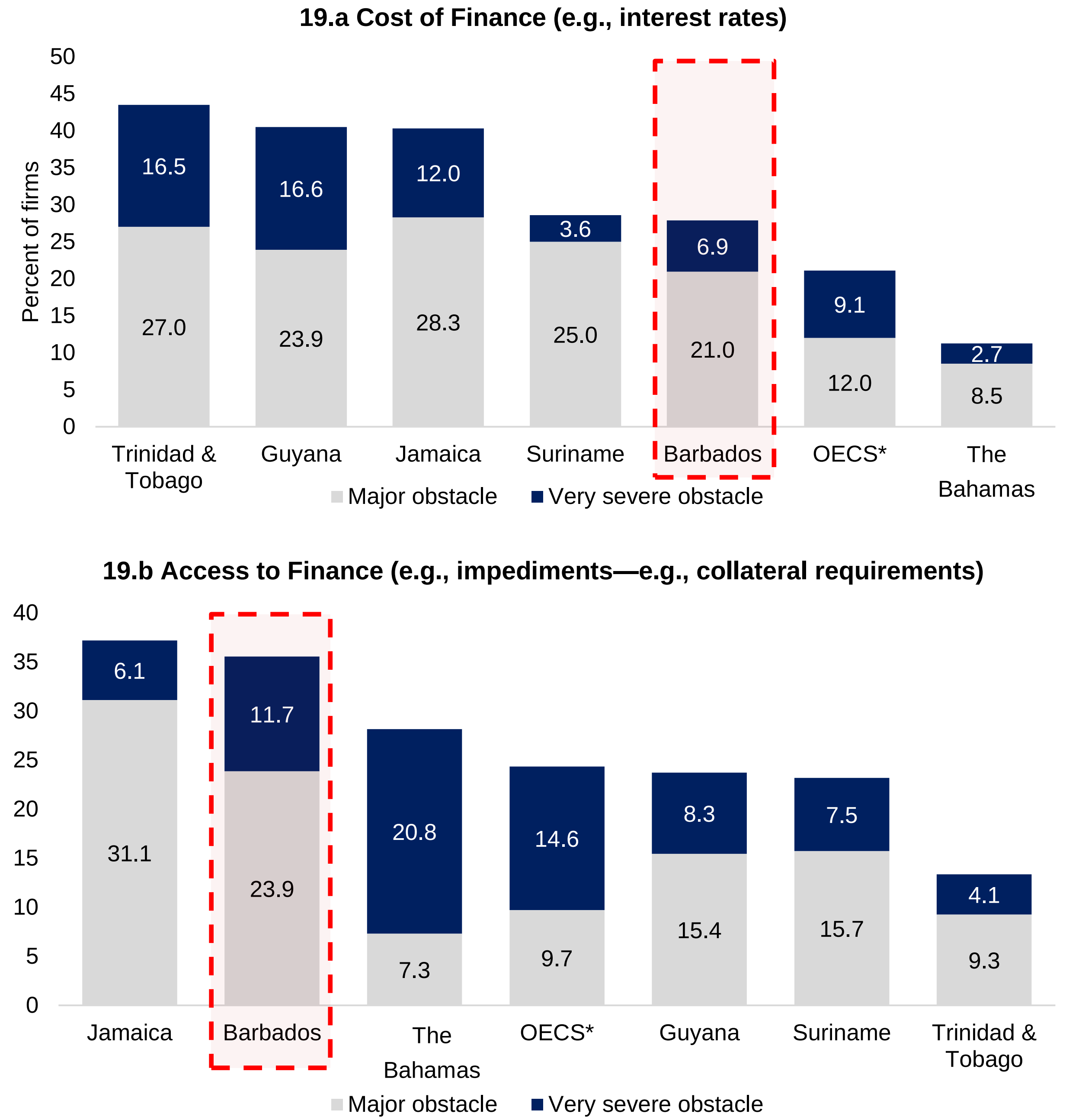


Source: World Bank (2014).

Note: Respondents could choose more than one reason.
*Other refers to all other reasons not otherwise listed. The sample includes responses from firms in 13 countries from 2008 to 2011.

High costs of finance (no. 1) appears to be a constraint for firms in Barbados, but a relatively less pronounced concern than for other C-6 countries. While firms from across the world report high costs of credit as a key obstacle to financial inclusion, formal firms in Barbados appear to be less concerned than many other similar countries in the region (Figure 19.a). This is consistent with our findings regarding indicators of profitability and competition in the banking sector (i.e., return on assets) and costs of credit (i.e., interest rate spreads). Of the C-6 countries, only firms from The Bahamas displayed less significant concerns regarding the costs of finance.

Figure 19. Key Obstacles to Firm Productivity and Performance
(percent of firms for each country)



Source: 2014 PROTEqIN Caribbean Enterprise Survey.
Note: Population results based on number of firms sampled in each country.
*Organisation of Eastern Caribbean States (OECS) countries included in the composite index are Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

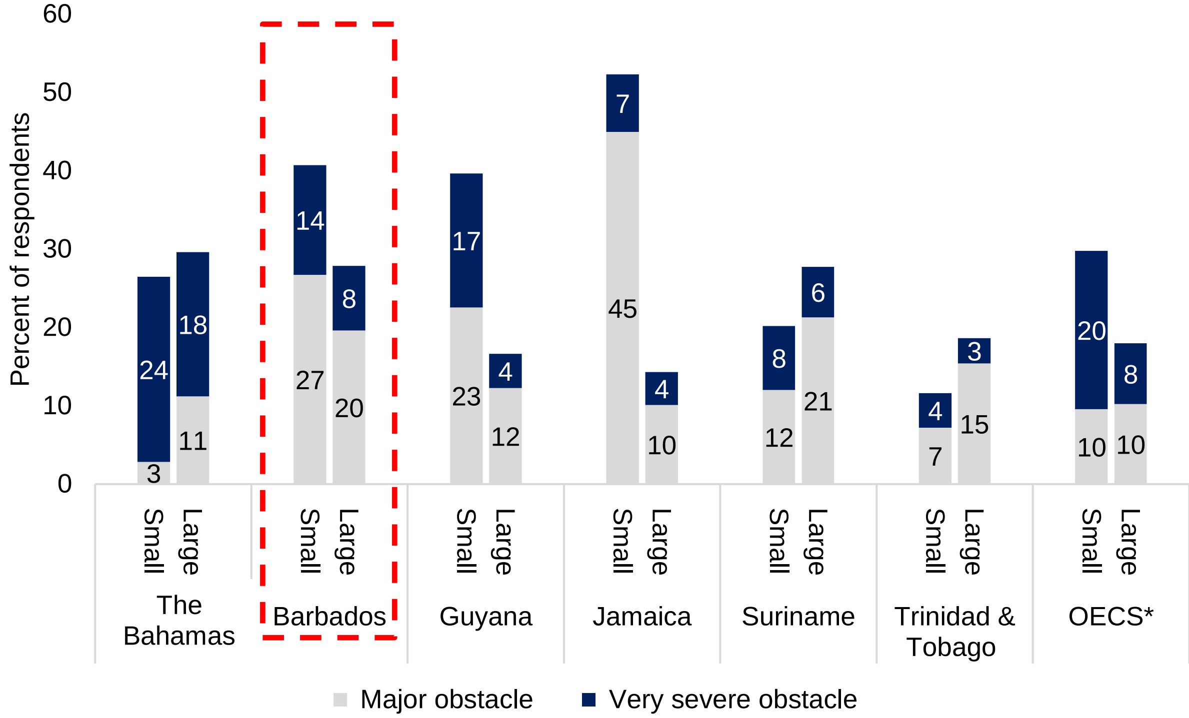
Compared to firms from other C-6 countries, those in Barbados appear to face appreciable obstacles in terms of access to finance, linked to collateral requirements (no. 2). Barbadian

firms responding to the 2014 PROTEqIN survey reported access to finance (i.e., credit enhancements including collateral or third-party guarantees) as among the most significant constraints that they faced in terms of improving firm-level productivity and performance (Figure 19.b). Well over a third of all formal firms participating in the survey in Barbados considered access to finance to be either a major or a very severe obstacle. These results were roughly on par with those reported by firms in Jamaica, but considerably more pronounced than results from countries such as Guyana, Suriname, and Trinidad and Tobago.

A disaggregation of this data suggests that these impediments tend to be more acute for small firms than their larger[45] counterparts in C-6 countries—particularly in Barbados. This finding is consistent with broad cross-country evidence, and perhaps not surprising given that larger firms are likely to have more sophisticated treasury and financial management capacity, as well as assets to pledge as security—e.g., physical and other forms of collateral such as buildings, vehicles, and machinery. Regardless of the underlying rationale, small firms in Barbados (as well as in Jamaica and Guyana) appear to consider access to finance a considerably more binding constraint than larger firms (Figure 20).

[45] Small firms defined as those with 20 employees or less, with large firms representing all other responses.

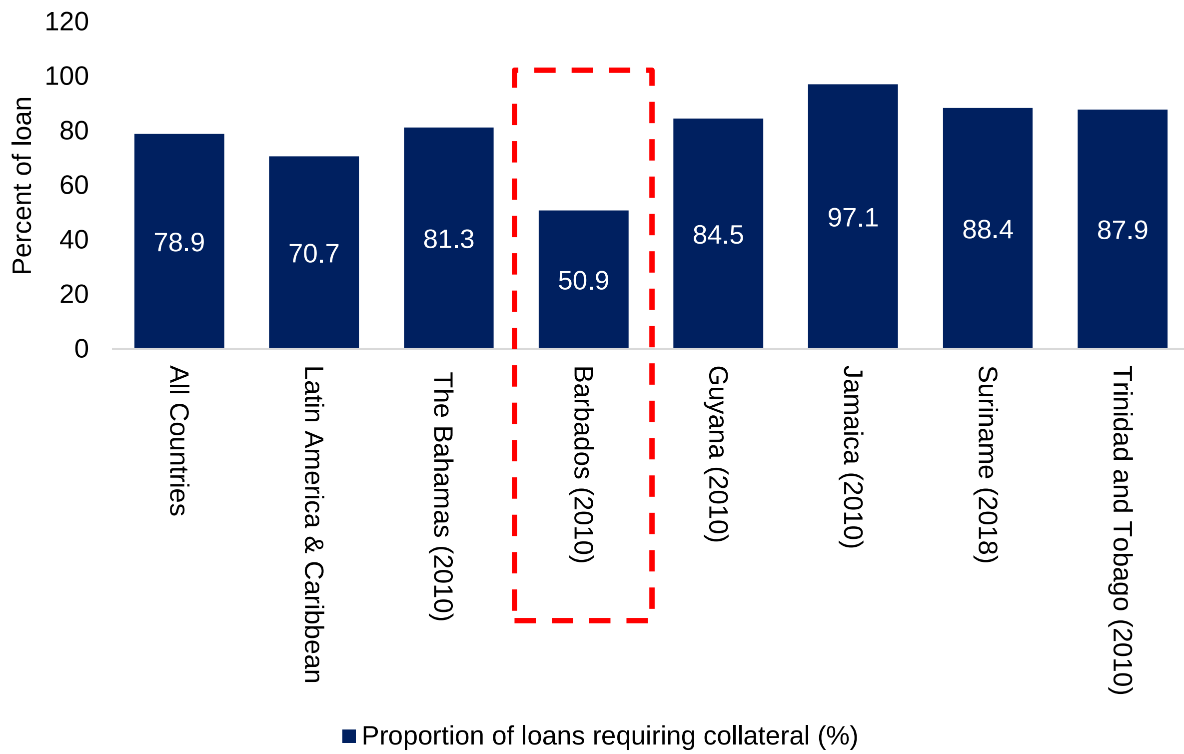
Figure 20. Obstacles to Firm Productivity and Performance—Access to Finance by Firm Size (percent of respondents)



*OECS countries included in the composite index: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines. PROTEqIN does not have information for the rest of the OECS countries: The British Overseas Countries and Territories of Anguilla, the British Virgin Islands and Montserrat.
Source: PROTEqIN (2014).

Survey data can also provide additional insights into the significance of collateral requirements for access to finance in the case of firms in Barbados and across the world. World Bank Enterprise Surveys (WBES) can shed light on the magnitude and materiality of collateral requirements across C-6 countries. For example, the proportion of loans requiring collateral for all reporting countries' firms (on average) from around the world and from LAC is about 79 percent and 71 percent, respectively (Figure 21). Comparatively, this measure was only about 51 percent in Barbados, which is considerably lower than for firms from other C-6 countries, that reported proportions of loans requiring collateral ranging from 81 percent in the Bahamas, to as high as 97 percent in Jamaica.

Figure 21. Collateral Requirements



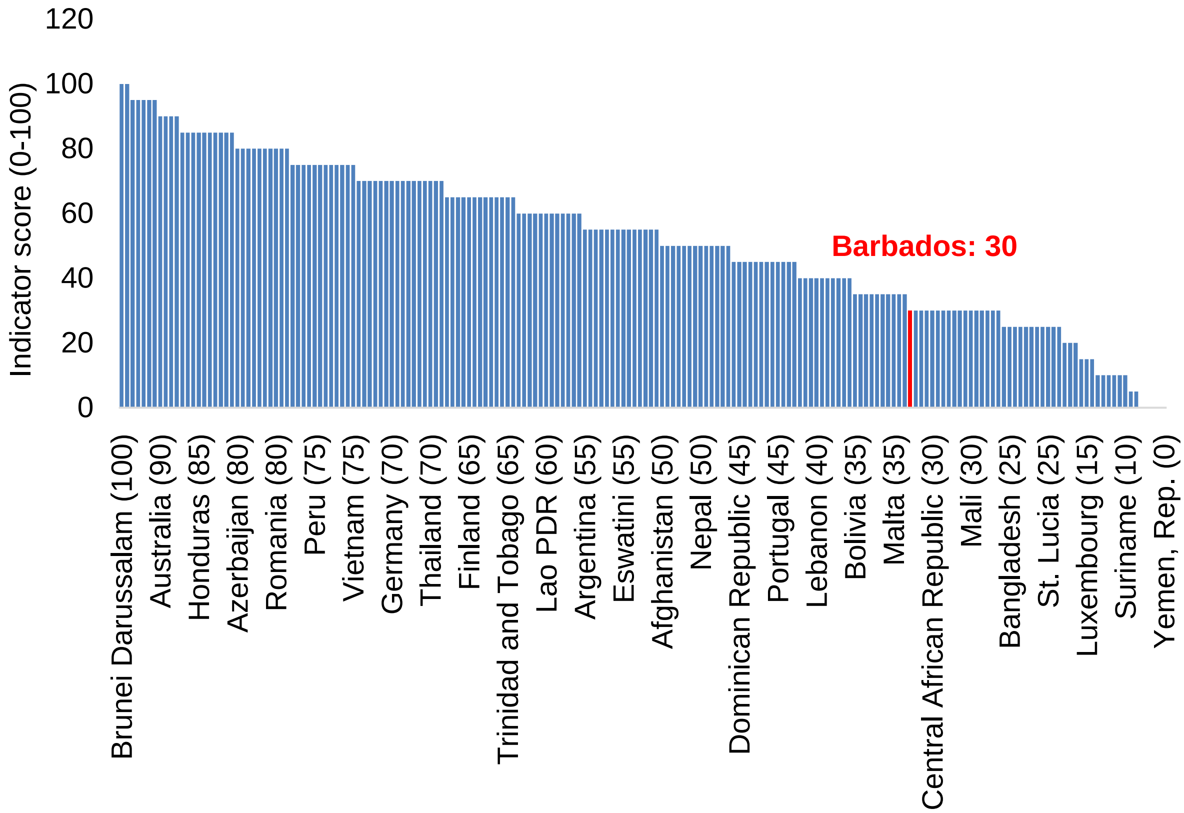
Note: Latest available data (as at August 2019), ranging from 2018 to 2010 for C-6 countries, and across a broader range of dates for LAC and global aggregates (141 countries contained in the global sample).
Source: World Bank Enterprise Surveys (latest available as at August 2019).

Conversely, survey data suggest that when required, the ratio of collateral relative to the value of the associated loan is relatively high in Barbados. In the aggregate, Barbadian firms responding to the 2014 PROTEqIN survey suggest that when collateral is required, the value of collateral relative to the amount of the loan requested is about 180 percent—the highest reported ratio for all C-6 countries. As above, this constraint also appears more binding for smaller firms, who report collateral-to-loan value requirements of 194 percent, based on the same survey. In this context, the 2019 World Bank Doing Business Report highlights that Barbados ranked 144th out of 190 countries on the report's "getting credit" indicator (Figure 22). This is mainly due to a low score on the depth of information index, which was driven largely by the fact that no central credit bureau exists in Barbados.[46] The lack of granular information regarding counterparty credit risks that would otherwise be available from a centralized credit bureau may compel would-be lenders to require

[46] This index measures rules and practices that affect the availability and quality of credit information available through either a credit bureau or a credit registry.

relatively high levels of security in the form of collateral in order to extend credit, translating to a relatively large ratio of collateral to overall loan size.

Figure 22. Doing Business Report: Getting Credit Indicator Scores (2019)



Source: World Bank (2019).

Complex loan application requirements (no. 3) are also challenges relevant to C-6 countries, including firms in Barbados. Evidence suggests that strict and burdensome documentation and administrative requirements have complicated the loan application process in many C-6 countries. A key driver has been increasingly stringent regulatory and reporting requirements linked to AML/CFT efforts on the part of the international community, particularly advanced economies that are home to key correspondent banks linking Caribbean financial systems to the rest of the world. These efforts have, for example, been linked to more stringent KYC guidelines for Caribbean countries, that, inter alia, now require corporate customers in Barbados to provide details of their incorporation, names of owners and directors, and/or documentation regarding operations in order to establish accounts or qualify for new financing. These constraints are likely to present particularly significant challenges for smaller firms, which tend to have less well-established business systems and operational capabilities (Beecher, Bissessar, and Julien, 2018). Some commercial banks in

Barbados have also begun to set more stringent on-boarding requirements than would be required by regulations, which have compelled them to cease doing business with a number of clients, adversely affecting financial access for local enterprises (Impavido and Okwuokei, 2018).

The institutional and legislative frameworks for supervision also present challenges for financial access in Barbados. Currently, a number of new actors, including deposit-taking and lending corporations, do not fall under the scope of supervision of either the CBB or the FSC. This may create gaps in terms of effective supervision of the financial market.[47] Based on anecdotal evidence, there also appears to be a lack of coordination across official institutions aiming to support access to credit for firms, including the CBB, the Barbados Investment and Development Corporation, the Barbados Agency for Micro Enterprise Development (FundAccess), and the Enterprise Growth Fund Limited.[48]

H. Conclusion

Despite high income levels and strong performance on many socio-economic indicators, barriers to financial access remain a challenge—particularly for smaller firms—in Barbados. Barbados is a high-income country with strong performance on many socio-economic indicators, particularly when compared to many peer countries in the region and across the world. However, macroeconomic instability and concerns regarding debt and fiscal sustainability in recent years have forced the government to undertake significant adjustments in policies, which have had implications for economic and financial outcomes. In the run-up to the crisis period, local banks markedly increased their exposure to government debt. This shift in asset composition was partly driven by increasingly burdensome regulatory requirements, including related to AML/CFT efforts. The domestic debt restructuring that took place in 2018 led to large balance sheet losses, which further undermined the sector's ability and willingness to provide private credit. While economic reforms under the current adjustment program should help banks repair their balance sheets, this process

[47] For example, the effective supervision of credit unions is a reported challenge facing the authorities, particularly given their number and diversity. This point was raised during bilateral meetings between authors and representatives of the FSC and the CBB.

[48] EGFL manages several funds: The Agricultural Development Fund: Funds for enhancing competitiveness. the Innovation Fund: Seed capital for innovative businesses in: Information Technology, Environment, Culture; Non-traditional Agriculture; and Tourism, the Industrial, Investment and Employment Fund: the Tourism Loan Fund: The Energy Smart Fund: Provides; and the Small Hotels Fund.

may take time, and international regulation may continue to hamper the sector's ability to return to pre-crisis levels of growth and profitability.

Despite the country's recent macroeconomic concerns, the domestic financial sector performs well on many common indicators of financial access and inclusion for individuals. Overall, Barbados performs well on indicators related to financial access for individuals, including the level of deposits in commercial banks, which stood at 98.5 percent of GDP, compared to the C-6 average of 57.9 percent. The ratio of commercial bank loans to GDP is also higher in Barbados (64.6 percent) than the average for all C-6 countries (40.6 percent). However, some impediments remain with respect to individuals' ability and willingness to access financial services, including increasingly stringent KYC and documentation requirements, as well as anecdotal evidence of challenges related to financial literacy.

For firms—particularly smaller enterprises—a lack of credit risk information, as well as KYC and other institutional issues, may hinder access. While firms in the aggregate appear to fare well relative to other countries in the region and across the world in terms of the costs of finance and survey-based measures of access to finance (e.g., the proportion of loans requiring collateral), other indicators suggest remaining challenges. For example, Barbados fares poorly on some World Bank Doing Business indicators, reflecting the fact that it lacks a credit bureau. This is likely to drive high collateral-to-loan ratios for some firms—particularly smaller ones. Similarly, firms and banks in Barbados report that increasingly strict KYC and regulatory burdens—including those related to AML/CFT objectives of the international community—have frustrated financial transactions and credit provision domestically.

In this context, authorities should consider policies and initiatives aimed at further exploring and addressing barriers to financial access and inclusion. While an exhaustive review of international best practices in related areas is beyond the scope of this paper, a few key initiatives worthy of consideration include:

- **Promoting growth and macroeconomic stability**. The continued pursuit of polices that support sound and stable macroeconomic performance is a necessary condition for financial development, improved access to finance for individuals and firms, and financial inclusion for vulnerable populations. Recent progress is encouraging.

- **Addressing regulatory and related hurdles**. Both individuals and firms report increasingly burdensome administrative processes as key challenges to financial access and/or inclusion. Fostering greater use of new and innovative financial technologies (FinTech), and revising relevant regulatory requirements to enhance access can help address some of these challenges. In this context, fostering greater use of technologies such as digital payment services could also support lower fee structures and costs for users, following examples of other countries around the world (Beecher, Bissessar, and Julien, 2018). This will require supportive regulations and the revision of relevant legislation and regulatory processes, as well as greater coordination and improvements in supervisory capacity of the FSC and CBB.
- **Availability of information regarding credit histories and financial risks.** Prioritizing the establishment of a centralized credit bureau and developing related infrastructure should be a high priority in Barbados. A lack of centralized information on credit risks has been reported by financial institutions as a significant impediment to credit provision, as well as other financial transactions. This has also contributed to higher borrowing costs and/or higher collateral requirements for some borrowers—particularly smaller enterprises.
- **Promoting financial inclusion in the policy discourse.** Barbados does not currently have a comprehensive financial inclusion strategy, and the policy discourse in this area has been limited to date. Other countries in the region—for example, Jamaica—have made quick and impressive progress in related areas, based in large part on the development of comprehensive national financial inclusion strategies, involving multiple agencies of government, the financial sector, as well as interest groups representing individuals and domestic enterprises (Mooney, 2018). These strategies have acted as a catalyst for information gathering and analysis of existing and potential challenges across sectors, as well as for developing new data and measures of access and inclusion used for benchmarking progress.

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ANNEX

Annex 1. Gap Analysis Indicators

Sector	Indicator	Source
Social Development	Poverty headcount	Poverty headcount ratio at $3.10 a day (2011 purchasing power parity) (% of the population)
	Gini Index	GINI index
	Expenditure on health (as % of GDP)	World Development Indicators, World Bank
	Life expectancy at birth, total (years)	World Development Indicators, World Bank
	Hospital beds (per 1,000 people)	World Development Indicators, World Bank
	Maternal mortality ratio (national estimate, per 100,000 live births)	World Development Indicators, World Bank
	Mortality rate, infant (per 1,000 live births) World	World Development Indicators, World Bank
	Noncommunicable diseases (NCD) deaths (per 1,000 people)	World Health Organization, United Nations
	Primary completion rate	Primary completion rate, total (% of relevant age group)
	Proportion of seats held by women in national parliaments (%)	World Development Indicators, World Bank
	Economic participation and opportunity	WEF- Global Gender Gap
	Educational Attainment	WEF- Global Gender Gap
	Political Empowerment	WEF- Global Gender Gap
Institutional Development	Voice and accountability	World Governance Indicators, World Bank
	Political Stability and Absence of Violence	World Governance Indicators, World Bank
	Government Effectiveness	World Governance Indicators, World Bank
	Regulatory Quality	World Governance Indicators, World Bank
	Control of Corruption	World Governance Indicators, World Bank
	Registering Property (DTF)	Doing Business Report, World Bank
	Dealing with Construction Permits (DTF)	Doing Business Report, World Bank
	Ease of paying taxes	Doing Business Report, World Bank
	Time to import (days)	World Development Indicators, World Bank

Economic Development	Time to export (days)	World Development Indicators, World Bank
	Trading across Borders (DTF)	Doing Business Report, World Bank
	Mobile cellular subscribers (per 100 population)	World Development Indicators, World Bank
	Internet users (per 100 population)	World Development Indicators, World Bank
	Firms formally registered when operations started (% of firms)	World Development Indicators, World Bank
	Commercial bank branches 2015	World Development Indicators, World Bank
	Domestic credit to the private sector (% GDP)	World Development Indicators, World Bank
	Ease of starting a business (DTF)	Doing Business Report, World Bank
	Enforcing Contracts (DTF)	Doing Business Report, World Bank
	Resolving Insolvency (DTF)	Doing Business Report, World Bank
Environmental Development	Environmental Health Index	Yale Center for Environmental Law & Policy, Yale University and Center for International Earth Science Information Network, Columbia University
	Ecosystem Vitality Index	University and Center for International Earth Science Information Network, Columbia University